

Chapter 2

The Elderly and Their Social Protection in Thailand²⁹

Medhi Krongkaew³⁰

1. Introduction: The Need of Social Welfare and Social Protection

The main purpose of this paper is to address the issues concerning the elderly and their social protection in the Thai society. This requires at least two preliminary discussions, one on the concept of social justice and the welfare state, and the other on social protection and the role of state.

1-1 Social Justice and the Welfare State

The arguments on whether the state has its natural rights to intervene in the market economy to provide social justice have been long in the toolkit of economists. We often would like to divide our economic thoughts into three groups, economic libertarianism, economic liberalism, and economic collectivism.³¹ Libertarian economists are those who have total belief in the power of the market, that market when allowed to work unhindered gives human beings the greatest form of individual freedom. But even among these libertarian social scientists, they can be distinguished by their different degrees of their faith in the market. The more faithful one could be called “Natural Rights Libertarian” who believes that state intervention in the market is “morally wrong” except in strictly limited circumstances, whereas the softer libertarian could be called “Empirical Libertarian” who would say that state intervention “will reduce total welfare.”³² Among these second groups of libertarians, the names of Friedrich Hayek and Milton Friedman are often recognized as well known representatives.

The liberal economists of social scientists are probably exist in larger number than the first group simply because they have been taught that market is not always perfect, and when market fails or could not function properly, it is better for the state to intervene rather than to leave the market to correct itself as that may take too long, and the people’s suffering may be too large. A champion economist among this group was John Maynard Keynes who revolutionized the role of state as stimulator of aggregate demand, to bring the economy out of economic slowdown or recession. John Kenneth Galbraith who died recently was often classified into this group among well known and famous economists for his compassionate plea to the affluent state to help the poor and the underclass in the society.

John Rawls is another economic scholar who has managed to give a widely acceptable meaning of fairness. To him, a fair society is that which everyone in it is given equal and inviolable political rights of

²⁹ Paper presented at Parallel 4 Session; New Global Reality—Implications for Development, Subtopic 1: Aging Population in Asia—Toward Sustainable Welfare Society (JICA), Global Development Network (GDN) Annual Conference in Beijing, 16 January 2007. This paper draws from a larger study on the Current Development of Social Welfare System in Thailand (with Special Emphasis on Old-Age Security): How Can Thailand Learn from the Experiences of Japan?, research report submitted to the Japan Foundation Bangkok Office by Shigeyuki Abe and Medhi Krongkaew, July 2006.

³⁰ Commissioner, National Counter Corruption Commission of Thailand. Formerly, Professor of Economics at the School of Development Economics, National Institute of Development Administration (NIDA).

³¹ This classification follows the suggestion by Nicholas Barr in his textbook, *the Economics of the Welfare State*, 4th Edition, Oxford University Press, 2004.

³² Barr classifies Robert Nozick of Harvard University as an example of those belonging to this group.

free speech and political selection, plus a chance to receive the most or maximum assistance from the state if he is the most worst off person in it. This is acceptable mainly because Rawls uses the assumption of the “veil of ignorance” whereby if everyone is equal and does not know the position he or she is born into, and the same chance to be in the bottom of the society, then it is only natural that everyone would not feel that it is unfair to give the best help to that person which could mean anyone in the society. This does not mean that individual freedom is not respected, but the state has the rights to see and observe “fair” distribution of income and welfare.

At the other extreme of libertarian economists are collectivist economists who, along the teachings of such economic philosophers and scholars as Karl Marx have an opposite belief that it is the state that could correct the class exploitation in the capitalistic market system. The state is needed as a leader of the people until all forms of exploitation end, then the state may disappear and the people can live together in collective environment where everyone is equal and contributes to the society up to his capability, and receives from the society depending on what he needs. This is of course an idealized communism that we have not seen anywhere yet.

We should be practical and do not fall into a trap of having to label ourselves any of the above economic principle or philosophy. Each school has its strong points and weak points, and we should adopt the strong points of each school and discard their weak points. For example, we could say that individual freedom could be accepted as a foundation of an economic system, and on the understanding that everyone in the economy is “morally” a good man so that what a good man does to the best of his interest will also contribute to the best of the economy without having to fear that his action may have intentionally negative impact on his fellow citizens. However, the market can and does fail, which requires the third party beyond the consumer and the producer to step in to correct the failure. The general consent and social contract dictate the relationship between the people and their representative or leader, who can fail in his duty too, creating a situation (government failure) that bring about political as well as economic crisis that may be difficult or take a long time to correct. But in the end, the state and the market and the people exist together in some harmony, with check and balance that bring about overall desirable life and livelihood.

Even in the earlier time of Adam Smith when one could argue that the society that existed then is less egalitarian that what we can see in existence today, the state in laissez-faire system is required to take care of those citizens who cannot take care of themselves either through physical disability or financial disability. With relatively greater wealth and income equality today compared to the past, it is even more imperative that the society is bound to confer social assistance to the unfortunate who are left out of the growth process of the economy. We do not see much of this social assistance in less developed economies because the states lack sufficient resources to carry out this task, but with improved development and larger wealth and resources, the states could do more. It is not a surprise to see, therefore, that in most developed countries, the level of social welfare to their less well off people is much greater than that in less developed countries despite the fact that the less well off in less developed countries are really much less “well off” than their counterparts in the more developed countries.

1-2 Social Protection and the Role of State

Barr (2004) has offered an interesting analysis of the proper role of a welfare state. On an assumption that most economies in world today are of mixed systems, sharing the main characteristics of market mechanisms and appropriate state interventions, a welfare state in this general system would have the following five objectives, namely (i) to promote efficiency in the allocation of resources of the economy; (ii) to support reasonable living standards; (iii) to reduce inequality; (iv) to promote and guarantee social

inclusion; and (v) to create administrative feasibility. These objectives may be discussed in turn.

(1) On Efficiency

Three aspects of efficiency may be considered:

- Macro-efficiency. The efficient fraction of GDP should be devoted to the totality of welfare-state institutions by avoiding distortions that can lead to cost explosions.
- Micro-efficiency. Policy should ensure the efficient division of total welfare-state resources among different types of social spending.
- Incentives. Where institutions are publicly funded, their finance and the structure of benefits should minimize adverse effects on labour supply, employment, and saving.

(2) On Supporting Living Standards

There are at least three components in this second strategic aim.

- Poverty relief. No one should be allowed to fall below a minimum standard of living defined under a national poverty line.
- Insurance. No one should face an unexpected and unacceptably large drop in his or her living standard, and this can be corrected through unemployment and health insurance.
- Consumption smoothing. State should enable individuals to reallocate consumption over their lifetime, to prevent violent change in the people's life.

(3) On the Reduction of Inequality

In addition to absolute poverty, there is a problem of relative poverty or inequality problem.

- Vertical equity. The state (or system) should redistribute towards individuals of families with lower incomes.
- Horizontal equity. Differences in benefits should take account of age, family size, and so on, but not irrelevant factors like ethnic background.

(4) On Social Inclusion

These broader goals go beyond the conventional economic rationale.

- Dignity. Cash benefits and health care should be delivered so as to preserve individual dignity and without unnecessary stigma. Quoting Lord Beveridge, the father of the British social security system, the desirable character is a social security system that is through paying contribution, people will feel that they are getting security not as a charity but as a right.
- Social Solidarity. Cash benefits and health care should foster social solidarity, that is to say, to enable the people to live peacefully and harmoniously together.

(5) On Administrative Feasibility

Two more aspects on this strategic aim

- Intelligibility. The system should be simple, easy to understand, and as cheap to administer as possible.
- Absence of Abuse. Benefits should be as little open to abuse as possible.

Based on the above objectives of a welfare state, it could be summarised that the role of welfare state is to provide social protection to its people and citizens. Among actual activities that the state has conducted

are health and employment insurance, health care and educational supports, poverty relief, consumption smoothing through old age pensions, and direct income support.

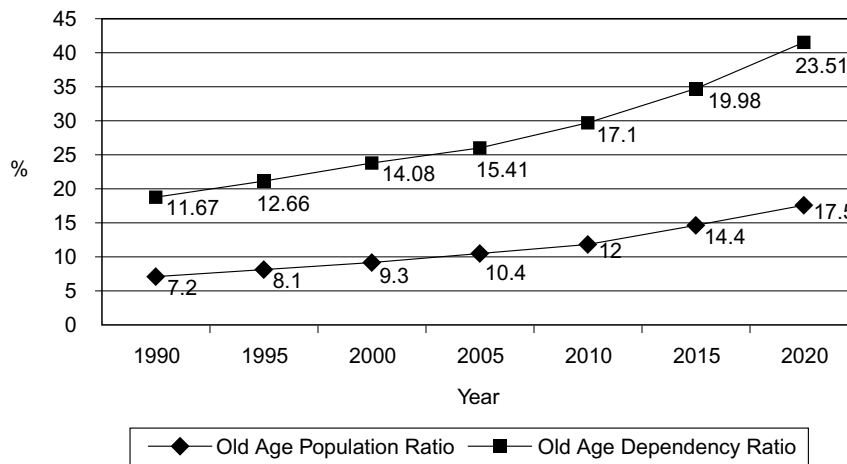
We have already discussed the basic principles of social welfare or social assistance in a mixed economy. What is left is for us to look at how the state in each country manages to provide social protection to its citizens in actual practice, which of course may differ from one country to another. Ortiz³³ in her edited volume on Social Protection in Asia and the Pacific defines social protection as the set of policies and programs designed to reduce poverty and vulnerability by promoting efficient labour markets, diminishing people's exposure to risks, and enhancing their capacity to protect themselves against hazards and interruptions/loss of income. In more specific details, she includes as social protection the following five major elements: (i) labour markets, (ii) social insurance, (iii) social assistance, (iv) micro and area-based schemes to protect communities, and (v) child protection. This is a good list, but a different list can be made.

It seems, however, that the state can look at the opportunities to provide social protection at the different life cycle of its citizens. As children, they should receive necessary education to equip themselves with adequate knowledge to live and earn a living when they grow up. Protection can also include the protection against child labour when these children are forced to work before their proper ages. As young adults they can be given a further choice to start working or continue their further education if there are capable intellectually (and financially themselves or in term of their sponsors) to doing so. As working adults, they should have opportunities to work in their areas of preference and expertise, with sufficient compensation or remuneration to live and set up family if they want to. Finally, as they grow old, they should have enough income security to live by themselves without having to depend too much on their offspring, or others in the society who are themselves in the process of building up their own lives and families.

This leads us exactly to point where we want to focus our main attention to in this study: the welfare and security of older people. On this issue, no one or no agency is more well known than the World Bank in trying to promote some kind of universal acceptance or agreement on how to take care of older people economically in any society. Various professional staff of the World Bank (for example, Holzmann for World Bank, 1994, Holzmann and Stiglitz, 2002, and Holzmann and Hinz, 2005) have managed to publish many studies that have become guidelines to policy makers, scholars, and practitioners of old age pension systems throughout the world. What have become known as the World Bank Three Pillars Principles of Old Age Pension System consist of the following three levels or three tiers of old age security systems that are commonly understood in today's literature. They are:

- (1) The First Pillar: Public mandated, publicly managed, defined benefit system. In the words of the World Bank author, this public pillar would have the limited objective of alleviating old age poverty and coinsuring against a multitude of risks. Backed by the government power of taxation, this pillar has the unique ability to pay benefits to people growing old shortly after the plan is introduced, to redistribute income toward the poor, and to coinsure against long spells of low investment returns, recession, inflation, and private market failures.
- (2) The Second Pillar: Public mandated, privately managed, defined contribution system. This pillar is a mandatory pillar which is fully funded and privately managed. It would link benefits actuarially to costs and carry out the income-smoothing or saving function for all income groups within the population. The World Bank further asserts that full funding should boost capital accumulation and

³³ Ortiz (2001) p. 599

Figure 2-1 Trends in Old Age Population Ratio and Dependency of Old Age Population in Thailand

Source: Data from Jiraporn (2003) citing the National Economic and Social Development Board.

financial market development. The economic growth this induces should make it easier to finance the public pillar, but not to encourage more demand on the first pillar.

- (3) The Third Pillar: Privately managed, voluntary savings, defined contribution system. This voluntary occupational or personal saving plans would provide additional protection for people who want more income and insurance in their old age.

In a recent publication by Holzmann and Hinz for the World Bank³⁴, these two authors have expanded the above 3-pillar concept of old age security to a 5-pillar concept whereby the original three pillars are left in tact, but two more pillars are added. Pillar Zero is a non-contributory pillar that provides a minimal level of protection to the target elderly group. This may have taken out some of the functions of the original Pillar One functions. And Pillar Four is informal intra-family or inter-generational sources of both financial and non-financial support to the elderly, including access to health care and housing. They argue that for a variety of reasons, a system that incorporates as many of these elements as possible, depending on the preferences of individual countries as well as the level and incidence of transaction costs, can, through diversification, deliver retirement income more effectively and efficiently.³⁵

2. Social Protection in Thailand

As an introduction to the current development of social welfare and protection systems in Thailand, we want to refer to the recent enactment of two laws in Thailand in 2003. These two laws are the Social Welfare Promotion Act B. E. 2546 and the Senior Citizens Act B. E. 2546.

It can be considered quite extraordinary that the efforts on reforming social welfare systems in Thailand under the general public sector reform policy of Dr. Thaksin Shinawatra's government in 2002 could culminate in the passing of the above two laws in 2003. Of course, the negative welfare effects of the economic crisis of 1997 were well known, and indeed could be seen as catalysts to more formal and

³⁴ Holzman and Hinz (2005)

³⁵ *Ibid.* p. 2

systematic government efforts to deal with similar situations in the future. As part of the technical assistance from the European Union (EU) to help Thailand and other countries in East Asia which were affected by the post 1997 economic crises, the Asia-Europe Meeting or ASEM Trust Fund was set up to provide financial assistance to these affected countries to conduct studies on various aspects of development issues, with the World Bank acting as financial as well as technical intermediary. Thailand Country Development Partnership (CDP) program was set up between the government of Thailand and the World Bank in 2001, with the Country Development Program for Social Protection (CDP-SP) as one of the first research and planning activities that the World Bank had conducted with related government agencies (Ministry of Labour and Social Welfare and the National Statistical Office).

The Program Report on Thailand CDP-SP which was published in June 2002 gives broad perspective of five areas of social protection in Thailand, namely social assistance and transfers, employment services and labour market information, unemployment insurance, occupational safety and health and workmen's compensation, and improvement in socio-economic data and dissemination. Under these five areas of social protection, the World Bank-led study team had succeeded in carrying out many tasks. For example in social assistance area, the team was able to launch a social risk and vulnerability assessment to examine the characteristics of vulnerable groups and identify gaps in program coverage and adequacy targeted to these groups. On employment services, CDP-SP helped develop a labour market information (LMI) system and upgrade the analytical capacity to understand labour market dynamics in Thailand. On unemployment insurance, CDP-SP helped establish unemployment insurance unit in the Ministry of Labour and Social Welfare to coordinate unemployment insurance planning and implementation with the Social Security Office and other MOLSW departments. On occupational health and safety, CDP-SP assisted the Department of Labour Protection Welfare to develop proposals on Occupational Safety and Health (OSH) management reform, and so on.

The work of CDP-SP continued after the creation of the new Ministry of Social Development and Human Security and reorganization of former departments of MOLSW such as the Department of Public Welfare which is now recommended to move away from direct provision of social assistance to a policy making and monitoring role. It was the new ministry that took care of the preparation and the launch of the two important laws on social welfare in Thailand.

In the Promotion of Social Welfare Provision Act, the rationale given from the enactment of this act is that Section 80 of the present Constitution of Thailand stipulates that the state must protect and promote children and youth, gender equality, family cohesiveness, community strength, assist the elderly, the poor, the disabled, and the vulnerable to attain good quality of life and self dependence. The direction of social welfare activities under this act will be decided by the National Committee for the Promotion of Social Welfare Provision with the prime minister as chairman and members appointed from various related government agencies, NGOs, and outside experts. Its main tasks, among other things, are of course to promote social welfare among the Thai people. Social welfare here is defined to include the system that provides social services that will solve problems of social security as well as the development and strengthening of it, in order to satisfy basic needs of the people to achieve good quality of life and self dependence, which may include minimum levels of education, health, shelter, employment and income, and participation at all levels in the society.

As the above act provides the framework upon which a more specific activities could be undertaken, examples of activities under this act are still not clear to see. However, under a more specific law Elderly Act, specific provision may be more clearly seen. For example, the elderly Thais (those 60 and over) under this Act will now have, as a matter of rights, be able to receive free medical services from the state, receive

some concessions on public transports, receive occupation and legal advice from the state, receive funeral assistance in time of their deaths, generate tax privileges to their offsprings who look after them, and so on. Again the list of these privileges is still not extensive, but the future prospects are good.

In order to prepare a more detailed master plan for the provision of social welfare for the Thai people under these and other laws, many government agencies are now involved in drafting the 5-Year Strategic Plan for the Promotion of Social Welfare in Thailand which will start in 2007 and will end in 2011. The account on this preparation may be discussed as follows:

As mentioned earlier, as a result of bureaucratic reform in 2002, the social welfare part of the old Ministry of Labour was used to form a base for a new ministry called Ministry of Social Development and Human Security. On the face of it, this is adequate to attest to the wish of the current government to pay more attention to the social welfare issues of the Thai population. Although it is true that there are no new departments being created but just a reorganization and renaming of some of the departments in the old ministry, the scope of work and activities of this new ministry have expanded. For instance, the former Department of Public Welfare is now called Department of Social Development and Welfare, and the Housing Authority of Thailand was moved from the Ministry of Interior to this new ministry. The potential for future expansion on social development and welfare is not in doubt.

To outline a plan of actions for the future, this new ministry decides to draw up a 5-Year Strategic Plan for the Promotion of Social Welfare in Thailand that will cover the periods from 2007 to 2011. In its first workshop to prepare this Strategic Plan, almost 1,000 participants from all over the country were invited to meet in Bangkok on March 13, 2006. In this meeting, Mr. Suwat Liptapanlop, a Deputy Prime Minister of the present acting government who presided over the open ceremony, stressed the four directions of the work, namely:

- (a) the new welfare provision must be "Welfare for All";
- (b) In such provision, the rights, dignity and participation of all citizens must be considered;
- (c) There will be 7 areas that the new welfare provision will cover: education, health, shelter, employment and income, justice process, recreation, and general social services;
- (d) There will be four measures to support the above 7 areas of work, namely, measures to create or generate consciousness and responsibility to the society; measures to give social protection measures to strengthen social partnership; and measures to develop social mechanisms.

The 14 small discussion groups that the organisers of this workshop had organised are indicative of what they had in mind in terms of what need to be done in this plan. These 14 areas are:

- (i) Educational Welfare Group
- (ii) Health and Sanitation Welfare Group
- (iii) Housing Welfare Group
- (iv) Employment and Income Welfare Group
- (v) Recreation Welfare Group
- (vi) Justice for All Welfare Group
- (vii) Group for the Generation of Social Consciousness and Responsibility
- (viii) Children and Youth Welfare Group
- (ix) Women Welfare Group
- (x) Family Welfare Group
- (xi) Old Age Welfare Group

- (xii) Group for the Welfare of the Disabled
- (xiii) Welfare of the Poor and the Vulnerable Group
- (xiv) Group for the Development of Mechanisms for Sustainable Welfare Systems.

The list is quite impressive. One can only hope that there is enough sustained interest and drive among policy makers to see this plan of actions through.

In action today, the social welfare system in Thailand may include the social security system which provides social insurance for Thai workers in six contingency areas namely sickness out of work, death, disability, maternity, child dependency, old age, and unemployment. On health, Thai people are now covered by the mixture of compulsory social security system of formal sector workers, the health coverage for government and state enterprise officials, and the national health protection plan under the so-called 30 baht Health Scheme. There are some social assistance programs especially for the elderly people who are without family supports, and those who have the disabled in the family, and those who are afflicted with HIV/Aids, but the coverage is still small by the standards of more developed economies. The analysis for these social welfare schemes and provisions may require a much more extensive research beyond the confine of this report. However, we will pick up one specific area of social welfare, that is welfare for the old age and will analyse this system in Thailand.³⁶

3. The Reform of Old-Age Security System in Thailand

Compared to the situations, say, 20 years ago, the older people of Thailand have received much better social welfare treatments from the state today. In comparison with similar treatments to older people in other, more developed countries, however, we still lag behind in many respects, and there are vast rooms for improvement. In this chapter, we will describe and analyse the existing old-age security systems for the aged in Thailand, especially its pensions systems, to see how adequate, or effective, or efficient these systems are in their social welfare or social security provision for its older population, and how these systems can be reformed, or what kinds of reforms are needed, to bring about better or more improved old-age security systems at present and in the future.

3-1 Existing Old-Age Security Systems³⁷

That the country is facing a future crisis of aging population in Thailand is beyond anyone's doubt. Indeed this is a global phenomenon that is true in almost all countries in the world due to advances in medical knowledge and technologies, and improved health facilities, services and sanitation in most countries that bring down the death rate and lengthen life expectancy. The falling birth rate and fertility rate which result in lower percentage of younger population are also another main factor that heightens the

³⁶ There are many studies on social security and health insurance systems of Thailand and their various aspects and derivatives, for example, Manthana and Somchai (1997); TDRI (2004), ILO (2004).

³⁷ There are several sources of information and references on the existing old age pension systems in Thailand in Thai and English languages. First, the websites of all government agencies vested with the responsibilities to execute various old age pension programs provide basic information on the systems under their control, for example, the Social Security Office (<http://www.sso.go.th>), the Government Pension Fund Office (<http://www.gpf.or.th>), the Security Exchange Commission (<http://www.thaipvd.com>). For information on retirement mutual funds, one can go to the websites of associations of mutual fund management companies such as <http://www.aimc.or.th>, or <http://www.thaimutualfund.com>. For papers and articles in both Thai and English, see Sutthichai et al. (2002), Holzmann et al. (2002), Wiener (2002), Niwat (2005), Nawaporn (2002) (in Thai), and Jiraporn (2002) (in Thai).

prospect of old age crisis. In Chart 1, we can see that the percentage of Thai population aged 60 and over as a percentage of the total population will increase from 10.4 % in 2005 to 17.5 in 2020. Similarly, the Old Age Dependency Ratio defined as the percentage of the population aged 60 and over who are expected to depend on the working population aged 15 to 59 for support will also increase from 15.41 % in 2005 to 23.51 % in 2020.

Based on the above situations, there have been numerous attempts the last two decades to install old age security systems in Thailand. What have existed today can be said to consist of a mixture of old and new techniques or approaches to help the older people of Thailand to cope with their lives after retirement. In what follows, we will discuss five categories of old age security systems in operation in Thailand today, namely:

- (1) Old Age Pension in the Current Social Security System;
- (2) Pension Systems for Government State Enterprise Officials;
- (3) Private Sector Provident Fund System;
- (4) Retirement Mutual Fund System;
- (5) Other Old Age Pension System.

(1) Old Age Pension in the Current Social Security System

In Thailand the first state-supported old age pension system was established in 1892 during the reign of King Rama the Fifth as part of the welfare provision for public servants.³⁸ In fact this was the only pension provision in the Thai society at that time, and had continued without any change or new scheme in place until almost a hundred years later in 1987 when the government sponsored private-sector provident funds system. The state's welfare protection through the existence of this public-sector old age pension was so highly regarded and preferred that many people in the post-war, modern Thai economy would be willing to work for the government even when the salary structure was very low because the security in life after retirement was assured through this pension scheme.

Change has to come about because as the country develops, the government or public sector becomes smaller, while the private sector becomes bigger. In most countries in the West, the development of the social security systems that provided welfare assistance to the older population who had retired from employment would be the norm, and in Thailand, this was also the case when the country adopted its first official Social Security System in 1991 that, by 2006, covers the following exigencies:

- Sickness and injuries outside work
- Maternity
- Disability
- Death
- Child allowance
- Old age
- Unemployment

We will only focus on old age security aspect of the present Social Security Act in this report. To begin with, it should be noted that this provision is for all those workers who work in the private-sector enterprises, which as of the end of March 2006 covered 8,351,946 members in 366,897 private enterprises.³⁹

³⁸ Nawaporn (2002) p. 299

³⁹ Data from the Social Security Office at <http://www.sso.go.th>.

It should be noted also that government officials and permanent employees of the government are not included in this group, but will be covered by another system for this groups of public sector employees only (see later). And in order to receive benefits in the old age provision section, the workers or subscribers must have contributed to the Social Security Fund for not less than 180 months, and that the person will have aged at least 55 years and no longer working.⁴⁰ In terms of contributions, each worker and employer will contribute 3% of the worker's earnings (up to the ceiling of 15,000 baht per month), and the government adds additional 1% (all together 7%).⁴¹ However, if the contribution goes beyond 180 months, the contribution rate will increase by 1 percentage point every year. For benefits, this scheme is a defined benefit (DB) type of old age pension where a member retiree will receive a monthly pension at the rate of 15% of the average salary of the last 60 months before retirement. For those who have contributed beyond 180 months, the pension rate will increase from 15% to 25%.

The overall operations of the present social security system come under the responsibility of the Social Security Office, which was set up with an equivalent status as a department in the Ministry of Labour, with the Secretary General of the Office as its head. The overall policy direction of the Office comes under the jurisdiction of the Board of the SSO headed by the permanent secretary of the Ministry of Labour with members appointed or selected from various other organizations representing various types of workers.

(2) Government Pension Fund (GPF)

This pension scheme is in fact a continuation of the original government pension plan for public servants, but it has changed from Pillar 1 type of defined benefit pension scheme to Pillar 2 type of defined contribution pension scheme and operated under an equivalent of private sector provider but under government's control. This change came as a result of the enactment of the Government Pension Fund Act of 1996. However, because the government allowed those public officials who were already employed before March 27, 1997, the date of operation of this new GPF scheme, to choose whether to switch to the new system or remain in the old system, the government actually runs two parallel systems concurrently, that is to say, those who did not want to switch, would remain in the old, Pillar 1, PAYG-type of pension which will stay on until the last person retires (probably around 2037), and those who wanted to switch and all other new public officials will come under the new scheme. The government had designed a system that will adjust the transition from the old system to the new system for existing public officials to make it fair for them to do so.⁴²

Under the new GPF scheme, public officials will contribute 3% of their monthly salaries to the GPF, where as the government will also add another 3% to the Fund in these public officials' names. At retirement, these public officials will have a choice of receiving lump-sum gratuities or monthly pensions. Parts of these payments will come from government's budget, but for those who have made contributions to the Fund will also receive benefits from the investment incomes of the Fund. Parts of these benefits will

⁴⁰ Since this old age provision in the present social security system only started in 1999, it will be the year 2014 before the first retiree will receive the first pension under this scheme.

⁴¹ This is different from the contributions that cover the other four aspects of social security, namely, sickness or injuries out of work, maternity, disability, and death, which require a contribution rate of 1.5 % of wage or earning, and the contribution for unemployment coverage which requires 0.5 % each from the worker and his employer, and 0.25 % from the government.

⁴² The strange thing is that private sector workers who come under the Social Security Act are "protected" by public welfare supports through the PAYG-typed pension system, whereas the public sector officials (civil servants) are now outside the welfare support of the government as they were traditionally treated, but (for the new public servants anyway) were "forced" into the new system which is of defined-contribution type and individual account, where the risks will be undertaken by these public servants themselves through management of professional fund managers.

also receive special tax treatments (such as income tax exemptions for those who retire after 55 years of age and over after at least 25 years of service) under the present revenue code.

This GPF is managed by a semi-public, semi-private organization. The Government Pension Fund Office is set up and run like a private sector office, but its policy is controlled by the Board of the GPF under the chairmanship of the permanent secretary of the Ministry of Finance, with members selected from different groups of public services. Unlike the Social Security Office, the Secretary General of the GPF is not a government official, but a private employee, hired on contract by the government.

(3) Private Sector Provident Fund (PVD)

To help retirees in the private sector, the Thai government enacted the Provident Fund Act in 1987 with the minister of finance acting as officer in charge and the Fiscal Policy Office as registrar. Later the government decided to transfer the operations and control of this Provident Fund to the Securities and Exchange Commission of Thailand because this agency also had the responsibility of looking after the operations of mutual funds and personal funds. Subsequently amendments in the above Provident Fund Act and the Securities and Exchange Commission Act of 1992 had resulted in new provisions in these two acts in 1999 which are in force today.

This Provident Fund scheme is one of Pillar 3, privately managed, voluntary savings, defined contribution type of pension scheme. At the end of 2005, there were 542 funds in existence. Each fund comes under monitoring and control of a fund committee which is comprised of representatives from the employer and employees. The fund committee then chooses fund manager to manage this fund under general regulations set up by the Securities and Exchange Commission (SEC) of Thailand.

Employees' contributions must be at least 3% of wages but not exceed 15%. Employer's contributions must not be less than employees' contributions. As of the end of 2005, there were 542 provident funds in existence, covering 1,665,709 employees in 5,342 business enterprises, and with the total value of funds estimated at 345,896 million baht.⁴³ In terms of benefits, the employees will receive lump-sum payments at the time of their resignation or retirement. These payments will be tax exempted on the part of employees, and tax deductible on the part of employer.

(4) Retirement Mutual Funds (RMF)

This Pillar 3 voluntary pension scheme is the latest addition to the old age pension schemes of Thailand. It aims to provide a means of voluntary retirement savings to employees who are not in the Provident Fund, or who want to make additional contributions. Investors are free to choose different packages of investment with different risk and return profiles, but they are not allowed to withdraw these funds before reaching the retirement age of 55 without tax penalty. As for tax privileges under this voluntary old age savings scheme, the three Es (EEE) benefits are given. The first E is for the contributions to the funds to be tax deductible up to a limit of 300,000 baht per annum. The second E is for the investment income to be exempted from tax. And the third E is for the retirement benefits payable from the fund not to be taxed as income to beneficiaries. But to be able to benefit from the above tax privileges, the investor must invest in the RMF at least once a year for 5 years with at least 3% of the earnings or at least 5,000 baht whichever is lower, and will not sell or redeem these savings before the age of 55, after maintaining these savings for at least 5 years.

⁴³ Information from the SEC of Thailand at <http://www.sec.or.th>

(5) Other Old Age Pension Systems

Apart from the four major types of old age pension systems discussed above, there are few other old age pension systems that can be considered a subset of the above systems. For example, the Private Teachers' Provident Fund system is the mandatory, defined contributions for teachers of private schools under the Private School Act. The current contributions rates are 3 % of salaries from teachers, 3% from school owners, and 6% from the government. These private school teachers will receive payment in lump sum when they resign from their employment after 5 years of service. At the end of 2004, there were 127,034 teachers in 7,688 private schools with a fund size of 7,718 million baht managed by the Ministry of Education.⁴⁴ Most of present government enterprises' workers are also covered by the Provident Fund Act of 1987 and will receive lump sum payments upon retirement. The government permanent employees (not government public officials) also come under this Provident Fund provision.

3-2 Issues and Problems Concerning the Current Old Age Pension Systems

On the face of it, it seems that the old age pension systems of Thailand are fairly well developed, with all the three pillars of old age pension in operation. However, the overall operations of Thailand's old age pension systems are not without problems. The following are some of the problems that we have seen mentioned or discussed by several experts or practitioners of old age pension systems of Thailand.

(1) The Survivability of the PAYG DB System

Although the full old age pension provision under the present Social Security scheme will not become fully functioning until 2014, it is quite obvious that the system will be facing problems as seen from the experiences of other more developed countries such as Japan. At first when only establishments with 20 or more employees would be covered, the problems appeared to be small, but when the government decided to cover all enterprises with at least one employee, the severity of the problems has increased many fold. The existing retirement age of 55 is certain to create a lot of pressure on the financial adequacy of the system based on the increase longevity of the Thai people. The replacement rate or the rate at which retirees will receive their pension as a percentage of income before retirement can also pose a question if social or economic pressure in the future forces an unsustainable increase in this replacement rate.

Several experts have commented on the old age pension under the current social security system. Funke and Stadtmann⁴⁵, for example, raised concern about the weaknesses inherent in the old pension system. Three problem areas can be pointed out: (i) civil service salaries were constrained to levels that were inadequate in many respects, which decreased the quality of the civil service applicants and provided incentives for creating side incomes, including corruption. (ii) Pension obligations were being considered only within the context of the annual budget, as they were calculated each year, without providing for any reserve for future increases, thus undercutting the prudent fiscal administration the Thai government sought to pursue. And (iii) future pension obligations as a ratio to annual government expenditures were rising, jeopardising guaranteed benefits for pensioners and government officials in active service alike. Holzmann, Mac Arthur, and Sin (2001) also commented on the potential weakness of the present system.

⁴⁴ Niwat (2004) p. 9

⁴⁵ Funke and Stadtmann (2001) p. 5

(2) The Lack of Savings Mechanisms for Old Age

There exist two kinds of problems simultaneously involving individual savings for old age in Thailand. One is the general low income of a large number of the Thai people who do not have enough savings even for short-term exigencies let alone old age security. In this case, the government may still have to keep the basic pension plan that provides old age security as a matter of redistribution. The other is that there are some limitations today on the current old age security systems that hinder greater flexibility in savings mobilisation. For example, under the GPF and PVD, members cannot contribute more than 3% and 15% of their earnings, respectively. Currently, there is also a ceiling of eligible income in the basic pension plan. And although the intention of most old age pension funds is to keep the funds uninterrupted until retirement age, which should be appropriately high enough to reflect the improvement in health situations and increase in life expectancy, there are tendencies and possibilities that these funds may be withdrawn earlier. Moreover, when the time comes to draw out the savings fund either as a lump sum payment or a pension, there are no appropriate mechanisms that help roll over the funds for those who still have no needs for them, which could, of course, help further increase in domestic savings. Or there is no mechanism that helps workers transfer their pension plans from one scheme to another in case of changes in employment. All these have adverse effects on national savings as a whole.

(3) Investment Problems in the Defined Contributions Old Age Systems

So far we have said little about what we should do with the savings of workers in the forms of contributions that they themselves, and their employers and the government, have paid to the pension funds. This is another large area that requires expertise from financial analysts to address and tackle. It suffices to say here that either the government or the fund managers have to maintain appropriate balance between profitability and the risk of the invested funds. Too cautious investment policy would bring in little returns, which hurts the viability of the scheme and reduces the welfare of the subscribers. But too risky investment policy could jeopardise the future security of the members. The risk may also exist, not between any sets of investment opportunities, but between the price stability now and the inflation instability in the future. A popular and well accepted way to invest the funds is to diversify investment sources, with varying degrees of maturity.

There normally is a subtle difference between the mentality toward investment risks of policy makers and/or fund managers in the public sector and private sector. As a rule, responsible people in the public sector tend to be more cautious and more conservative towards risk, whereas the same people in the private sector tend to have more “aggressive” attitude towards risk taking. In the latter case, their future employment contracts may depend on the success of their performances (probably measured in terms of the profitability of the investment of the reserve funds), whereas the job security of, say, the secretary general of the government pension scheme is not in danger if he opts to be careful with his reserve fund investment. The case in point is the desire to invest overseas of the Director of the Government Pension Fund Scheme of Thailand, a privately contracted employee working under the official policy board representing the government. This desire was based on the fact that the investment opportunities in the local market in Thailand were quite limited, so that not much profit could be made in the domestic setting. Contrary to the belief that investment market outside Thailand can be dangerous and risky, the opposite may be true because the financial and capital market in developed countries have matured and are likely to be even

Table 2-1 The Size of Different Old Age Pension Funds

	Invested Fund 1st Q, 2005	Invested Fund 2nd Q, 2005	Rate of Change (%)
1. Social Security Fund	282,900	302,821	7.04
- 4 coverages: sickness, disability, maternity and death	104,822	48,661	-53.58
- 2 coverages: child allowance and old age	171,422	245,407	43.16
- 1 coverage: unemployment	6,656	8,753	31.51
2. Government Pension Fund	255,990	268,703	4.97
3. Provident Funds	311,187	319,437	2.65
4. Retirement Mutual Funds	12,893	13,212	2.47
Total	862,970	904,173	4.77

Source: Ministry of Finance, Fiscal Policy Office (2003)

more stable than local markets.⁴⁶

Tables 2-1 and Table 2-2 show how pension reserve funds are being invested in Thailand. It is clear that for the SSF and GPF, the established rule is to go for government bonds and state enterprises bonds guaranteed by the Ministry of Finance. This constitutes more than half of the overall share of total investment. For private sector PVD, government bonds constitute less than a third of its total investment share. The private sector fund managers are more inclined to put their money in commercial bank deposits, debt instruments issued by commercial banks and other private financial institutions, and even common stocks and mutual funds.⁴⁷

⁴⁶ The conservativeness of the Thai government investment policy on its social security investment can be seen in the Ministry of Finance Ministerial Regulation No. 4 (B.E. 2539) prohibits GPF to acquire foreign assets. In the main, the investment policy of the GPF is determined by the Board of Directors under general rules provided in the above said Ministerial Regulation. As an indication of how careful the drafters of this Regulation thought about the “soundness” of investment, 60 % of the Fund’s assets must be invested in “secure assets” which are defined to include:

- Cash
- Bank deposits (guaranteed by the government through the Financial Institution Development Fund (FIDF))
- Government bonds
- Treasury bills
- Bonds issued by the Bank of Thailand
- Fixed income instruments issued by a state owned enterprise, banks, or reputable companies, and those guaranteed by the Ministry of Finance.

No more than 40 % of the total amount of the Funds may be held in the following assets:

- Fixed income instruments other than those defined as secure assets,
- Shares or certificates showing the right to shares,
- Bills of exchange accepted by a finance company or a bank, and
- “alternative investments” if approved by the Board of Directors.

Moreover, not more than 10 % of total assets are to be held in equities and no more than 2 % of the total assets are to be held in the shares of one single company.

It was found that there was a low correlation between returns to assets within the country and outside it, meaning that the risks from investing in both markets can be appropriately spread. Secondly, the size of the government pension reserves are too large for domestic capital market and can destabilise it. Therefore, there are reasons for them to go out.

⁴⁷ It appears now that with persistent explanations based on sound reasoning and empirical experience, the fiscal authorities of Thailand are now convinced that investing overseas is fine, and they will gradually authorise this action on government pension funds.

Table 2-2 The Size and Type of Old Age Pension Funds Investments

	SSF		GPF		PVD		Average %
		%		%		%	
1. Government bonds and State Enterprises Debt Instruments guaranteed by Ministry of Finance	176,319	58.23	137,824	51.29	97,718	29.34	46.29
2. Deposits and Debt Instruments issued by commercial banks	60,187	19.88	41,962	15.62	120,093	37.6	24.36
3. Debt instruments of the private sector and other financial institutions	41,014	13.54	43,024	16.01	62,831	19.67	16.41
4. Common stocks and mutual funds	25,300	8.35	48,650	18.11	41,669	13.04	13.17
5. Other investment and assets	-	0	-2,757	-1.03	1,126	0.35	-0.22
Total	302,821	100	268,703	100	319,437	100	100

Source: Ministry of Finance, Fiscal Policy Office (2003)

3-3 Reform Plan of Old Age Pension System in Thailand

As a result of several concerted efforts both within the country itself and from outside international financial or economic organizations such as the World Bank, the Asian Development Bank, the International Labour Office, and the Organization for Economic Cooperation and Development (OECD), Thailand is on the way to create a major reform to its old age pension systems. But the journey so far was not without pitfalls and obstacles. Many teams of experts have been invited to come to Thailand to study the possibilities of old age reforms in the last decade or so, and many proposals for reform have been tabled. The agreements are hard to come by for at least three reasons:

- (i) There are many people and organizations involved in the handling of old age pension plans in Thailand, with different objectives and purposes. Each would try to protect its own self-interest and pursue its own goals. Often these come into conflict with those of other agencies or organizations, resulting the slowing down of needed reform.
- (ii) Decision making in the Thai public sector is usually carried out collectively through committee system. It is usually the case that committee members representing certain interest groups or organizations will not agree quickly with committee decision if such decision has a negative impact on their positions. They would try to stall the collective decision for fear that their superiors whom they represent might not agree to it. Delays occur until people at the top at each agency have a chance to protect the agencies' positions.
- (iii) Foreign experts are often criticised for not knowing the true situations in Thailand, and their views and recommendations are often dismissed as not relevant or incorrect. The situation is a reverse from what happened 30 to 40 years ago when foreign experts tended to be arrogant because no local views challenged them. The opposition is likely to be true today when local high-ranking officials are too arrogant to accept the views or foreign experts (and often local experts also) easily.

We want to refer to just one example of the recommendations by one foreign expert sent by the Asian Development Bank in 2001 to help Thailand plan for its old age pension reform. Michell Wiener (2002) visited Thailand several times to conduct his research on old age pension reform, and to convince the Thai authorities on the practicability and soundness of his study and recommendations. It was not an easy assignment, and a lot can still be changed in today's plan.

Wiener's detailed plan will not be discussed here, but we can make some comparisons between his plan and other study groups or expert groups.⁴⁸ Because of the almost uniform or identical recommendation for the Thai authorities to improve the existing basic Pillar 1 pension system, and to expand or strengthen Pillar 2 pension system, the Thai authorities have become more confident that they have the correct lead. The Fiscal Policy Office in the Ministry of Finance in the Thai government which is vested with the responsibility to plan this new old age pension reform, now has in its hand a blueprint or design for the new old age pension plan for Thailand that is called the National Pension Fund (NPF).

The Fiscal Policy Office continues to receive technical assistance from the ADB in the form of the service of a pension reform and actuarial expert who, in March 2006, has already prepared an Inception Report on Thailand's Pension System Reform as requested by the Office. Three policy issues have been set up and debated. They are: (i) the rationale for the National Pension Fund of the government; (ii) the analysis of old age social security fund, and (iii) the analysis of the NPF.

(1) The Rationale for the Establishment of the NPF

This is mainly to prevent the majority of the Thai population to fall into poverty after their retirement from work, to maintain standard of living that is not too different from the time they are still in the active workforce, to regulate the movement or turnover of retired people who can retire with dignity and satisfaction; and to increase long-term savings of the country and the development of its capital market.

(2) The Analysis of the Existing Old Age Pension Scheme in the Social Security

System has revealed that in the future the burden of the fund will be twice that of the contributions due to the ageing population, falling birth rate, and the low retirement age of 55 (which is reputed to be the lowest in the world compared to the usual 62 to 65 years of age). In that connection, it is suggested that there should be a separation between the management of short-term benefit pension fund and long-term benefit pension fund, with different benefit rates, and different investment strategies for these different funds.

(3) The Analysis of the National Pension Fund

The Office has agreed with the ADB expert in the following recommendations:

- 3.1 On Coverage: The new scheme should start with the enterprises with 100 workers and over first in 2008, and continuously expand to cover enterprises with one worker in 2018.
- 3.2 On Contribution Rates: The rate of 3% each from employees and employers is appropriate at the beginning, and will be increased gradually as the Government Pension Fund is amalgamated with the Old Age Pension plan in the current Social Security system so that at the end the benefit from the new program is about 50% of the last month's salary.
- 3.3 Retirement Age: 60 is the recommended retirement age at the start, and should be increased in the future.
- 3.4 Benefit structures: Benefits should be annuitised at the replacement rate of 50% as mentioned above. Beyond that amount, retirees can choose to accept an annuity or a lump sum payment to make sure that they have sufficient income for the rest of their lives.
- 3.5 Tax Treatments: The usual position of the Fiscal Policy Office is to support the three tax exemptions regime (EEE), that is, exemption on contribution, on investment income, and on income

⁴⁸ There are at least two more expert groups that were requested to conduct studies on old age pension reforms in Thailand. One was by a private consulting company, Deloitte and Touche in 1999, and the ILO in 2003.

benefits after retirement, but according to the view of the ADB expert, the last benefit should be abolished.

- 3.6 Transition from PVD: Those employees and employers who have already contributed 3% of workers' earnings to the fund should not have to make additional contributions, and this part will be regarded as part of compulsory pension plan, to be separated from voluntary plan.
- 3.7 Policy Making Structure of the NPF: the National Saving for Old Age Committee will be set up with the prime minister as its head.
- 3.8 Operating Agency: the National Pension Fund Office will be set up to manage and oversee the operations of this new scheme.
- 3.9 Structure of New Pension Act: It should have a similar structure as the Provident Fund Act, with a new concept of trust and trustee to be introduced to fund managers.
- 3.10 Management Practice: There will be a consideration on the pros and cons of centralised and decentralised approaches to managing the new scheme on database issues and contribution collection techniques
- 3.11 Transfer of Workers and Accounts: Transfers between government services and private sector accounts should be allowed, and new regulations should be set up to smooth out the change from one account to the other.
- 3.12 Risk Assurance: A risk assurance system will be installed to make sure that the management and investment of pension reserve fund are carried out properly.
- 3.13 Investment Principles: The fund will be invested based on the principles of safety, liquidity, and investment spread. Overseas investment will be considered based on security, safety and size of returns.
- 3.14 Team of Experts: Domestic experts or personnel will be recruited to help bring this scheme out in 2007.

4. Summary, Conclusion and Policy Implications

We begin this paper by asserting that the degree of state involvements in the provision of social welfare may vary according to the type and character of the government in power at any one time. A libertarian government would allow the market to play its full role with as little state intervention as possible. On the contrary, a collectivist government would control and direct all economic decision making units in the economy, whereas a liberal government is more likely to mix the best parts of the two systems above. It is safe to say that most governments in the world today is of this liberal type, and the provision for social welfare in the form of social security can be regarded as a usual norm. As for old age security in the form of old age pension system, not all countries are having it, or they may have it but need some kinds of reforms. We have shown that there are several attempts in Thailand in the aftermath of the economic crisis in 1997 to install a certain system of social protection in addition to the employment-related social security system and state-subsidized health care programs, but the coverage of this social protection in Thailand is still quite thin.

On the matters of policy recommendation, Barr suggests that countries with mature PAYG systems which face population aging should adopt policies that increase output and reduce the generosity of the PAYG pensions. For countries with large, unsustainable PAYG systems, they must reduce benefits, increase contributions, or a mix of the two. For countries with very limited capacity, the focus should be on poverty relief rather than public pension, which should be in the realm of the private sector. Thai system does not

fall neatly into any system mentioned above, but the message is clear: the government cannot afford to be too generous about its future old age pension plan. As a developing economy, the retirees cannot expect to enjoy life after retirement the same way found in more developed economies. The risks of financial sustainability may dictate that the fully funded system may dominate over the basic defined benefits system. People may be required to work longer and contribute more to the system. This is necessary if we are to have a safe and strong old age pension system.

More specifically, no one would disagree with the National Pension Fund proposed by the Thai government, to be launched in Thailand probably in 2006. But true to the spirit of the conditions mentioned earlier, the agreed retirement age presently set at 55 is certainly too early. It should be extended to 60 and finally to 65 at the minimum. As recommended by Michell Wiener, an ADB expert, the agreed system by the Thai government is already a multi-pillar pension system for all salaried workers, government workers, and state enterprise workers with mandatory contribution system to supplement the existing basic old age pension system and the voluntary provident funds scheme. Further recommendations include bringing the basic pension system back into balance by increasing the contribution rate, decreasing the accrual rate, and increasing the retirement age. To be exact, contribution rates of 7.4% for basic or solidarity system, and 6% for defined contribution or accumulation system will be recommended, split evenly between employers and employees. Basic old age pension retirement age should be increased to 65 over time, and the accrual rate of benefits on an annual basis can be decreased immediately to 0.8%. To Wiener, this would produce a target replacement rate of about 55% of the system as a whole.

In all, there seems to be little disagreements among experts who have worked on old age pension system for Thailand. The problems often lie in the personalities of high-ranking officials in various government agencies that have stakes in the new old age pension funds. This could be corrected by allowing more people to join the decision making process, and keeping the general public as much informed as possible. In the end, Thailand could have a viable and satisfactory old age security system that everyone enjoys.

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