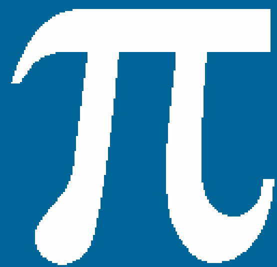

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Social Security Development and Reform in Asia and the Pacific

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Social Security Development and Reform in Asia and the Pacific

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Population aging will occur more rapidly in Asia than in any other region over the next few decades. As a consequence, while Asia, the world's largest continent, accounted for 28 percent of the world's population aged 60 and older in 1985, that percentage will more than double to 58 percent in 2050 (United Nations 2001). Thus, in terms of numbers of people, the global challenges facing social security systems are largely Asian.

Asia includes some of the largest countries in the world, China, India, Indonesia and Pakistan. Asia includes the former Soviet republics of Central Asia, including Kazakhstan and Tajikistan. While it includes the Arab states of the Middle East and Israel, the social security systems in those countries are discussed elsewhere and are not included here (Turner and Lichtenstein 2002).

This article first discusses the demographic and economic setting in Asia. It then discusses the social security old-age benefit programs in the region. While it provides more detail for the larger countries and the more developed countries, it surveys the social security systems in most countries of the region. The military and the civil service are covered by

separate pension arrangements in most countries in the region, and are not discussed. This article focuses on the social security programs for private sector workers.

Demographic and Economic Environment

Many countries in Asia are facing social security problems in the context of extremely rapid aging. While it is expected to take the United States 81 years (1933-2014) for the percentage of its population age 60 and older to increase from 10 to 20 percent, it is expected to take only 18 years in Singapore (1999-2017), with Singapore reaching that point only three years later than the United States. Other countries in the region are aging less rapidly than Singapore but considerably more rapidly than the United States (Kinsella 2000).

The major cause of population aging is low fertility. Though it is often thought that fertility rates below the replacement rate of 2.1 only occur in developed countries, in fact fertility rates below replacement are occurring in Thailand, China, South Korea, Taiwan, Japan and Hong Kong. In Japan the demographic situation has reached the point where in 2002 the estimated long-term fertility rate—the number of children a woman is expected to bear in her lifetime—has fallen to 1.39 children per woman. As a consequence, the population in Japan is expected to peak in 2006 and by 2050 to have declined by 20 million people (Daily Yomiuri 2002). By contrast, Asian countries with large segments of traditionally Islamic or catholic populations have significantly higher fertility rates. For example, the fertility rate in 1998 was 3.5 in the Philippines and Malaysia.

Because of lesser resources devoted to the health of female infants and children than for males, in some of the countries of the region the life expectancy at birth for males equals or even

exceeds that for females. These countries include Bangladesh, India and Maldives (Gillion, Turner, Bailey and Latulippe 2000) .

Reflecting differences in fertility rates, Japan is one of the oldest countries in the world (the oldest is Italy), with 22 percent of the population age 60 or older. The Philippines is a young country, with 6 percent of the population age 60 or older (Kinsella 2000).

The extended family is fundamental to most Asian societies and plays an important role in providing retirement income security. Most Asian elderly live with one or more of their children (Gillion, Turner, Bailey and Latulippe 2000). For example in Cambodia, among ethnic Khmer the youngest daughter is usually responsible for carrying for her parents in old age (Kato 2000). The traditional Confucian values that emphasize family responsibility for the economic support of older family members have slowed the development of social security programs. It was traditionally felt that role should be played by the family and that the development of social security systems might undermine the role of the family.

In part because of these views, a national social security program was only introduced in South Korea in 1988 and in Thailand in 1998. With urbanization and declining fertility rates, however, families are becoming smaller and more geographically dispersed. As a result, increasingly social security benefits are seen as appropriately supplementing traditional family support. In contrast to other parts of the region, Australia and New Zealand were among the world pioneers in the development of social security programs, having programs by the first decade of the twentieth century (US SSA 1999).

Rapid economic development, especially in East Asia, has drawn many more workers out of self-employment and casual employment and into wage employment. Between 1980 and 1995-96, the number of employees as a percentage of the economically active population grew in

Malaysia from 54 to 73 percent, in Pakistan from 22 to 33 percent, and in Thailand from 22 to 37 percent (Gillion, Turner, Bailey and Latulippe. 2000). This trend has also contributed to the growing need for social security pensions. In Indonesia and other countries, however, even as they have become more industrialized and urbanized, most of their workforce continues to work in agriculture or the urban informal sector and rely on family support in old age.

The financial crisis in the region, which started in Thailand in 1997, eroded the savings of many people who lost their jobs. Even those who remained employed saw the value of their savings decline due to steep falls in the prices of financial assets, particularly equities, and by currency devaluation and inflation. In Indonesia, the stock market declined from US$ 91 billion in 1996 to US$ 15 billion at the end of 1998, a decline reflecting both the decline as measured in Indonesian currency and the sharp depreciation in the value of the currency relative to the dollar. With the recovery from the crisis and the societal weaknesses that it revealed, some countries are reviewing the adequacy of their social security provisions.

Social Security

Social security programs in this region vary considerably in coverage, but generally tend to be less developed than in other parts of the world at comparable levels of economic development. The high income Asian OECD countries of Australia, New Zealand and Japan have near universal coverage and are discussed separately. Differences across the region in the level of per capita income partially explain differences in the extent of social security coverage. The low coverage in many of the countries is one of the most important social security issues in the region, and is due in part to the high percentage of workers in informal employment. Contributory programs in the region usually exclude the self-employed, and often also exclude

many employees, for example those working in small firms (Gillion, Turner, Bailey and Latulippe 2000).

High income countries of Malaysia (60 percent) and Singapore (65 percent) have high coverage rates, while Sri Lanka and Mongolia, both low income countries also have coverage rates higher than 50 percent. Some countries, however, have quite low coverage rates – India and Vietnam both have coverage rates of less than 10 percent and the Philippines has a coverage rate of 28 percent (Fox and Palmer 2001). In 1993, Vietnam extended compulsory social security coverage to the private sector, but coverage remains below 10 percent of the work force because of extremely low compliance. China, Indonesia, the Philippines and Thailand have combined coverage of private sector workers and government workers of less than 30 percent (Holzmann, MacArthur and Sin 2000)

The social security programs in this region usually exclude many employees, for example those in enterprises with ten or fewer workers in Indonesia. Expanding coverage is widely regarded as a priority, and in this regard useful experience has been gained by the example of Malaysia, which has extended coverage to all employees regardless of the size of the enterprise employing them. South Korea extended coverage to the self-employed in 1995 by obliging farmers, fishers and rural self-employed to contribute 3 percent of earnings, a rate which is increased 3 percent every five years until it reaches 9 percent. Most self-employed workers are covered according to social security law in the Philippines, but compliance rates are low.

Most of the countries of the region provide retirement benefits at relatively low ages. In Thailand, when the new system has been in existence sufficiently long (2014), workers will be able to receive old-age benefits at age 55 with 180 months of contributions (15 years). Workers in South Korea can retire at age 55 with 10 years of contributions. Workers can receive benefits

from the Provident fund in India at age 55 so long as they stop working. Benefits can be received in Pakistan and Sri Lanka at age 55 for men and 50 for women. In Vietnam, men can retire at age 55 and women at age 50 so long as they have worked 15 years in hazardous or arduous work with a total of 20 years of covered work (US SSA 1999).

Pension reforms in Asia and the Pacific are taking place in three patterns. First, some national provident funds are being reformed to incorporate defined benefit plans. Second, some market-oriented countries with existing defined benefit social security programs are reforming those programs. Third, some socialist countries are moving towards market economies, and this change is affecting their provision of old-age benefits.

Provident Funds

Generally, income transfers play a relatively small role in Asian Social Security programs, thus placing responsibility on individuals and families for assuring an adequate retirement income. A striking feature of this region is the large number of countries with no mandatory social insurance program. Most of these countries are former British colonies that provide provident funds. These are mandatory defined contribution savings plans that are fully funded, provide individual accounts, and are managed by governmental organizations. Provident funds provide personal savings funds but have no aspect of redistribution and provide no assurance that low wage workers will receive adequate benefits. Though many of the countries in the region have Social Security systems based on models developed in the West, provident funds do not have that origin but were developed as simple pension systems for use in developing countries.

Of the 19 countries around the world that have national provident funds, 13 are in the Asia and Pacific region (Saunders 2001). Three of these countries have had a provident fund for 50 or more years. Countries with provident funds (with the start date) include Indonesia (1951), Malaysia (1951), India (1952), Singapore (1955), Sri Lanka (1958), Nepal (1962), Fiji (1966), Kiribati (1976), Tuvula (1979), Papua New Guinea (1980), Vanuatu (1986) and Brunei (1993) (Charlton and McKinnon 2001, Asher and Mac Arthur 2000). India, Sri Lanka, Nepal, and Fiji allow workers with equivalent private sector plans to opt out of the Provident fund. Malaysia allows a voluntary opt-out for teachers, soldiers, the self-employed, and domestic workers (Ferrara, Goodman and Matthews 1995).

Provident funds are sometimes used to finance development projects. A common criticism of the provident funds is that they have done a poor job of managing their investments. The provident fund in Sri Lanka, for example, has produced real annual returns under 2 percent (Iglesias and Palacios 2000). In Singapore for the period 1987-1997, the real return on the Central Provident Fund was approximately zero (Asher 1999b). Policies and institutional and regulatory frameworks need to be developed to assure that the provident funds are invested in a way that yields good investment returns. This may require reforms in capital and financial markets and developments concerning corporate governance and financial disclosure.

While provident funds traditionally have provided benefits only as a lump sum, and offered only a single investment fund, more recently some of them have offered annuities as an option, and some have offered choice as to how the worker's individual account is invested. They have also expanded their scope as to the type of benefit they provide, so that in some countries they no longer only provide a retirement benefit but are also used for providing health insurance and sometimes for providing financing for housing (Charlton and McKinnon 2001).

The first programs established to provide social security benefits in India were provident funds. The Employee's Provident Fund, by far the largest in India, was introduced in 1952 to cover employees in formal employment. It provides lump sum benefits to people who are retired or who have been out of the covered sector for a specified period. Its basic objective of providing retirement benefits, however, was undermined by allowing withdrawals to finance house building, medical treatment, marriage expenses, and higher education. Starting in 1971, part of the provident fund contributions were used to provide monthly pensions to surviving dependants. Exemption to coverage by the provident fund may be granted to employers who have established trust funds that provide at least equivalent benefits. This option is a form of contracting out, a practice best known for its use in Japan and the United Kingdom.

In 1995, India partially converted the Employee's Provident Fund into a defined benefit pension plan. Approximately 50 percent of contributions to it are used to finance a defined benefit annuity payable through the Employees Pension Scheme This program applies to firms with more than 20 employees, which excludes a large percentage of the workforce.

Indonesia, the third largest country in Asia, after China and India, has three separate provident funds, one for the military, one for the civil service, and one for private sector employees. As is typical of this region and of many countries around the world, the retirement benefits provided by the funds for the military and civil service are considerably more generous than for the private sector. This discrepancy raises an issue of fairness.

The provident fund for private sector employees, JAMSOSTEK, provides lump sum retirement benefits at age 55 based on contributions of 5.7 percent of earnings, the employer paying 3.7 percent (plus 0.3 percent for death benefits) and the employee paying 2.0 percent (Ramesh 2000). It has provided low benefits, however, in part because of the low returns

received by workers. This is partly because of high administrative expenses, including expensive office buildings for some staff. It is widely believed that the government uses part of the investment funds for political purposes. The government does not credit all the returns received on the funds to workers. In addition, the returns that are credited are subject to a tax.

JAMSOSTEK covers only 10 percent of the labor force, primarily because of the large informal sector in Indonesia, but also because of a major problem with contribution evasion. The military and civilian service provident funds cover a slightly larger percentage of the workforce (Ramesh 2000).

Singapore has one of the highest per capita incomes in the world. The Central Provident Fund, which was established by the British colonial administration in 1955, is the main component of Singapore's social security system (Asher 1999). Singapore is unusual in that, particularly since 1968, the government has greatly expanded the role of the Central Provident Fund to use it to provide financing for a wide variety of social and political objectives. To accommodate these objectives, the government gradually raised the contribution rate that was initially 10 percent up to 50 percent in 1984. To combat the recession in 1985-86, it reduced the rate to 35 percent. In 1994, it raised it to 40 percent, but reduced it to 30 percent in 1999 to deal with the effects of the East Asian financial crisis. The contribution rates are applicable on wages up to a monthly wage that is 2.4 times the average monthly wage. Following the increase in retirement age to 60 in 1994 and 65 in 1999, the contribution rate for older employees was reduced to decrease the cost of employing them and thus make them more attractive to employers. The joint employer-employee contribution rate for workers age 55-60 is 16.5 percent, for those 60-65 is 9.5 percent, and for those age 65+ is 7 percent. Participation is

compulsory except for foreign workers, who are about 20 percent of the workforce, and part-time workers (Ramesh 2000).

The contributions to the Central Provident Fund in Singapore are divided into three accounts. The ordinary account, which is about 75 percent of the total, may be used for housing and for investments. The Medisave account is for paying for health insurance premiums and unreimbursed medical expenses. Only the Special Account is specifically for retirement. This account receives contributions of 4 percent, but with the reduction in the overall contribution rate in 1999, it is currently not receiving any contributions. In recent years, over half of the withdrawals from the Central Provident Fund are for housing and preretirement withdrawals are about 84 percent of the total (Ramesh 2000).

Most of the funds in the Central Provident Fund are invested in government bonds. These bonds pay a low rate, equal to the average of the rates paid by four local banks, with a guaranteed minimum rate of 2.5 percent (Turner and Rajnes 2001). The low nominal rate paid by the Central Provident Fund has roughly equaled the rate of inflation over long periods, providing a real rate of return of zero percent on the funds (Holzmann, MarArthur and Sin 2000). Thus, the low rate constitutes an implicit tax on the pension funds of workers, with the government benefiting by obtaining financing at below market rates.

In Singapore, since 1996 workers have been allowed to take a voluntary carve out from their Central Provident Fund investments. They are allowed to voluntarily withdraw some of the money from their account and to place it in an alternative investment. They can invest in the stock market either directly by purchasing CPF approved stock, or they can invest in CPF approved mutual funds (Asher 1999).

Similar to Indonesia and other countries in the region, Malaysia has several different first tier pension programs for different groups. The Employees Provident Fund is the primary program. It has assets equal to approximately 50 percent of GDP (Asher 2000). The contribution rate is 11 percent for employees and 12 percent for employers. It declares annually the interest rate that it credits to workers' accounts. It guarantees a minimum rate of return of 2.5 percent a year, but in most years has paid a higher rate (Bateman and Piggott 1998). The Employees Provident Fund is used to provide several different types of benefits. To facilitate this, each worker's account is divided into three parts. Account 1 holds 60 percent of the member's total balance and can only be withdrawn upon retirement at age 55 or later, or upon death, disability, or permanent emigration.

The provident fund has had a requirement that at least 70 percent of the money in the fund be invested in Malaysian government securities, but that requirement was reduced to 34 percent in 1995 (Ramesh 2000). The Employees Provident Fund makes investments in development projects, including a substantial loan to help finance the new airport in Kuala Lumpur.

Lump sum benefits typically provided by provident funds do not protect against the risk of a retired person outliving his or her income. This problem is increasingly acknowledged among the countries with national provident funds. The Fiji National Provident Fund offers its members a choice between a lump sum benefit and a life annuity. Members are encouraged too take annual pension benefits, as the annuity factors used to convert individual account balances into pensions are extremely generous—25 percent for single-life pensions and 16.7 percent for joint life pensions, compared with actuarial annuity factors of 10 and 8 percent. In spite of the annuity being offered on very favorable terms, only about 10 percent of members choose that

option. Other countries have recognized that compulsion is necessary. Singapore has decided that members of its Central Provident Fund must set aside a minimum sum in their retirement account at age 55 to finance an annuity benefit (Gillion, Turner, Bailey and Latulippe 2000).

Brunei is a very small country, with a population in 1998 of 320,000. The Employee Trust Fund is its main program for old-age benefits. Participation in this provident fund is compulsory for all private sector workers, but workers over age 55 are exempt. The contribution rate is 10 percent, divided equally between employers and employees. The government also provides a demogrant of B$150 per month to older persons who have been residents for at least 30 years. The demogrant has been fixed in nominal terms since 1984, so its real value has eroded considerably due to inflation (Asher and Mac Arthur 2000).

The National Provident Fund in Papua New Guinea was started in 1980. Participation is obligatory for companies with 20 or more employees and voluntary for others. Some companies have obtained exemptions from the National Provident Fund and established their own funds.

Countries without Social Security Programs

A few of the countries of the region do not have a national social security program. For example, in Cambodia, there is no such program and older people are forced by their poverty to continue working until very late in life (Kato 2000). Bangladesh and Myanmar also do not have a social security system (Ferrara, Goodman and Matthews 1995). Bangladesh and Myanmar have programs for government employees only (US SSA 1999).

Social Insurance Programs

Countries in Asia less exposed to British influence have generally established defined benefit social insurance pension programs to cover employees. These include countries as diverse as South Korea, Pakistan, the Philippines, Thailand, Afghanistan, and Vietnam. Pakistan, despite its strong British connections, opted for a social insurance pension program in 1976. This choice may reflect the influence of the Arab countries, almost all of which have such programs. Pakistan is 97 percent Moslem. The Philippines was influenced by the United States, while South Korea was influenced by Japan.

South Korea, because it has a relatively new system, has accumulated sizable reserves in its social security funds, equivalent to 10 percent of GDP (Holzmann, MacArthur and Sin 2000). It is temporarily accumulating large reserves because it will not pay retirement benefits until 2008. Eventually, it promises to pay a high replacement rate of 60 percent to workers with 40 years of contributions. Its funds are primarily invested in government securities and quasi-government projects, such as public housing.

In South Korea, Social Security retirement benefits are supplemented by mandatory severance pay benefits. Employers are required to pay severance benefits equal to 30 days of wages at the average wage per working year to retiring employees with at least one year of service. Employers are not required to advance fund these benefits and for the most part they are paid out of current revenues. To pay these benefits in the case of the bankruptcy of a firm, the government has created a Wage Claim Guarantee Fund that is financed by a tax of 0.2 percent of wages.

The social insurance type of social security systems in the region are financed by contributions from both employers and employees. In Thailand, the government also contributes

1 percent, compared to 3 percent each for employers and employees. In South Korea, employers and employees both contribute 4.5 percent, while in the Philippines the employer pays 5.07 percent and employees pay 3.33 percent. In most countries in the region, however, there is a serious problem of contribution evasion, with workers and employers underreporting wages or simply not paying mandatory contributions (Bailey and Turner 2001). In Thailand, benefit eligibility is based on 15 years of contributions but benefits are only based on the final five years of earnings, which gives workers an incentive to overstate earnings those years and understate them in all other years. Benefits in the Philippines are also based on the final five years of earnings (US SSA 1997).

The system in the Philippines, established in 1957, has provided a high replacement rate of more than 70 percent for retirement starting at age 60 for workers who have contributed 120 months (Ramesh 2000). It provides a minimum pension benefit for workers with at least 10 years of contributions and a higher minimum for workers with at least 20 years of credits. Workers who do not work sufficiently long to qualify for benefits receive a refund of their contributions plus interest. A worker who can control his reported earnings in order to maximize the gain from his participation in the system would contribute the minimum required for 10 years—a total of 10,080 pesos—and collect 2,400 pesos a month for life, thus receiving more than twice his contributions back as benefits in the first year of collecting benefits. In part because of this possibility for abuse, at any point in time many workers do not contribute to the system, resulting in a low effective coverage rate. Contribution evasion is, thus, a serious problem.

In the Philippines, there is also a Mandatory Retirement Pay program. Employers are required to pay to retiring employees one-half month's wages for each year of work. Employers are not required to prefund these benefits.

The Social Security Old Age Pension in Thailand first received contributions in 1999. Pensions will only be available to workers who have contributed at least 15 years and are at least 55 years old.

In 1996, Thailand required all employers listed on the stock exchange, all financial institutions supervised by the country's central bank, and several other categories of employers to provide a provident fund for their workers. However, participation in the fund by workers is optional, which differs from other countries in the region where participation is mandatory and the fund is managed by the government (Ramesh 2000).

Pakistan has a traditional social insurance program that applies to employees in firms with 10 or more workers. It is financed by a 5 percent payroll tax on employers, with employees paying nothing (US SSA 1999). Because of widespread contribution evasion relatively few people receive benefits from it, mainly wage earners in large industries.

At the same time, there has been a growing influence of Islam, not only as a religion, but as a political and ideological force. Reflecting the influence of Islam, Pakistan's national zakat system is an Islamic social policy. It is an example of a Muslim country trying to help its most vulnerable older citizens using a system based on traditional Muslim religious practices rather than on western models of social security pensions (Clark 2001).

Zakat is one of the five pillars of Islam. It is the giving of alms to certain deserving groups of people mentioned in the Quran. With the national zakat system, on the first day of Ramadan, every bank account above a certain level is taxed 2.5 percent. This money is then

distributed to poor people, with more than half the money going to poor elderly people, mainly widows. While the money is collected by the national government, it is distributed through 40,000 volunteer groups in different communities who select the neediest poor to receive the benefit. These groups are all composed of seven men and two women. Because the system has been motivated by religious ideals, it has been less affected by corruption than have secular government run programs. Bangladesh and Malaysia have also adopted national zakat systems at different times (Clark 2001).

Afghanistan has a social insurance type of social security program that was started in 1987. It is financed by a tax of 3 percent on employees, with employees contributing nothing. The government also contributes 3 percent from general government revenue. Men may collect benefits at age 60 with 25 years of work, while women may collect benefits at age 55 with 20 years of work (US SSA 1999). However, during the period from 1996 when the Afghan government was replaced by the Islamic Taliban movement until 2002, Afghanistan had no central government to administer the program.

In Taiwan, a national social security pension was scheduled to be implemented in 2000, but those plans have been postponed due to the disastrous earthquake of 1999. Workers insured under the labor insurance program receive a lump sum benefit at age 60 (Bartlett and Woo 2000). Workers contribute 1.3 percent of payroll to that program while employers contribute 4.55 percent of payroll and the government contributes 0.65 percent as well as covering the cost of administration (US SSA 1999).

Social Security in Socialist Countries

A number of the countries of the region have socialist governments that are moving towards market oriented economies. These countries include Cambodia, China, Lao People's Democratic Republic, Mongolia, and Vietnam. At present in these countries, most pensioners are former public sector employees, but in the future an increasingly large percentage of contributors—ultimately perhaps the majority—will be retired from the private sector. In some of the socialist countries in the region, state-owned enterprises are individually liable to provide retirement benefits for their employees. This type of arrangement is inconsistent with the functioning of a market economy, since it makes it virtually impossible for social and political reasons to allow outmoded enterprises to go bankrupt.

The civil service and state-owned enterprises have accounted for a high proportion of total formal employment in China, the Lao People's Democratic Republic and Vietnam. In all those countries, however, economic policy is trying to trim the civil service, reduce the role of state-owned enterprises, and come to grips with the large number of such enterprises that are losing money.

China has nearly five times the population of the United States. From the early 1950s, when social security began in China, to the Cultural Revolution in 1966, the All-China Federation of Trade Unions operated a national social security plan covering state-sector workers in urban areas. This system was known in China s the "iron rice bowl". Workers in collective sectors in urban areas were also covered but with less generous benefits. During that period, nearly all urban workers worked for the government, for state owned enterprises or in collectives, and thus nearly all were covered by social security. From the beginning of Chinese social security policy, however, the government limited its concern to the urban sector.

Following the economic collapse caused by the Cultural Revolution, state-owned enterprises individually were made responsible for providing retirement benefits for their workers. Gradually since then, pooling networks across enterprises have been reestablished.

The economic changes in China during the 1990s and early 2000s have reduced the effective coverage provided by social security so that it covered considerably less than 50 percent of the urban workforce in 2000. The number of non-state sector employees has increased significantly as economic reform and migration from rural to urban areas have greatly changed the urban workforce. State sector workers were more than 90 percent of the urban workforce in the central planning era but in 2000 were only about 50 percent (Liu and MacKellar 2001). The social security programs do not cover non-state sector workers. Also, most rural elderly are still supported by their families. China has announced its intention of experimenting with funded individual accounts that are managed by the government, with a test program being established in one of the provinces.

In 1997, China decided to gradually move towards a three pillar system following the model of the World Bank (1994). The basic defined benefit plan will provide benefits equal to twenty percent of average wages in the province. China has 31 provinces with large differences in average wages. The second tier is an individual account system with a mandatory contribution rate of 11 percent. The investment of these accounts is managed by the government. The third tier is a voluntary system.

Hong Kong, which has a separate social security system from the rest of China, in 2000 began a mandatory individual account system where workers and employers both contribute 5 percent of wages into funded individual accounts. Higher amounts can be contributed voluntarily. The pension fund managers will be chosen by the employers and employees will be

able to choose only from among the funds provided by the manager the employer chooses (Fox and Palmer 2001). This program does not provide a rate of return guarantee but maintains a fund to compensate participants for losses due to illegal activities by fund managers. The system in Hong Kong is not a multipillar system, since the individual account system will be the primary source of retirement income for most workers participating in it. It provides lump sum benefits, as is common in the provident funds in the region.

Pensions for workers in state-owned enterprises are a major issue in the Lao People's Democratic Republic. In the past, these workers were covered by the civil service pension scheme. A reform in 1993, however, excluded them from that scheme. Most state-owned enterprises have been privatized. A social security program, however, has not yet been established for workers in the private sector. Also, the problem of paying for the pensions based on past entitlements under the civil service pension has not been resolved. Some retireed employees are being paid pensions by the ministries formerly responsible. For example, Lao Beer pensioners are receiving pensions from the Ministry of Industry. The state-owned enterprises that remain have had to assume responsibility for paying pensions.

Vietnam's social security program has a relatively high contribution rate for the region of 15 percent. Monthly old-age pension benefits average about US$23, providing a replacement rate of 69 percent of the average covered wage. However, the replacement rate for total compensation is about half that because the basic taxable wage is only about half of the total wage (Mac Arthur 2000). In Vietnam, certain groups have, with the guidance of the government, established pension plans for their members. These include both urban informal sector workers who are members of cooperatives and rural workers who are members of the Farmers' Union. Vietnam has a novel program that attempts to serve the needs of agricultural workers. In the farmers'

program, farmers make an annual contribution of 80 kilos of rice, entitling them to approximately 6 kilos of rice per month when they are eligible to retire (Gillion, Turner, Bailey and Latulippe 2000). Vietnam is currently not facing a problem with population aging in part because of the deaths of young men during the war of reunification from 1954-1975 (Mac Arthur 2000).

In 1999, Mongolia approved a reform establishing an unfunded notional account system. This system was established to deal with ongoing fiscal problems. The reform resulted in a substantial cut in benefits (Fox and Palmer 2001). The contribution rate is 19 percent, of which the employer pays 13.5 percent and the employee pays 5.5 percent. The self-employed can voluntarily join the system at a rate of 9.5 percent. Probably in part due to the high contribution rates, contribution arrears (nonpayment) is a serious problem.

In Tajikistan, an impoverished former Soviet republic, the social security system that is a carry over from the Soviet regime has failed to pay benefits for periods of months due to financial turmoil in the country, caused partly by internal armed conflicts and partly by the difficult financial adjustment following the dissolution of the Soviet Union. Kazakhstan, an oil-rich former Soviet republic, reformed its social security system in 1997 by requiring workers to place 10 percent of their wages into privately-managed individual retirement accounts, phasing out its defined benefit social security system (Fox and Palmer 2001). Uzbekistan has a social insurance system where the employee contributes one percent of earnings, while employers contribute 32.5 percent. The contribution rates in Turkmenistan are one percent for employees and 37 percent for employers (US SSA 1999).

OECD Countries

The high income OECD countries of Australia, New Zealand and Japan differ from their neighbors in the region. Perhaps in part because of their geographic isolation, the retirement income systems in Australia and New Zealand are considerably different from those of other OECD countries.

New Zealand, Australia and Japan are among only a small number of countries around the world that provide a universal demogrant pension to the aged that is not based on having worked. The benefit in New Zealand is financed out of general government revenue (Willmore 2001). This system became universal in 1938. It provides flat benefits, not earnings related and not means tested. New Zealand is practically unique in that its government has never required workers to participate in an earnings-related Social Security system. A proposal to replace this system with a mandatory defined contribution system was defeated by a margin of 12 to 1 in a 1997 referendum. The benefits received from this system are taxable as income.

Australia also provides old-age benefits through a program that is not based on workers' contributions but is financed out of general government revenue. Entitlement is based on age, residency, income and assets but not on employment history (Bateman and Piggott 2000). Currently the age of eligibility is 61.5 for women and 65 for men, but the age for women is being raised and will reach 65 by 2014. This program is means tested, but participating in this program is not stigmatized, an aspect of the popular perception of means tested programs in other countries that causes many people who are eligible to not participate. In Australia, most older persons receive benefits through this program. The means tested benefit is supplemented by a mandatory employer-provided pension, called the Superannuation Guarantee system (Barrett and Chapman 2001). That pension can be either a defined benefit or defined contribution pension, but in nearly all cases is provided as a defined contribution pension. Employers must contribute

9 percent of wages to these plans. While the major source of income for retirees is currently the means tested program, called the Age Pension, when the mandatory Superannuation Guarantee system has fully matured, it will be the major source of retirement income.

Japan has a complex social security system. Like many of the less developed countries in the region, it has different plans for different segments of the population. Japan also has an unusual Social Security system, though its system is based in part on that in the United Kingdom. Only these two countries among all countries with a traditional social insurance system have a system of voluntary carve outs called contracting out. With a voluntary carve out, workers can reduce their mandatory contributions to Social Security in exchange for contributing to an alternative private sector plan.

Japan's Social Security was reformed to introduce a two pillar system in 1986. The first pillar National Pension Plan (NPP) pays a flat-rate universal basic pension benefit to every resident. The National Pension Plan is a mandatory pension scheme for all residents between age 20 and age 59, including university students. The National Pension Plan is financed by contributions from the covered population and by a government subsidy. Every participant, including the unemployed, must pay a flat-rate monthly contribution (yen 13,300 in 1999). Citizens with no income or very low income are exempt from contributions, but their benefits are reduced to one-third of full benefits. The government subsidy from general revenue equals one-third of the cost of the benefits, plus all administrative costs.

The second pillar, which consists of five Employees' Pension Plans (EPPs), pays an earnings-related benefit to employees in the private sector. The largest of these plans, Employees' Pension Insurance, covers private sector workers. Contracting out occurs with respect to these plans. In Japan, with its emphasis on collective decision making, contracting out

is not a decision that can be made by individuals. It is made at the firm level, with the decision requiring a favorable vote by at least half of the full-time workers at the firm. This option is only open to firms with at least 500 full-time employees or to smaller employers who join an employers association where the association decides to contract out. Contracted out plans in Japan must be defined benefit plans. The Social Security pension plans paid benefits accounting for 64 percent of the total income of elderly households in 1998 (Watanabe 2002).

Conclusions

Population aging is occurring more rapidly in Asia than in any other region of the world, and by 2050 the majority of the world's older people will live in Asia. Extending social security coverage to workers lacking coverage is a major problem in the region. Related to this problem is that of lack of compliance with social security contribution requirements. The management of provident funds needs to be improved so that they yield adequate investment returns.

Pension reforms in Asia and the Pacific are taking place in four patterns. First, some national provident funds are being reformed to incorporate defined benefit plans. Second, some market-oriented countries with existing defined benefit social security programs are reforming those programs. Third, some socialist countries are moving towards market economies, and this change is affecting their provision of old-age benefits. Fourth, the countries of the region are dealing with the pressures of population aging.

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[i] The opinions expressed here do not represent those of AARP. This paper draws considerably on material presented in Gillion et al. (2000), particularly the regional brief on Asia and the Pacific by Roger Beattie. I received helpful comments from Roger Beattie before his unexpected and untimely death.