Prospects for Sustainable Retirement Provision in Asia

John Piggott, Centre Director
Prospects for Sustainable Retirement Provision in Asia

1. Demographic shift
   • Peaking labour force
   • Old before rich?
   • Mid-life longevity

2. Resources in retirement
   • You
   • Your family
   • Government
   • Your banker (actually, also you)

3. Challenges and lessons
But, first... some APEC groupings

DEVELOPED WORLD, DEVELOPED ASIA, EMERGING ASIA, DEVELOPING ASIA
1. Demographic shift: Peaking labour force

1. Demographic shift: Getting old...
1. Demographic shift: ...not yet rich
1. Demographic shift: Mid life longevity

Source: Human Mortality Database www.mortality.org
1. Demographic shift: Mid life longevity

% of males aged 15+ who are daily smokers

- Australia
- China
1. Demographic shift
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   • Financial sector (also you)

3. Challenges and lessons
2. Resources in retirement: You

Labour force participation rates by age, 2010 (%)

Source: OECD Stat
2. Resources in retirement: Your family

[Graph showing average household size from 1980s to 2010 for various countries: India, Vietnam, Singapore, China, China HK, Korea, Australia, Japan, and Germany.]

2. Resources in retirement: Government

Coverage of pension schemes of working-age population (mid-2000s)


### 2. Resources in retirement: Government

#### Safety net retirement income schemes

<table>
<thead>
<tr>
<th></th>
<th>Universal</th>
<th>Targeted</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Australia</strong></td>
<td>28% of AW</td>
<td></td>
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<tr>
<td><strong>Hong Kong</strong></td>
<td>Age 70+, 5% of AW</td>
<td>Age 65-69, 5% of AW</td>
</tr>
<tr>
<td><strong>Japan</strong></td>
<td>National Pension 16% of AW</td>
<td></td>
</tr>
<tr>
<td><strong>Korea</strong></td>
<td>Basic Age Pension, 5% of AW</td>
<td></td>
</tr>
<tr>
<td><strong>China</strong></td>
<td>Urban Resident Pension, Rural Pension</td>
<td></td>
</tr>
<tr>
<td><strong>Indonesia</strong></td>
<td></td>
<td>Exists but low</td>
</tr>
<tr>
<td><strong>Laos</strong></td>
<td></td>
<td>Exists but low</td>
</tr>
<tr>
<td><strong>Malaysia</strong></td>
<td></td>
<td>Exists but low</td>
</tr>
<tr>
<td><strong>Philippines</strong></td>
<td>Old Age Pension basic, 4% of AW</td>
<td>Exists but low</td>
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<tr>
<td><strong>Singapore</strong></td>
<td></td>
<td>Exists but low</td>
</tr>
<tr>
<td><strong>Thailand</strong></td>
<td>500 Baht scheme</td>
<td>Exists but low</td>
</tr>
<tr>
<td><strong>Vietnam</strong></td>
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</tbody>
</table>

2. Resources in retirement: Government

Decomposition of gross public pension expenditure change over 2010-2060 (p.p. of GDP)

2. Resources in retirement: Your banker

Pension funds' assets by selected OECD and Asian country, 2011, USD billion

Source: OECD Global Pensions Database (2012); Note: China and Sweden data are for 2010
2. Resources in retirement: Your banker, but

Governance indicators: average percentile rank

Source: World Bank Governance Indicators, 2006
2. Resources in retirement: Your banker, but

Financial function: average rank

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3. Challenges and lessons
3. Challenges for existing arrangements in Emerging Asia

- Provident funds for the organised sector
- Easy withdrawal rules
- Patchy coverage of unorganised sector
- Limited safety nets
- Over investment in government securities
- Disparity in governance and financial market sophistication
- PAYG, DB schemes for civil servants
- Concern about fiscal stress
- Faster demographic change than when OECD set up pensions
### 3. Challenges for existing arrangements in Developed Asia

<table>
<thead>
<tr>
<th>Hong Kong</th>
<th>Singapore</th>
<th>Korea</th>
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<tbody>
<tr>
<td>Mandatory Provident Fund defined contribution scheme for all workers</td>
<td>Central Provident Fund defined contribution scheme for all workers (incl. civil servants)</td>
<td>Defined benefit scheme</td>
</tr>
<tr>
<td>10% contribution but capped at HK1000/pm</td>
<td>35% contribution</td>
<td>Continuing adjustments to access age, contribution rate, and benefits</td>
</tr>
<tr>
<td>NRR 37%</td>
<td>NRR 20%</td>
<td>NRR 45%</td>
</tr>
<tr>
<td>Many face low retirement income</td>
<td>Many other uses of contribution (housing, health, education)</td>
<td>Even with adjustments, sustainable contribution rate reaches 24.3% in 2070</td>
</tr>
</tbody>
</table>
3. Way forward

- Working longer – obvious and inevitable
- Modest or contingent promises
- Emphasis on income streams
- Basic social pension + pre-funding for income replacement – but this requires improved governance and financial sophistication
  - May be a virtuous circle – prefunding correlates with good governance
  - No load to carry
  - Something the G20 could push for
Some useful references:


- Moon, H. (2009), Demographic Changes and pension reform in the Republic of Korea, ADBI WP No. 35


- OECD, Pensions at a Glance, various issues
