Social and Economic Trends in East Asia: Impact on Social Protection Systems

Mitchell Wiener
Senior Social Protection Specialist
World Bank Office in Jakarta

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Agenda

- World Bank's Role and Social Protection Practice
- Characteristics of Asia-Pacific region
- Major economic trends
- Major social trends
- Impact on social protection systems
- Country examples: Indonesia, Thailand, Timor-Leste

World Bank's Role

- Work with client governments to improve development outcomes
- Bank assistance supports country's published development strategy
- Based on Country Partnership Strategy agreed to between Bank and government
- Combination of advisory and financing services

World Bank Social Protection Practice

- Human Development Network: Social Protection & Labor, Health, Education
- Helps client countries assist individuals, households and communities to better manage the income and welfare risks that affect vulnerable groups
- Pensions, Safety Nets, Disability, Labor Markets

World Bank EAP Region

American Samoa	Myanmar
Cambodia	Palau
China	Papua New Guinea
Fiji	Philippines
Indonesia	Samoa
Kiribati	Solomon Islands
Korea, Democratic Republic	Thailand
Lao PDR	Timor-Leste
Malaysia	Tonga
Marshall Islands	Tuvalu
Micronesia, Fed. States	Vanuatu
Mongolia	Vietnam

Characteristics of Asia-Pacific Region

- Very small and very large countries
- Widely varying levels of economic development
- Differing religions and colonial histories
- Widely different political systems

Macroeconomic Data: Developing East Asia

- Aggregate population: 2.0 billion USD (29% of world population)
- Aggregate GDP: 7.6 trillion USD (12% of world GDP)
- GDP per capita: 3,890 USD
- Percent urban: 46%

Macroeconomic Data: Developing East Asia

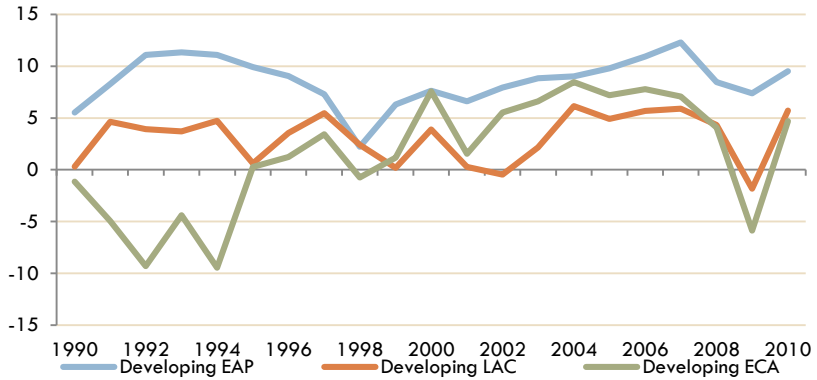
	East Asia	World
Population	2.0 billion	6.8 billion
GDP (USD)	7.6 trillion	63.1 trillion
GDP per capita (USD)	3,890	9,135
Percent urban	45.9%	50.9%

Major Economic and Trends: Developing East Asia

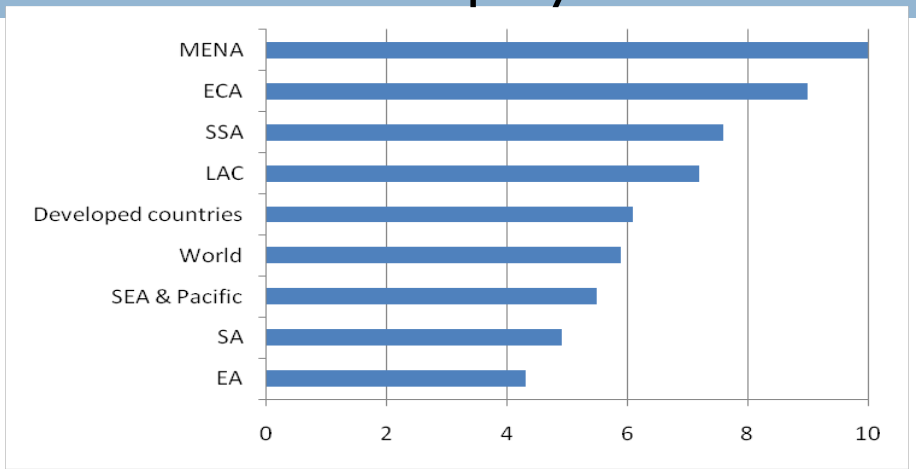
- Growing old before growing rich enough
- Rapidly growing real GDP fueled in part by demographic dividend
- Transition from lower to middle income status
- Growth of middle class, increasing disposable income
- Declining poverty, but high vulnerability
- High FDI and vulnerability to global crises
- Large migration flows
  - Exporters: Philippines, Indonesia
  - Importers: Hong Kong, Malaysia, Middle East

Major Economic Trends: Developing East Asia

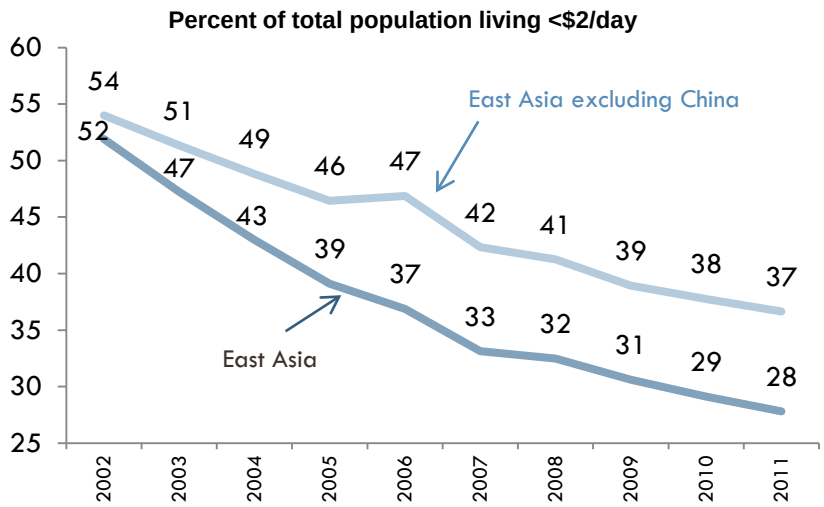
Highest economic growth



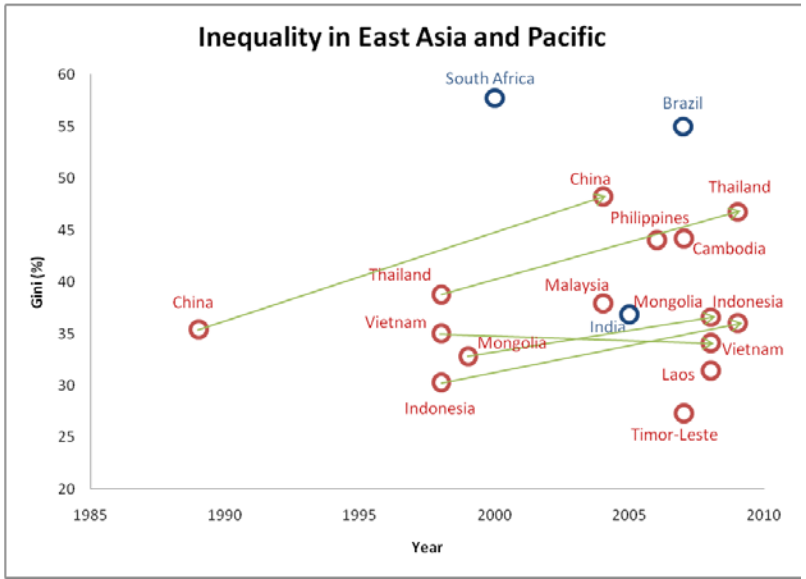
Lowest unemployment rate



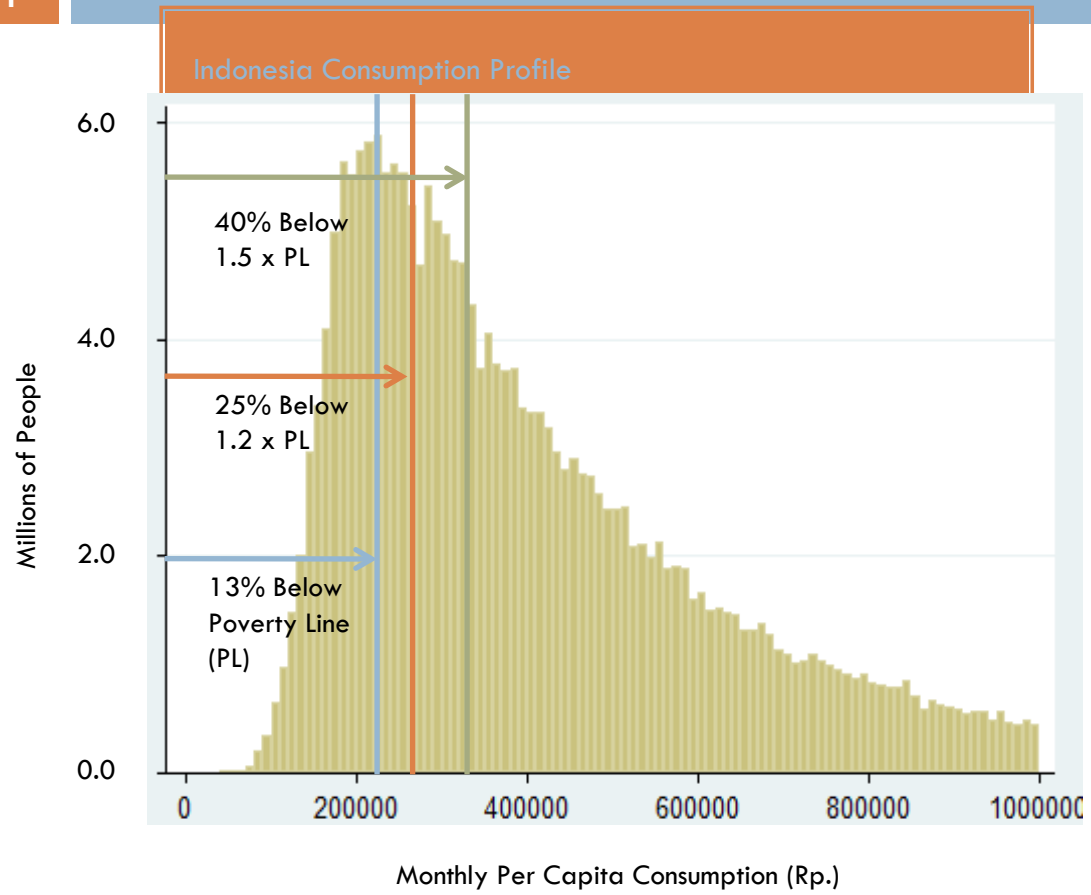
Declining poverty



But rising inequality



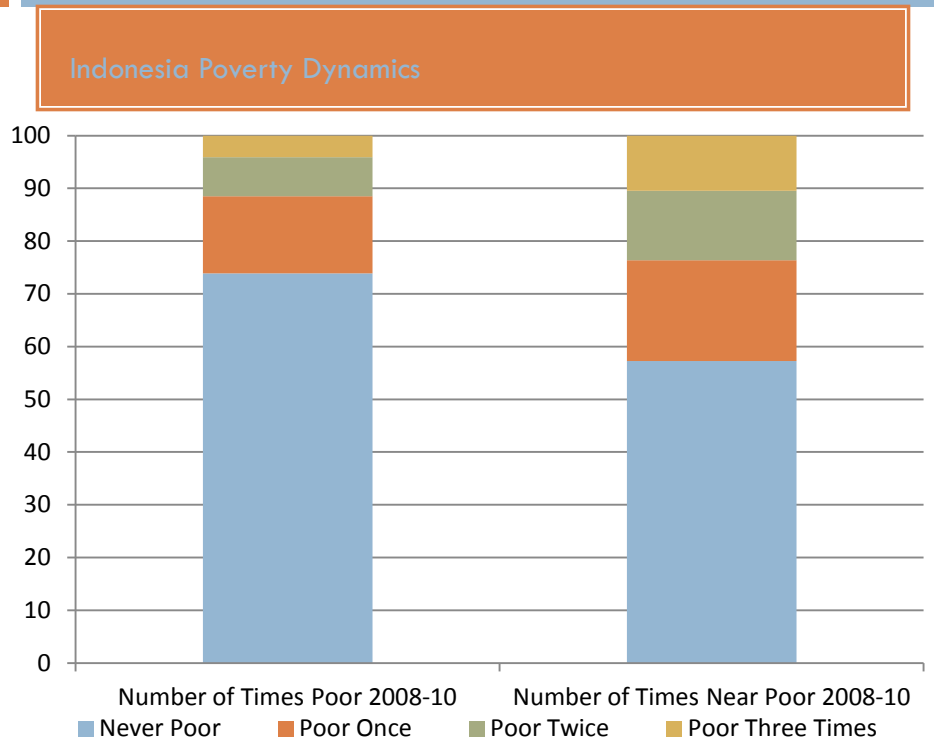
Major Economic Trends: Developing East Asia



Source : Susenas (2010) and World Bank staff calculations.

- 25% live below the official near-poor line (1.2 x poverty line)
- 40% live below 1.5 x poverty line (IDR 316,500/month)
- Despite solid growth and poverty reduction (23 to 13 percent, 1999-2010) an average Indonesian is still dangerously close to the poverty line

Major Economic Trends: Developing East Asia



Source : Susenas (various years) and World Bank staff calculations.

- In 2010, nearly half (48%) of the poor population was composed of those who were *not poor* in 2009
- This high level of churning, characterized by large movements in and out of poverty, is a persisting challenge

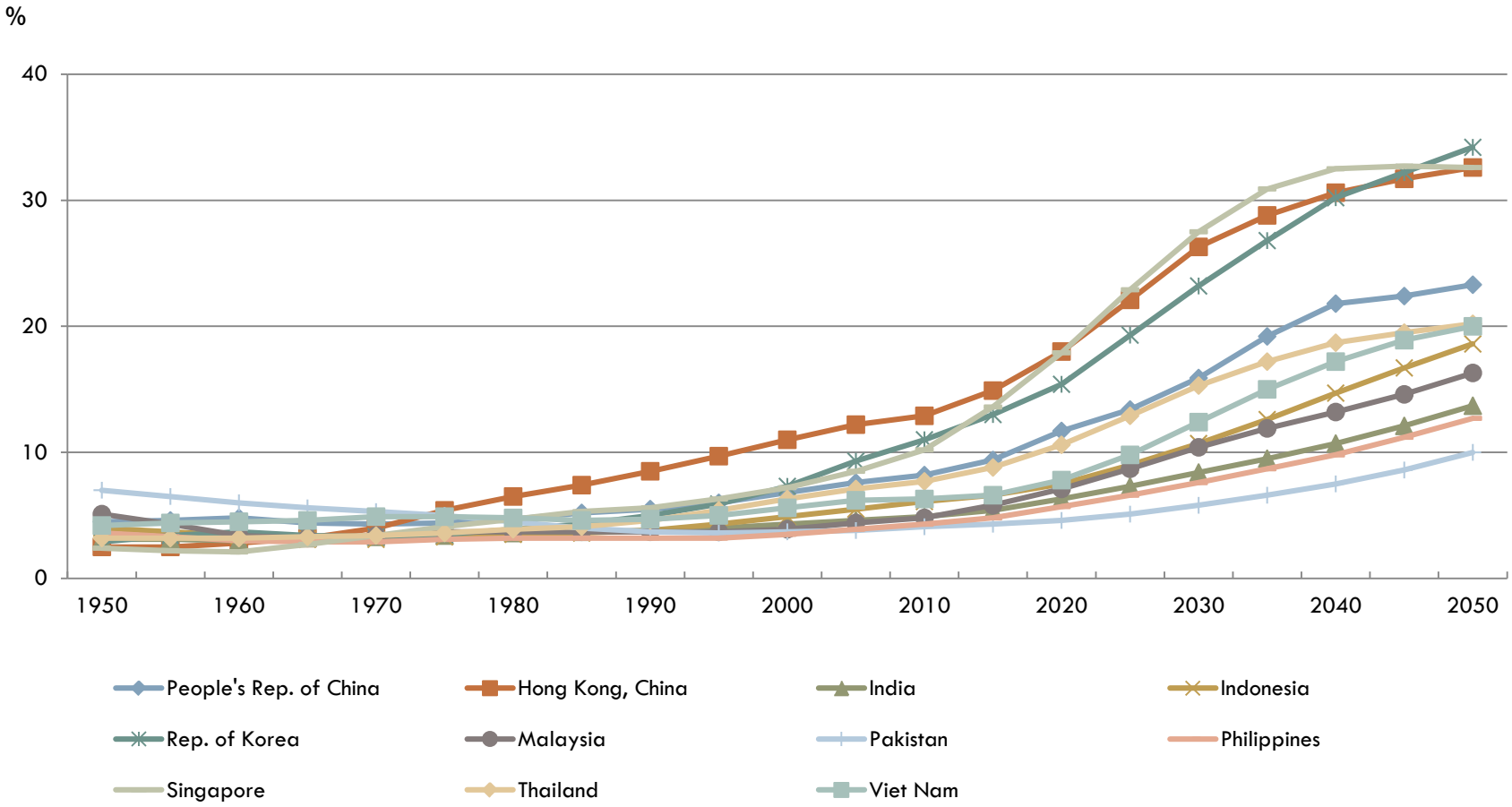
Major social trends

- Population aging
- Weakening of family support systems
- Increasing urbanization
- Decline in agriculture as % of GDP and labor force
- Large informal sectors, not shrinking
- Higher risk of social unrest: elderly poverty, youth unemployment, growing inequality

Population Aging

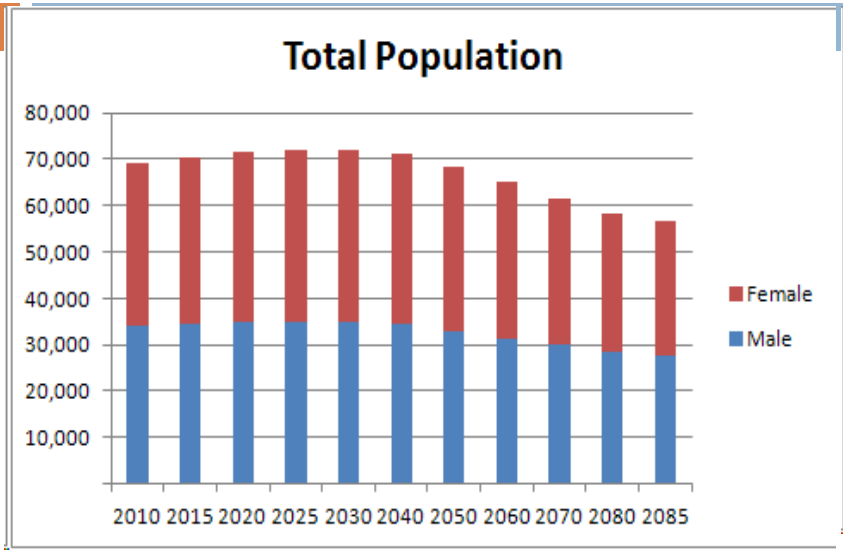
- Caused by combination of declining fertility and increasing life expectancy
- Measurement of Aging Impact
  - Population composition by age group
  - Child dependency ratio
  - Old age dependency ratio
- Speed and timing of aging varies greatly by country

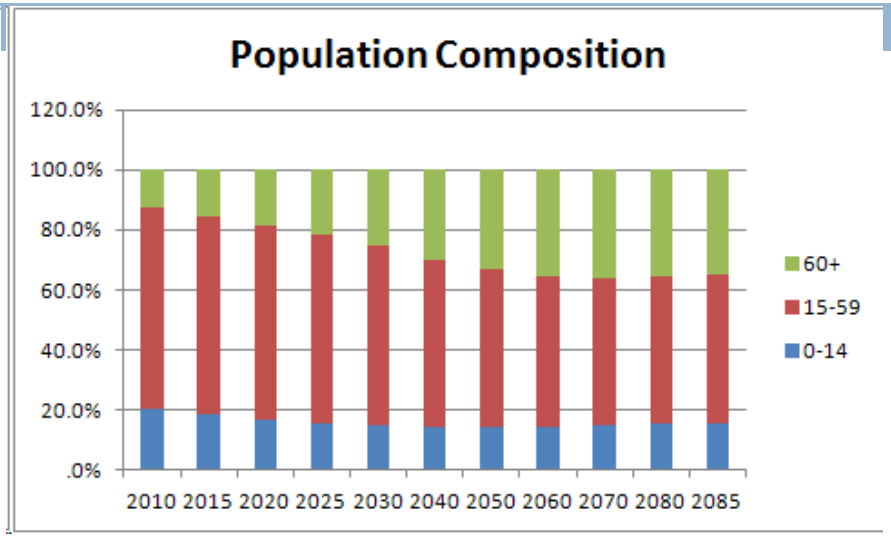
Share of elderly in total population

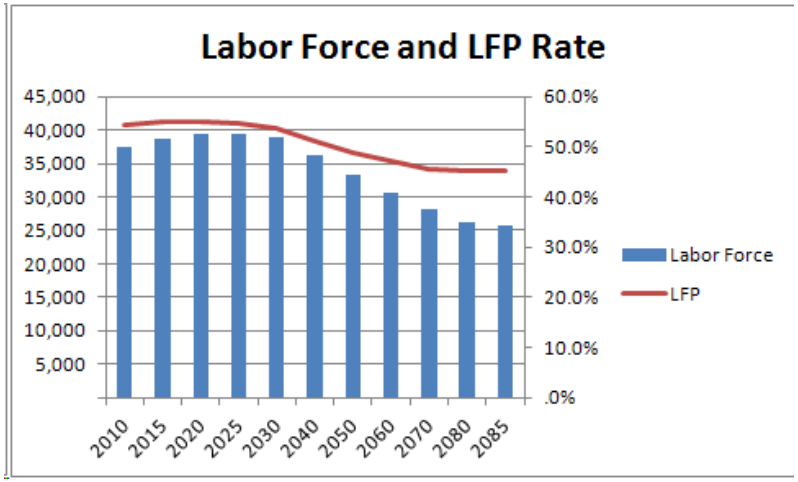


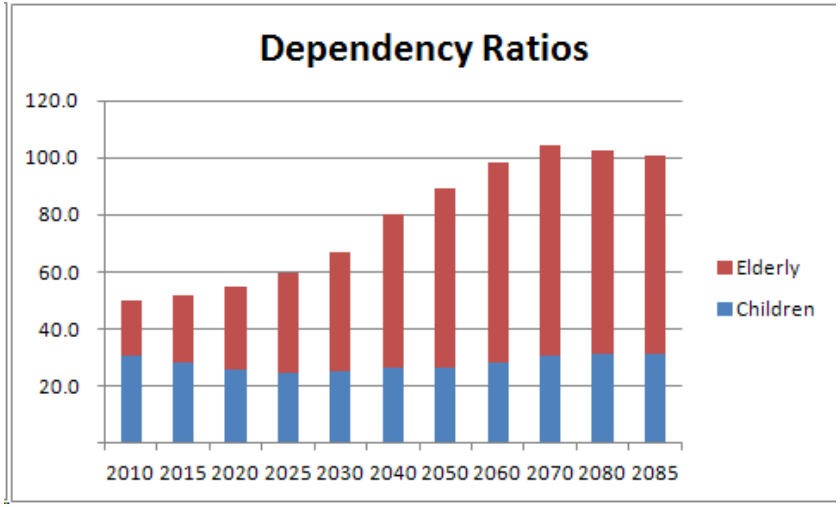
Source: ADB, Impact of Population Aging on Asia's Future Growth

Thailand



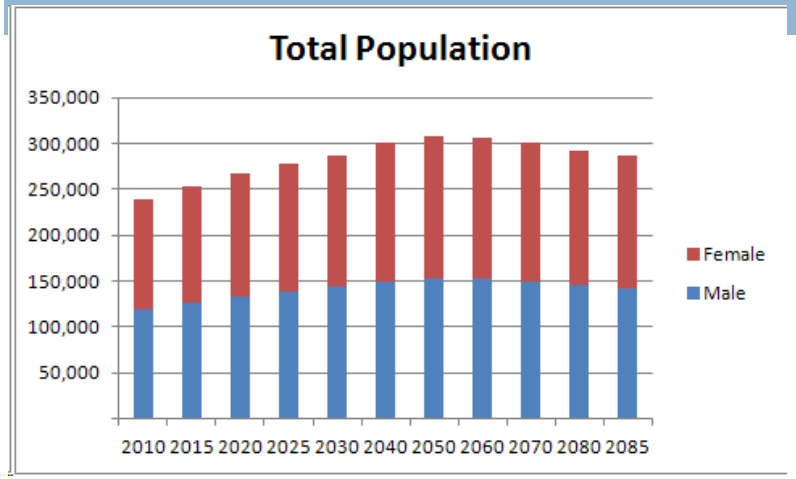


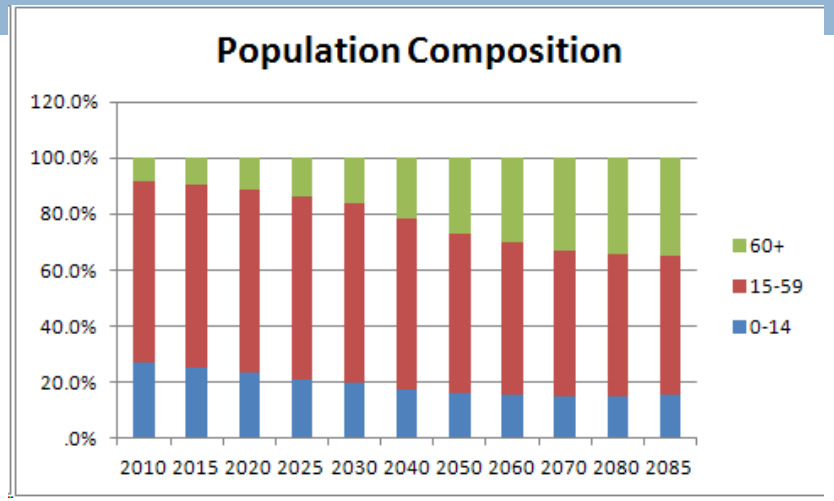


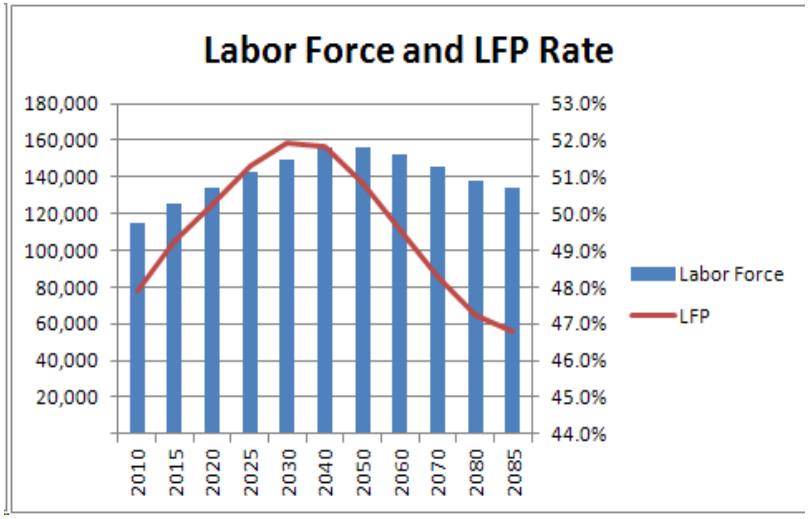


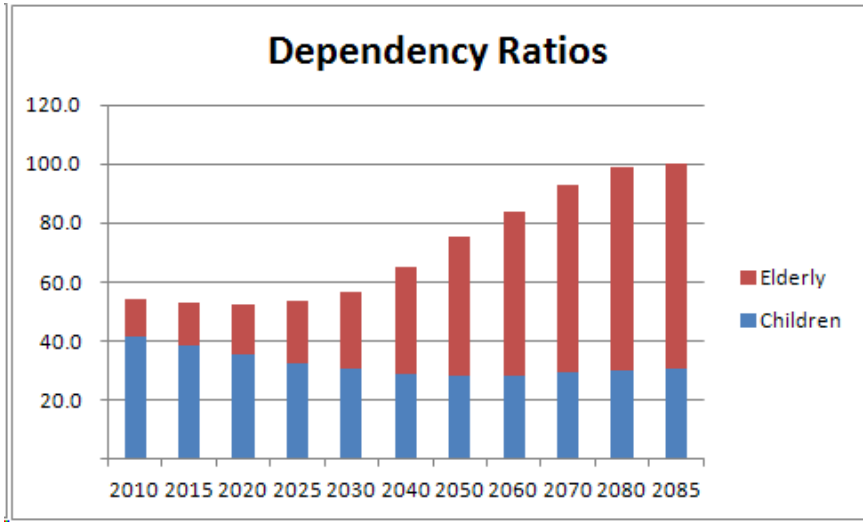
Source: UN population data, Author's assumptions and calculations

Indonesia









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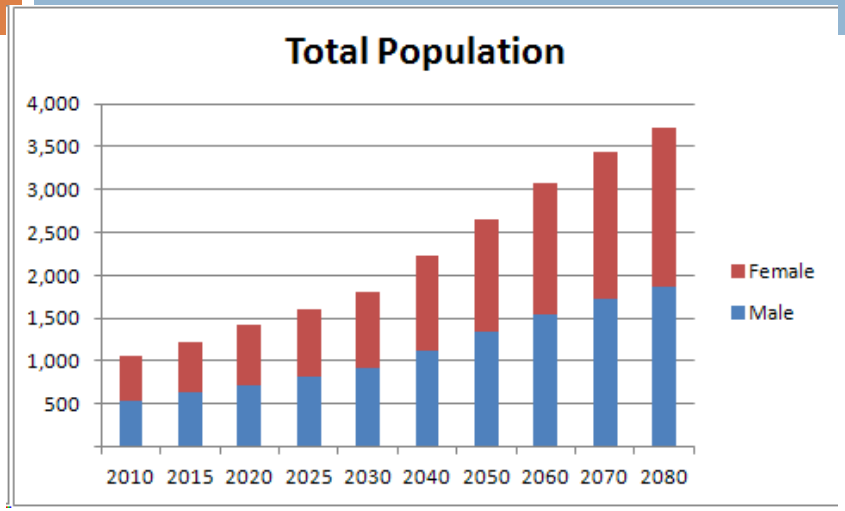
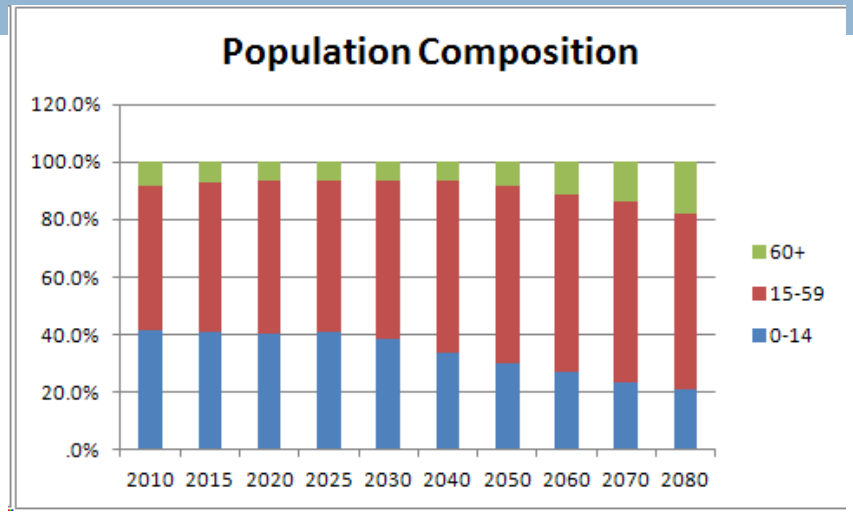
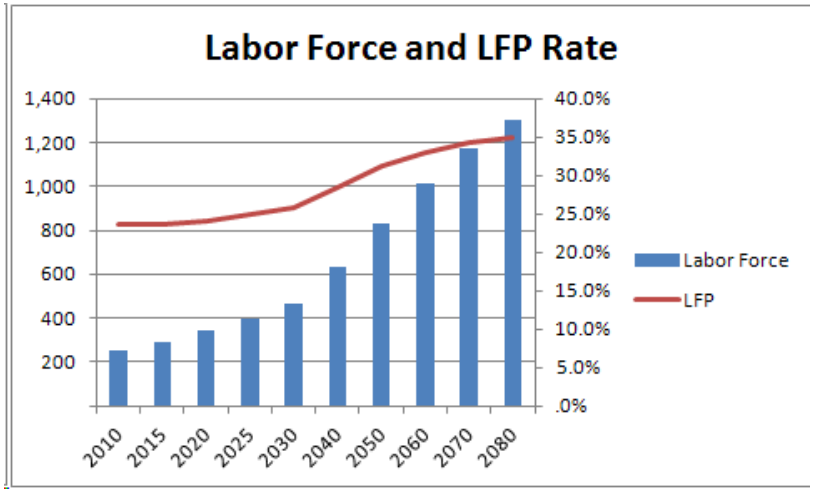
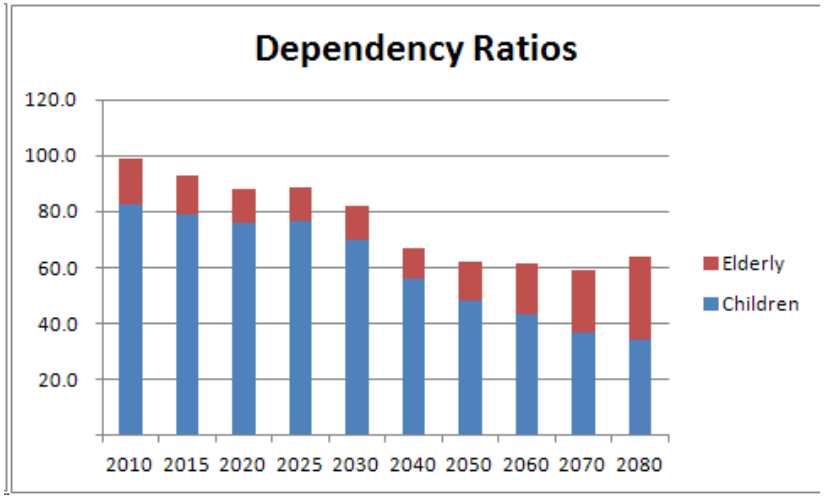
Timor-Leste









Source: UN population data, Author's assumptions and calculations

Comparison

	Thailand	Indonesia	Timor-Leste
Population peak	2030	2054	2080
Labor force peak	2023	2045	2080
LFP peak	2020	2034	2080
Minimum dependency ratio	2010	2020	2070

Source: UN population data, Author's assumptions and calculations

Social Protection Issues

- Fragmented social protection systems
- Weak institutions can't perform core functions
  - Reliable contribution collection
  - Correct and timely benefit payment
  - Accurate data collection and recordkeeping
  - Financial management (including investments)
  - Proper governance structure
- Need for greater savings, but capital markets and prudential regulation underdeveloped
- Too much social assistance goes to those who are not poor

Social Assistance Priorities

- Systems rather than individual programs
- Evidence based policy making
- Improved targeting systems
- Program monitoring and evaluation
- Preventing elderly poverty particularly for informal sector workers
- Youth unemployment

Social Insurance Priorities

- Expanding coverage, especially to informal sector
- Improving health care access, delivery and quality
- Adjusting retirement ages for increasing life expectancy, maximize workforce productivity
- Assuring fiscal sustainability despite deteriorating demographics
- Improving institutional capacity
- Governance and protection of system assets

Indonesia

- National social security system
  - Social insurance (5 programs)
  - Covers formal and informal
  - Uniform benefits
  - UHC first
- Civil service retirement program reform
  - More modern design
  - Supports change in structure and pay of civil service
  - DB vs. DC, whether and where to fund

Indonesia

- BLT – permanent vehicle for dealing with rapid crisis response
- PKH – Pay poor families to keep their kids in school and get proper prenatal and child care
- PNPM – Community empowerment programs
- Reducing energy subsidies to free up fiscal space for social protection

Thailand

- Debate on coverage of informal sector and reduction in elderly poverty
- Voluntary pension and insurance programs for informal sector
- Universal social pensions for informal sector
- Universal health care (3 programs)
- Fragmented pension programs
- Lack of coherent national pension policy

Thai Retirement income programs

	Formal	Informal
Old-age pension (OAP)		
Government Pension Fund (GPF)		
Voluntary Provident Fund (PVD)		
Retirement Mutual Fund (RMF)		
Old-age Act, Social pension (OAA)		
National Savings Fund (NSF)		
Social Security Act, Article 40 (SSO)		

Thai Social Pension

- Paid to all over age 60
- Universal program, not targeted
- Was 500 baht per month to all
- Since 2012, amount increases with age
  - 60-69 600 THB
  - 70-79 700
  - 80-89 800
  - 90+ 1,000
- Eligibility levels and benefits not guaranteed by law
- USD$1= 31 baht

Timor-Leste

- Fragile post-conflict country
- Rapidly growing population; high fertility
- Need to reward army veterans and freedom fighters
- Need to honorably retire older civil servants
- Need to intelligently manage oil revenue and petroleum fund
- SP without destroying work incentives

Timor-Leste

- 2012: Budget financed pension program for civil servants
- 2013: Convert civil servant pension program to social insurance
- 2015: Extend pension program to entire formal sector

Conclusion

- Rapid population aging will affect all countries in the region at different times
- Demographic dividend will soon end or has already ended
  - % children declining or already low
  - % at working age increasing slowly or already peaked
  - % elderly growing (amplified by low retirement ages)

Conclusion

- Developing countries getting old before they are rich enough
  - Governance and administrative system are not yet mature enough for robust SP programs ("floppy disk in an abacus")
  - Need for increased savings, but financial markets and regulatory systems are underdeveloped
- SP systems are a key component of sustained and equitable economic growth

Role of Actuaries

- Help improve the quality and capacity of local actuarial profession
- Promote profession's expertise in risk management
- Educate politicians about need for actuaries and actuarial analysis for SP programs
- Participate in public policy debates
- Serve as a source of objective analysis. Support evidence-based policy making