Thailand’s new proposed mandatory provident fund system will help avert future aging-society fiscal crisis

With Thailand’s proposed mandatory provident fund scheme, it will be a major step in averting an inevitable fiscal crisis at one Asia’s fastest aging societies.

The proposed new law that is scheduled to be implemented in 2018, will shift a significant part of the country’s future old-age pension liabilities away from annual government budget to individual defined contribution accounts.
Dr Pisit Leeahtam, President of the Association of Provident Funds and former Deputy Prime Minister, said that only a small portion of Thailand’s 30 million employees currently participate in voluntary provident funds, wherein employers and employees make monthly tax deductible contributions.

“Currently, only about three million Thai employees from more than 17,000 employers participate in provident funds, he said.

The proposed new mandatory provident fund will initially be phased into companies with more than 100 employees. Over the long term, if Thailand follows certain Asian counterparts, it is hoped that more than 80 per cent of its employees should eventually have provident funds as a key retirement savings and investment component.

Dr Pisit spoke at an event hosted by Asia First (the financial intelligence platform) “Pension & Institutional Forum, Investing & Managing a New Pension System”, in Bangkok on 31 August, 2017. With the event’s lead sponsor, Janus Henderson Investors, they welcomed more than 120 of Thailand’s top pension and investment fund professionals to the Renaissance Bangkok.

**Securities and Exchange Commission**

Keynote speaker, Security and Exchange Commission (SEC) Secretary-General Rapee Sucharitakul, said the SEC was focusing on developing policies that would ensure Thai retirees have “happy” and fulfilling financially-comfortable retirements.

Currently, only 21% of Thai employees participate in voluntary provident funds. Moreover, recent retiree pensions are totally insufficient to maintain a comfortable lifestyle, especially with many people living another 30 years after retirement.

“Our studies show that 50 per cent of current Thai retirees have less than Bt1 million ($US30,000) in total retirement funds.”

Rapee cited several reasons why Thai employers and employees haven’t contributed more to provident funds, despite tremendous tax benefits.

Most employees, he said don’t take serious ownership of their provident funds. “Many of them don’t even realize they own their provident funds.”
Thai provident fund members also tend to allow their provident committees to act as “godfathers” in administrating the funds.

Another primary culprit is Thailand’s low financial literacy level. Rapee proposes the fund management industry should pro-actively educate all provident fund members.

The SEC has suggested measures such as standardized proposals that can be easily evaluated and fact sheets should be provided for individual members.

Janus Henderson Global Economic Analysis

A major event highlight was Robert Griffin’s insightful analysis of the global economy.

Griffin, Director, Fundamental Fixed Income Strategies, Janus Henderson Investors, said US President Donald Trump’s pro-growth rhetoric during his election-run raised US equity prices in late 2016 and early 2017. “Some of this euphoria has declined in the last quarter,” he said.

Globally, economic data has also been tepid and economic growth will remain anemic. Inflation has remained very low and commodities have continued undergoing extended price pressures.

With the Trump euphoria subsiding, Griffin expects Central Banks will continue playing a major economic role.

In the US, five-year US Treasury bonds are rising slowly and even though the US unemployment figures are low at about 4.5 per cent, many people are still unemployed.

“There is a great disconnect between the markets and the FED’s beliefs,” he said.

Recession, he said was a greater threat than inflation, even with increased quantitative easing.

“The US economy is only expected to rise 1.4 per cent this year.”

US government debt to GDP that is currently 70 per cent, persists as a problem because the FED isn’t able to spur growth to allow the US government to generate additional fiscal revenues that will reduce debt.

Nevertheless, US corporate credits have retained strong demand from Asian investors. “During my most recent Asian trips, everyone is asking me about US corporate credits.”

De-centralized vs Centralized Management

With Thailand’s proposed implementation of a mandatory provident fund scheme in 2018, major discussions center around proposals to have the funds centrally managed by a single entity, similar to Singapore’s Central Provident Fund system or privately managed by asset management companies.

Thailand’s provident funds are currently de-centrally managed by private asset management companies similar to Hong Kong’s Mandatory Provident Fund.

Asia First’s Jonathan Watkin gave a brief overview of Hong Kong’s de-centralized MPF system – with challenges and opportunities from over 17 years of experience since it commenced, including the need for buy-in and effective member communications and a default lifestyle fund for those who do not want to choose a fund and Voravan Tarapoom, Chairman of the Association of Investment Management Companies provided an impassioned presentation on the merits of de-centralized private asset management that focuses on free competition.

They were followed by a panel presentation moderated by Andrew Stotz, PhD, President CFA Society Thailand. It featured leading local and overseas pension experts including Robert Griffin of Janus, Stuart Leckie, Stirling Finance (HK); local experts Natha Protpakorn, Deputy Secretary General, Risk Management Group, Government Pension Fund Thailand, Nawaporn Wiriyanupong, Fiscal Policy Office (FPO), Ministry of Finance and Oranuch Apisaksirikul, Executive Board Chairman, Tisco Financial Group.

The panel members stressed that it is critically important to continuously educate all provident members on the importance of preparing for their retirements.

Stuart Leckie of Stirling Finance warned that post-retirement issues such annuities vs lump-sum payments, longevity and inflation risks should not be ignored. “We spend too much time on investment management issues and need to cater for people’s financial needs in retirement.”

Due to time constraints, the panel was not able to fully address and debate a centralized vs de-centralized management, including
comparing overall costs to the consumers and how government economic, social and fiscal policy issues can most effectively be addressed.

However, a poll which was conducted electronically had the result on the right.

Noted though that many in the audience were from the fund management community, so there would obviously be a bias towards a de-centralized system.

That concluded the event with the discussion expected to continue amongst the various stakeholders.

Further Information, please contact:
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Poll: Do you support an MPF Centralised or De-centralised system in Thailand?
(Before the Provident Fund Discussion)

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(After the Provident Fund Discussion)

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