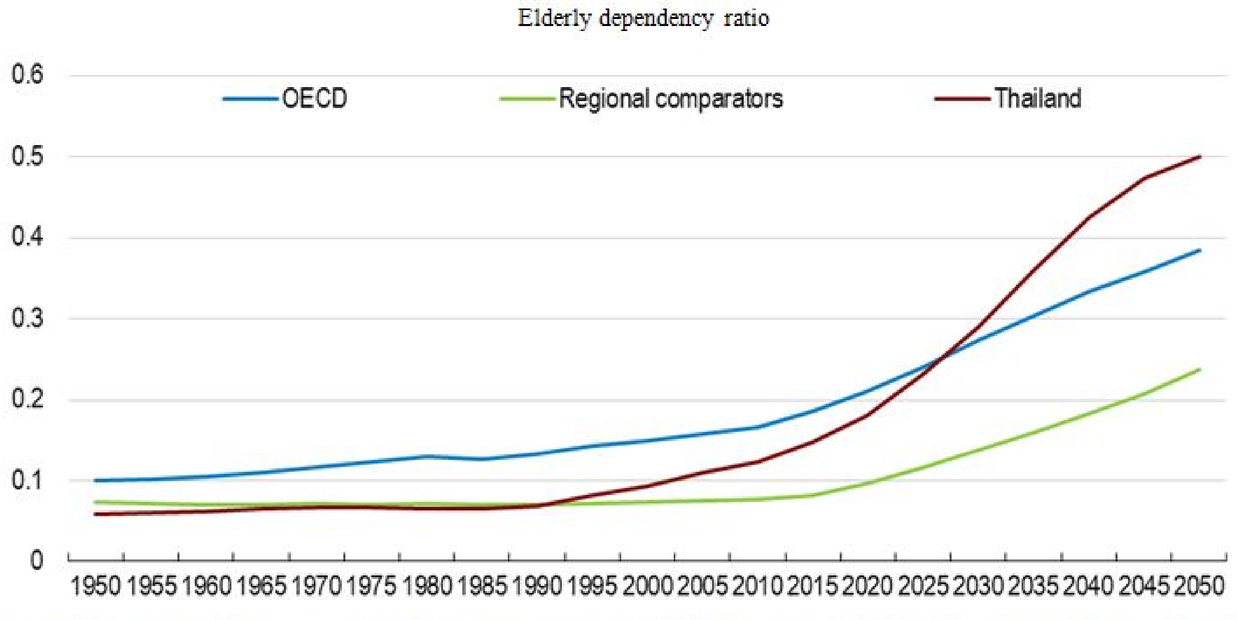
Sustainably financing pensions and healthcare in Thailand

By Adam Bogiatzis, Economist, South East Asia Desk, Economics Department.

Thailand has made remarkable socio-economic progress over the past several decades. Poverty has plummeted and access to education and health services has become near universal. As is commonly the case, improved health outcomes and expanded opportunities – particularly for women – have led to higher life expectancy, a declining fertility rate and ultimately an ageing population. However, the rate of Thailand's ageing is exceptional, particularly given its stage of development. Indeed, Thailand's elderly dependency ratio far exceeds that of other emerging economies in the region (including Indonesia, the Philippines, Malaysia and Viet Nam) and is expected to surpass the OECD average by 2030 (Figure 1).

Figure 1. The elderly dependency ratio is expected to exceed the OECD average by 2030



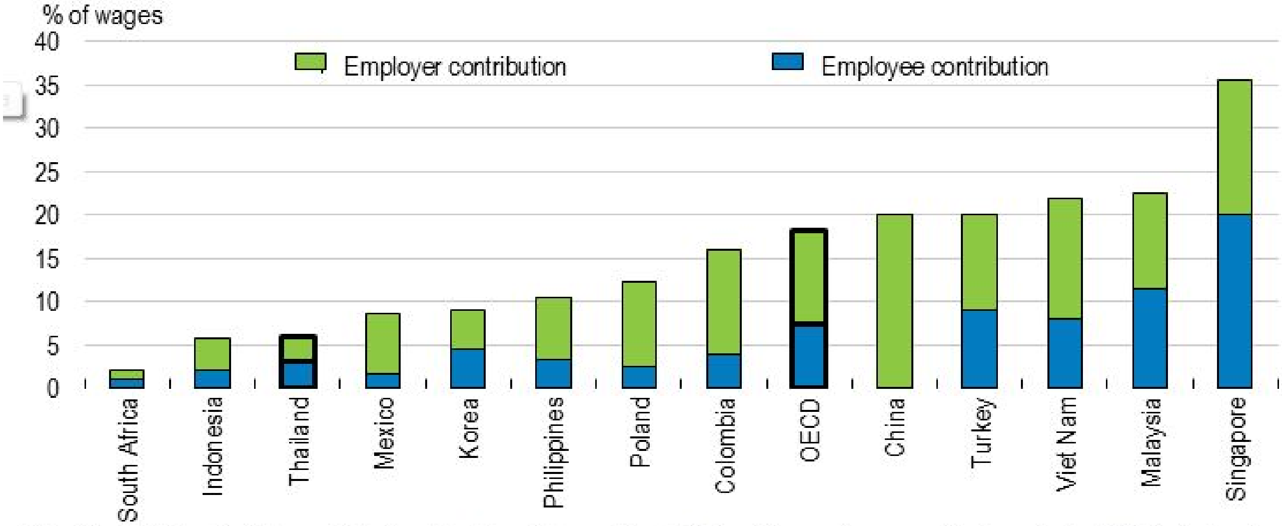
Note: The elderly dependency ratio is the number of persons aged 65 and above divided by the working age population (aged 15 to 64). Regional comparators refer to the simple average elderly dependency ratio for Malaysia, Philippines, Indonesia and Viet Nam.
Source: UN Population projections, 2017 revision.

With a rapidly ageing population, the public burden to provide social pensions (which will need to increase to improve very low replacement ratios and safeguard against elderly poverty) and healthcare will grow considerably. Indeed, the Initial Assessment Report of the Multi-dimensional Review of Thailand notes that although Thailand's current fiscal position is healthy, structural reforms to the pension and healthcare systems are needed to ensure fiscal sustainability (OECD, 2018).

On pensions, Thailand's shrinking labour force and longer retirements mean there are fewer work years available to support the burgeoning number of retirees. As a first step, the pensionable age of the private pension scheme (55 years and over) should be aligned with the public sector and the social pension scheme (60 years and over), with transitional arrangements put in place for current or imminent retirees. Moreover, consideration should be given to progressively raising the official retirement age in line with life expectancy. Indeed postponing retirement is an efficient way to both raise retirement income and improve financial sustainability (OECD, 2017). Thailand should also gradually increase the mandated private sector contribution rate (i.e. the share of wages mandatorily contributed to a pension fund). Under the national private pension fund, employers and employees combined contribute 6% of wages. This is below the contribution rates for comparator countries and the OECD average (Figure 2).

Figure 2. Thailand can boost mandatory contributions to pensions

Employer and employee contribution % of wages, 2014



Note: South Africa includes contributions for all social spending. In China, the employer contribution rate is 20% for the basic pension, but in the case of the Provident Fund the contribution rates vary by province. The OECD average only includes countries that have isolated contribution rates for pensions and excludes countries that have larger contribution rates for broader social security measures.
Source: OECD calculation based on World Bank Pension Data; and OECD (2015), Pensions at a Glance.

In healthcare, Thailand should avoid near-term regressive and often ineffective blanket cuts to the health budget and instead implement targeted structural reforms that will be beneficial over the longer run. For example, to prevent overburdening of hospitals, Thailand should increase health provision through preventive and primary care by boosting the number of family physicians and general practitioners, particularly in rural areas. Healthcare financing should also be reformed by reducing the exemptions on co-payments and allowing greater private contributions from those able to afford it.

Tax revenues are, and will continue to be, the dominant source of finance for Thailand’s pension and healthcare systems. The government provides an old-age allowance to 82% of people aged over 60 and accounts for 78% of total healthcare expenditure – a share higher than the OECD average and regional comparator countries including Indonesia, Malaysia, the Philippines and Viet Nam. Therefore, a complementary set of reforms that boost revenue is needed. In this regard, Thailand needs to broaden the tax base whilst improving efficiency by relying more heavily on less distortive taxes such as those on consumption, property and inheritances. Moreover, the government should continue its efforts to improve collection efficiency by easing compliance through technological innovation, providing incentives that discourage tax avoidance and informality, and strengthening enforcement on tax evasion.

References

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