

# Chapter 9

## Social Protection in Thailand

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## CHAPTER 9

### **Social Protection in Thailand - Current State and Challenges**

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*This report reviews the current state and complexity of social protection (SP) in Thailand, and identifies critical challenges and possible solutions to ensure the sustainability and efficiency of the existing SP. It shows that the present SP system in Thailand is a multi-pillar system, with a few schemes to cover different sectors of the population. Examples of the SP schemes include the Government Pension Fund, the Social Security Scheme (SSS), the Workmen's Compensation Fund, Unemployment Insurance and the Provident Fund. For health care, the major SP is the Universal Health Care (30 baht) Program, also known as the "30 baht treat all" scheme.*

*Most of these SP schemes are imperfect due to their problems with regards to coverage, adequacy of benefits and management. In brief, there are 3 major challenges to the SP system of Thailand - aging population, a huge sector of informal workers who have not been covered by any income security system and a low rate of savings.*

*In response to these challenges, the government has initiated a National Savings Fund scheme to encourage people, particularly the poor and those who are not covered by the government pension fund or SSS or other formal SP system. A few public hearings have been held and a National Savings Fund Act has been drafted and is ready for consideration and approval by parliament.*

## **1. Introduction**

In Southeast Asia, the issues of social safety nets and social protection have emerged since the financial crisis in the middle of 1997. Apparently, it came with the conditionality of international organizations such as the International Monetary Fund (IMF), the World Bank, and the Asian Development Bank, that the crisis countries declare in a letter of intent a set of policies that give due consideration to the social impacts of the crisis<sup>1</sup>. In Thailand, the Asian crisis in 1997 was a major starting point for SP review and reform. Many SP schemes have been upgraded, strengthened or introduced. During the global financial crisis in 2008-9, a similar development has happened to SP in Thailand.

This paper has the following objectives:

1. To review the current state and complexity of SP in Thailand, focusing on the formal social protection system or social security system;
2. To identify critical challenges; and
3. To seek possible solutions to ensure the sustainability and efficiency of the existing SP (through an appropriate institutional design and modification of the SP establishment).

The paper consists of 3 major sections -- Current States and Challenges of SP; Main Critical Reforms of SP; and Policy Recommendation.

## **2. Current States and Challenges of SP**

### **2.1. Overview of Current States**

In 2009 Thailand had a population of 66.9 million with a labor force of 38.9 million. The total employment figure was 38.4 million with 41 percent involved in agriculture. More than 50 percent of those with jobs were self-employed and unpaid family workers. Thailand's population is aging rapidly. The number of older persons in 2010 was 7.5 million representing 11.8 percent of the total population. It has been

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<sup>1</sup> For example, the Fifth Letter of Intent submitted to the IMF in 1998 (Bank of Thailand 1998).

forecast that in 2020, the number of older persons will rise to 11 million representing 17.2 percent of the total population.

The present SP system in Thailand is a multi-pillar one, with a few schemes to cover different sectors of employment as illustrated in Table 1. A ‘zero pillar’ scheme provides a minimum level of protection in the form of social welfare or social assistance; a ‘first pillar’ consists of a publicly managed, unfunded plan; a ‘second pillar’ is a mandatory privately funded plan; a ‘third pillar’ is a voluntary, privately funded plan; and a ‘fourth pillar’ is complementary provisions for the public and the poor (The World Bank, 2009).

**Table 1. Multi-Pillar Pension System in Thailand 2006**

Pillar	Characteristics (World Bank classification)	Thailand’s Schemes	Funding	Participation*/	Benefit type
0	“Basic” or “Social pension,” at least social assistance, universal or means-tested	Older persons allowance	Budget/general revenues	Universal or Residual (1,755,266 (2007))	Allowance
1	Public pension plan, publicly managed, defined-benefit or notional defined-contribution	Former Government Pension (before 1997)	Budget/general revenues	Mandated: Central civil servants (1,721,772); Government employees (221,553); Local civil servants (215,873)	Pension or lump sum
2	Occupational or personal pension plans, funded defined-benefit or funded, defined-contribution	Government Pension Fund (since 1997); Social Security Fund; Private school teachers Fund	Contribution	Mandated: Central civil servants (1,172,953); Private employees (8,537,801); Private school teachers (152,576)	Lump sum
3	Occupational or personal pension plans, funded defined-benefit or funded, defined-contribution	Private employees (Provident Funds, since 1987); National Saving Fund (proposed 2010)	Contribution	Voluntary: Private employees (1,809,953)	Lump sum
4	Personal savings, homeownership, and other individual financial and non-financial assets	Retirement Mutual Fund (RMF); Private insurance; Welfare housing; low-cost housing	Personal savings (financial assets)	Voluntary	Return to investment

Source: Adapted from (Holzmann, R. *et al.*, 2004) and (Charndoevmit 2006).

Note: \*/Figures in parenthesis are number of members.

SP in Thailand can also be categorized into (A) Contributory transfer programs which consist of a statutory social insurance, an occupational security system and voluntary social protection and (B) Noncontributory (social assistance or welfare)

transfer programs which consist of Universal Health Care (30 baht) Program, Old Age Living Allowance, and short-term social assistance to mitigate the economic crisis.

### *2.1.1. Contributory Transfer Programs*

#### a. Statutory Social Insurance

The statutory social insurance consists of social insurance or a social security scheme (SSS) which embraces the Social Security Fund, the Workmen's Compensation Fund and Unemployment Insurance, and the Private School Teachers Fund. Due to space constraints, only selected schemes are reviewed.

##### *(i) Social Insurance or Social Security Scheme (SSS)*

The SSS was set up under the Social Security Act B.E. 2533 (1990) to provide social insurance for private employees in firms with 20 or more workers. The SSS was started in March 1991, by providing four types of benefits - sickness, invalidity, maternity and death- for employees of enterprises with 20 or more workers.<sup>2</sup> From September 1993 the coverage was extended to enterprises with 10 or more workers. The registration of those enterprises has been enforced since June 1993. During this stage the Workmen's Compensation Act was passed in June 1994 and came into force on July 1, 1994. In September 1994, a voluntary insurance service was introduced under Article 39 of the SS Act. In December 1998, the old-age pension and child allowance schemes were implemented. Since April 1, 2002, the coverage has been extended to enterprises with 1 or more workers. Finally, unemployment benefit was introduced in January 2004. ([http://www.asean-ssa.org/CP\\_Thailand.doc](http://www.asean-ssa.org/CP_Thailand.doc), accessed December 28, 2009). The SSS can be considered as the second pillar of the multi-pillar SP system (Table 1).

The SSS is administered by the SSO, presently a government department under the Ministry of Labor. The primary responsibility of the SSO is to manage the SSF and the WCF according to the Social Security Act 1999 (B.E.2533) and the Workmen's Compensation Act (B.E. 2537) (SSO 2008a).

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<sup>2</sup> State enterprise employees who have their own schemes were in the program at the start but were withdrawn in October 1991 following changes in their legal status. Companies with superior employee benefit schemes already established as of September 1990 were granted exemption upon request from participating in any or all of the benefit schemes.

The SSF is now providing seven types of benefit, i.e., non-work-related sickness, maternity, invalidity, death, old-age and unemployment benefits, including a child allowance, to the persons insured under Article 33 of the Social Security Act 1999. As of December 2008, there were 8,779,131 insured persons under Article 33 (mandatory insurance) and 514,422 insured persons under Article 39 (voluntary insurance) (SSO 2008a). In 2008, the SSF covers 25.11 percent of the employed workforce of 37 million or 14 percent of population of 66.4 million.

The SSF is financed through employees, employers, and government contributions. The contribution rate for sickness, maternity, invalidity and death benefits, or package I, was 1.5 percent<sup>3</sup> of insured earnings (in the range of 1,650 and 15,000 Baht) during 1991-1997, the maximum rate established by law. During the financial crisis starting in 1997, the contribution rate was temporarily reduced to 1 percent of insured earnings in 1998. When the old-age benefit and child allowance, or package II, were included at the end of 1998, the total contribution rate for both packages was 2 percent in 1999. The contribution rate for the old-age benefit and child allowance later increased to 3 percent in 2003.

The contribution rate for unemployment benefit (package III) starting in 2004 is 0.5 percent each for workers and employers and 0.25 percent for the government. The total contribution to the SSF is, therefore, 5 percent each for workers and employers and 2.75 percent for the government. The Social Security Office (SSO) also collects contributions from the voluntary insured persons (Article 39) at the amount of 432 baht per month for 6 types of benefit: sickness, maternity, invalidity, death, child allowance and old-age pension. The government pays a contribution of 120 baht per month for them. Another type of voluntary insured person under Article 40 pays contributions of 3,360 baht per year. They have only 3 types of benefit: maternity, invalidity and death.

In 2008, the contribution from employers, employees and the government to the SSF was 106,909.39 million baht, an increase of 6.98 percent from 2007. The total benefits paid to claimants were 35,690.51 million baht which was an increase of 10.15 percent from 2007.

The SSF benefits are summarized in Table 2.

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<sup>3</sup> For each contributor.

**Table 2. Social Security Fund Benefits**

Type of Benefit	Eligibility Requirement	Benefits
Sickness benefits (non-work-related sickness)	Have paid contributions for 3 months out of the previous 15 months.	<ul style="list-style-type: none"> <li>- Free in-patient and out-patient care in a registered hospital.</li> <li>- Sickness compensation of 50 percent of monthly wages upon physician's certification. The maximum compensation is 90 days per request, and 180 days per calendar year. The maximum compensation for chronic disease illness is 365 days.</li> <li>- 200-Baht reimbursement for dental care (extraction, filling and tooth cleaning), twice a year.</li> <li>- Reimbursement for prostheses and other related materials.</li> </ul>
Maternity benefits	Have paid contributions for 7 months out of the previous 12 months.	<p><u>In-kind benefit:</u></p> <ul style="list-style-type: none"> <li>- A lump sum payment of 6,000 Baht for each delivery, up to 2 pregnancies (eligible for both male and female insured persons).</li> </ul> <p><u>Cash benefit:</u></p> <ul style="list-style-type: none"> <li>- Maternity compensation, 50 percent of 3-month average wages for 90 days (only for female insured persons).</li> </ul>
Invalidity benefits	Have paid contributions for 3 months out of the previous 15 months.	<ul style="list-style-type: none"> <li>- A lifetime invalidity compensation, 50 percent of monthly wages.</li> <li>- Lifetime medical care reimbursement, maximum of 2,000 per month.</li> <li>- Reimbursement for prostheses and other related materials.</li> <li>- A funeral grant equal to 30,000 Baht, when the beneficiary dies.</li> <li>- Compensation equal to 1.5 times the monthly wages payable to relatives if the dead or invalid persons had paid contributions for 36-119 months, or 5 times the monthly wages if they had paid contributions for 120 months.</li> </ul>
Death and survivors' benefits	Have paid contribution for 1 month out of the previous 6 months.	<ul style="list-style-type: none"> <li>- A lump sum payment of 30,000 Baht for the funeral arrangements.</li> <li>- Compensation equal to 1.5 times the monthly wages payable to relatives if the dead insured persons had paid contributions for 36-119 months, or 5 times the monthly wages if they had paid contributions for 120 months.</li> </ul>
Child allowances	Have paid contributions for 12 months out of the previous 36 months.	<ul style="list-style-type: none"> <li>- Child allowance of 350 Baht per child aged 0-6 for a maximum of 2 children.</li> <li>- The child allowance eligibility status is not ended upon the death of an insured person.</li> </ul>
Old-age benefits	Have paid contributions for at least 180 months, and had retired at the age of 55 or older.	<ul style="list-style-type: none"> <li>- A pension equal to 15 percent of average of 60 months' wages received for it.</li> <li>- A one percentage point increase for every 12 months of additional contribution.</li> <li>- Compensation (10 times the monthly pension) payable to relatives if the pensioner dies within 60 months of retirement.</li> <li>- A lump sum payment equal to employee's contribution payable to the retiree (aged 55 and older) who has been contributing for fewer than 12 months.</li> <li>- A lump sum payment, equal to employee's and employer's contribution plus interest accrued from that amount, payable to the retiree who has contributed for more than 12 months, but fewer than 180 months.</li> <li>- A lump sum payment, in which the amount depends on the period of contribution and base income, payable to relatives of an insured person who dies before the age of 55.</li> </ul>
Unemployment Insurance	Have paid contributions for 6 months out of the previous 15 months.	<ul style="list-style-type: none"> <li>- For those who are involuntary unemployed (e.g., laid off), the replacement rate is 50 percent of the highest three-month average wages in the last nine months. The maximum duration to receive the benefit is 180 days in a calendar year.</li> <li>- For those who are voluntarily unemployed (e.g., quit work without just cause), the replacement rate is 30 percent of the highest three-month average wages in the last nine months. The maximum duration to receive the benefit is 90 days in a calendar year.</li> </ul>

Source: Chandoevrit, Worawan (2006).

The SS Act is not applicable to:

- government officials and regular employees of the central administration, provincial administration and local administration except for temporary employees;
- employees of foreign governments or international organizations;
- employees whose employer's offices are in the country but the employee is stationed abroad;
- teachers or headmasters of private schools under the Private School Act;
- students, student nurses, undergraduates or apprentice doctors who are employees of schools, universities or hospitals;
- other employees as prescribed in the Royal Decree.

*(ii) Unemployment Insurance*

The Unemployment Insurance scheme (UI) is a part of SSS which has been enacted in the Social Security Act B.E. 2533 (1990) at the same time as the SSS (the 4 benefit package) and the Child Allowance and Old Age Pension scheme (the 2 benefit package). But the effective date of the UI program was not specified in the Act. According to the Act, the UI benefit would be provided to insured persons when the stakeholders, i.e., employee, employer, and government, are ready for their contributions, a maximum of 5 percent each.<sup>4</sup> On August 26, 2003, the SS Act was amended with a stipulation that the contribution for the UI benefit would be collected starting on January 1, 2004.

To be eligible for the UI, the insured persons must have paid contributions for a period of not less than six months within a period of 15 months. Additionally, a claimant must satisfy other conditions such as the termination of employment must not be a result of a job violation, a planned or premeditated criminal act against the employer, a serious act against the law, resulting in serious damage to the employer's business, or being imprisoned under a court order. The claimants must be employable, ready and willing to work, and cannot refuse to participate in any career-development or job-training programs etc.

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<sup>4</sup> Currently 0.5 percent each from worker and employer and 0.25 percent from the government.

The eligible insured persons who are laid off will receive 50% of wages for not more than 180 days within 1 year. The insured persons who resigned from their jobs voluntarily will get 30% of wages for not more than 90 days and the accumulated days' benefits may not be more than 180 days within 1 calendar year. During the economic crisis in 2008, however, the coverage period was extended to 240 days for the insured persons who were laid off.

At the earlier stage of the UI implementation, from July 2004-April 2006, 227,862 people registered for the scheme with the Department of Employment (DOE), at an average of 10,357 people per month. The trend jumped in January of 2005 due to the catastrophe of the Tsunami in late December 2004.

Towards the end of 2008, the number of insured unemployed persons increased drastically due to layoffs as well as increasing awareness of the UI. In 2008, the number of UI beneficiaries increased from 59,214 persons in January to 71,951 persons in December. The laid off workers constituted only 30.47 percent of the beneficiaries (SSO 2008a, 40-41). The UI benefit payment in 2008 was 2,436.37 million baht increasing from 576.9 million baht in 2007.

#### b. Occupational Security System

The Occupational security system consists of the former Government Pension (GP), Government Pension Fund (GPF) and Pension for Employees of State Enterprises.

##### *(i) Government Pension (GP) and Government Pension Fund (GPF)*

The GP is the oldest pension system in Thailand founded during the reign of King Rama V (1853-1910) for the public sector by the enactment of the Pension Act in 1902. Under the reign of King Rama VII (1893-1941), the Act was amended and pension rights belonged to government officials only. In 1939, the Act was replaced by two new Acts; one for civil servants and the other for military servants. In 1951, the new Pension Act superseded the previous one and it was used for central government officials until about 1996 (Kanjanaphoomin, 2004). Since 1996, the GP has been transformed to the Government Pension Fund (GPF), a fully funded system.

Government employees (including civil servants, government employees, employees of state enterprises) are covered by many types of social security benefits, including old-age, health-care, and child-related benefits. All the benefits provided are

financed from general tax revenues. The health-care benefits provided to government officials are summarized in Table 3.

**Table 3. Health-care and Medical Benefits for Government Officials**

Compensation	Health-care and Medical Benefits
Coverage	- Government employees, parents, spouse and (up to three) children.
Public hospital	- For work-related sickness, all expenditures are covered subject to Ministry of Finance regulations. - For non-work-related sickness, all expenditures for medical treatment are covered; 600 Baht per day for hospital room and food expenditures are provided for a period not to exceed 13 days.
Private hospital	- For work-related sickness, health-care expenditures are covered on an emergency case basis only. - For non-work-related sickness, half of the health-care expenditures are covered, but not more than 3,000 Baht within 30 days.

Source: Chandoevmit (2006).

Prior to the introduction of the GPF, with regard to old-age pensions, a retired government official could choose between two forms of old-age income security, a lump sum payment, or a pension, based on criteria such as retirement age, length of service, and disability. The monthly pension for government officials was then calculated by the following formula:

$$\text{Pension} = [(\text{years of employment}) \times (\text{last salary received})] / 50$$

The lump sum payment was equal to the last salary received multiplied by the number of years of employment. The government pension is transferable to their children or other relatives.

Since the 1990s, the “pay-as-you-go” system of the GP has caused a strain on the government budget. The number of retirees increased from 154,940 in 1990 to 217,733 in 1996. During the same period, government expenditure on old-age income security for government officials grew by about 20 percent annually from 6.6 billion Baht to 19.7 billion Baht (Phananiramai, 2003).

As a result, in March 1997, the GP was reformed and replaced by the GPF under the Government Pension Fund Act 1996. The GPF is a fully funded system with defined contributions for central government officials. It has<sup>5</sup> two major changes: (i)

<sup>5</sup> The date is based on (Kanjaphoomin, 2004, 13).

the original pension benefit is reduced by using the average of a 60 month salary rather than the last month's salary and the ceiling may not be more than 70% of the replacement rate; (ii) the Act mandates the government to accumulate a reserve fund equal to 3 times of the fiscal budget for gratuity and pension payments, implying that pillar I is no longer a fully unfunded system.

The GPF is mandatory except for those who were in service before March 27, 1997 and chose to stay with the old pension scheme. If they chose not to join the GPF, they are eligible for a pension according to the Government Pension Act 1951 only. In December 2003, the GPF had 1.2 million members with a fund size of 230,000 million Baht (Kanjanaphomin 2004, 13-14). The number of GPF members decreased to 1.17 million in 2006.

Under the GPF scheme, the government and the GPF members each contribute an equivalent of 3 percent of the member's salary to the fund. For those government officials who had been employed before March 1996 and for those who voluntarily became members of the GPF, the government adds "seed money" equal to 2 percent of their accumulated salaries from the beginning of their employment. The government also provides an additional monthly contribution of 2 percent of the salary of voluntary members (Chandoevrit 2006, 11-13).

In 2006, there were 1,721,772 civil servants under the GP scheme and 1,172,953 civil servants under the GPF scheme.

Unlike civil servants, government (permanent) employees<sup>6</sup> were covered only by a gratuity (lump sum retirement payment) and a provident fund. In the case of the gratuity, the permanent employees receive a gratuity from the fiscal budget in accordance with the Ministry of Finance's Regulations on Employees' Gratuities in 1976. In the case of the Government Permanent Employees Provident Fund (GPEF), the fund is arranged according to the Provident Fund Act for permanent government employees who are not government officials. The permanent government employees make voluntary monthly contributions at a rate of 3% of their salary, and the government matches these contributions. In 2006, there were 221,553 government

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<sup>6</sup> This category of government employees has been replaced by "government service employees" (in Thai พนักงานข้าราชการ) whose SP is covered by Provident Fund.

employees receiving gratuities. Local government officials are eligible for pensions or gratuities similar to the 1951 pension system of central government. However the system is a partially funded system with contributions coming from 1% of the local government fiscal budget every year. This fund is managed by the Ministry of Interior (Kanjanaphoomin 2004, 12). In 2006, there were 215,873 officials under this scheme.

*(ii) Pension for Employees of State Enterprises*

Presently, all state enterprise pension systems (defined benefit systems) have been transferred to the provident fund according to the Provident Fund Act, 1987. In 2006, there were 294,979 state enterprise employees covered by the provident fund with the fund reaching 118,968 million Baht (US\$ 2,974.2 million). Under this scheme, the employees of the state enterprises will receive a lump sum from the provident fund when they retire.

c. Voluntary Social Protection

Thailand has 3 major voluntary defined contribution funds (Pillar III): the Provident Fund, the Retirement Mutual Fund (RMF)<sup>7</sup> and Private Insurance. There used to be a 500 baht health card scheme falling under this category, which later was incorporated into the 30 Baht Universal Health Care scheme.

*(i) Provident Fund*

The Provident Fund was enacted in 1987 to encourage private sector employees to save for retirement. The fund is a voluntary defined benefit scheme and is arranged upon agreements between employers and employees to set up a Fund Committee that oversees their provident fund. The committee is comprised of representation from the employer and elected representatives of the employees. The committee will then choose a fund manager. The scheme regulatory authority falls under the Securities and Exchange Commission (SEC). Employees' contributions must be at least 3 per cent of wages<sup>8</sup> but must not exceed 15% of wages. Employers' contributions must not be less than the employee's contributions. In Thailand, provident funds are always established in large and medium enterprises (Kanjanaphoomin 2004, 13).

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<sup>7</sup> GPF, on the other hand, should be considered as implicit mandatory defined contributions (Pillar II) (Kanjanaphoomin 2004, 5).

<sup>8</sup> Some reference (Duguay and Bubphawadee 2006) says 2 percent.

The employees receive lump sum proceeds at the time of their resignation or retirement. Segregation of the fund as a distinct legal entity from the company, the plan sponsor, is required. The contributions paid to the provident fund by employees and employers are tax deductible and the benefit payment is tax exempted.

At the end of 2008, 514 funds were registered with the Association of Investment Management Companies (AIMC), with net assets of 465.29 billion baht on behalf of 9,750 companies and 2.056 workers. As of March 2009, 519 funds were registered with the AIMC, with net assets of 471.3 billion baht for 10,028 companies and 2.06 million workers.

*(ii) Retirement Mutual Fund (RMF)*

The concept of the RMF has been established in Thailand with effect from the end of March 2001. This fund aims to provide a means for the public to make voluntary retirement savings. The fund manager will provide a few RMFs with different risk profiles. The investor can switch his/ her investment from one fund to another fund or even to another fund manager but cannot withdraw the fund until he/ she reaches the retirement age (55 years) after which a withdrawal can be made free from tax. As of December 2003, the total funds are 8,336 million Baht.

Tax benefits of the RMF include (i) tax deduction for investment up to 15 percent of annual income or a maximum of 300,000 baht; (ii) benefit payout or capital gain is tax-free as long as investors--buy investment units at least once a year; invest at least 3 percent of their annual income or 5,000 Baht, whichever is less; (iii) do not pause their investment for more than one year in a row; and, (iv) redeem the investment at the age of 55 or over after a continued investment period of not less than five years. (Thai Provident Fund 2010).

*(iii) Private Insurance*

Individual life insurance policies in Thailand can be basically categorized into 4 types, which are: Whole Life, Savings or Endowment, Term Life and Retirement or Regular Income (Thai Provident Fund, 2010).

Premiums paid to an insurance policy with a term of at least 10 years at an insurance company incorporated in Thailand are tax exempted for the amount actually paid but cannot exceed 50,000 baht per year. Benefits received from the life insurance policy are also tax exempted.

### *2.1.2. Noncontributory Transfer Programs (Health Care and Social Assistance)*

Thailand's health insurance program consists of 3 major systems according to the profile of the insured: First, the Social Security Scheme (SSS) for private employees; Second, the Civil Servant Medical Benefit Scheme (CSMBS) for government civil servants; and Third, the Universal Coverage (UC), also known as the "30 baht treat all" scheme for the people who are uninsured by other schemes.<sup>9</sup> Table 4 shows the number of people covered by different health care schemes.

#### a. Universal Health Care (30 Baht) Program

This program started at the same time as the 7<sup>th</sup> National Economic and Social Development Plan (1992-1996), the UC was implemented in October 2001. The scheme has consolidated all of the existing health insurance schemes belonging to the Ministry of Public Health (MOPH), such as the Health Welfare Program for the Low Income and Disadvantaged (HWPLID) and the Health Card Scheme (the 500 Baht Health Card for Families). The UC's goal is to provide full health care coverage for all Thai citizens who do not belong to the Social Security Health Insurance Scheme (SSO) or the Civil Servants' Medical Benefit Scheme (CSMBS). Eligible persons have to register with the networks in order to obtain a free insurance card and pay a flat rate co-payment of 30 Baht for each out-patient visit or hospital admission but the co-payment was exempted in 2006.

The UC is financed from government revenue. For inpatients, the government pays fees to hospitals according to the types of diseases of the patients; this is called the Diagnosis Related Group, DRG. For outpatients, the government pays lump sum amounts to hospitals for the number of individuals who registered to receive services from such hospitals, this is called capitation.

The National Health Security Office (NHSO) was established in 2002 to supervise the universal health care scheme. The number of Thai people insured by the 30 Baht scheme increased from 45.35 million people in 2002 to nearly 47 million people in 2008. Those who are not insured by the UC are covered by other programs, such as SSO, CSMBS and others. The proportion of Thai people who are covered by any health

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<sup>9</sup> Employees of state-owned enterprises are cover by the system similar to CSMBS.

insurance programs increases from 92.47 percent in 2002 to 99.15 percent in 2008 (Table 4).

**Table 4. The Number of People with Different Health Care Coverage Schemes**

	2002	2003	2004	2005	2006	2007	2008
UC	45.35	45.97	47.1	47.34	47.54	46.67	46.95
SSO	7.12	8.09	8.34	8.74	9.2	9.58	9.84
CSMBS	4.05	4.03	4.27	4.15	4.06	5013	5
Veteran	n. a	n. a	n. a	0.12	0.12	0.13	0.13
Private School Teachers	n. a	n. a	n. a	0.1	0.11	0.11	0.11
Population	61.12	62.45	62.54	62.81	62.39	62.41	62.55
Population with Coverage	56.52	58.08	59.71	60.45	61.04	61.63	62.02
% Population with Coverage	92.47	93.00	95.47	96.24	97.84	98.75	99.15

*Source:* Annual Report of National Health Security Office, 2009.

*Note :* Unit in million persons

b. Old Age Living Allowance (OAA)

The OAA is a social assistance or welfare transfer provided by the government. The program was initiated in 1993 to provide income for the poor elderly or the disabled elderly. In the first year there were 20,000 older persons that were granted an income of 200 baht per month per head. The number of OAA receivers increased to 400,000 persons in 2002 and the allowance was increased to 300 baht per month. In 2007, the number of receivers increased to 1,755,266 persons and the allowance was increased to 500 baht per month. In 2009 starting from April, the government has decided to make the scheme universal; however, the scheme will last for only 6 months as a trial period. The number of allowance receivers was 5,963,089 persons. In 2010 the number of older persons receiving the OAA was 5,559,374 resulting in a total amount of 32,218,122,400 baht (MSDHS, 2010).

The eligibility for the OAA includes having Thai nationality; living in the OAA administration area; being 60 years old or over; not receiving other forms of social protection; and not residing in a nursing home of the government or local government.

In addition to the various forms of SP discussed earlier, there are other short-term economic measures to mitigate the impact of the economic crisis, for example the SP1

or Stimulus Program, the so-called 6 Measures 6 months program, workers' loans, etc. They are, however, beyond the scope of this paper.

## **2.2. Challenges**

Most of Thailand's SP schemes are imperfect, in transition or in the process of improvement due to their problems with regard to coverage, adequacy of benefits and management. For example, the SSS covers only private employees and does not cover those workers in the informal sector. The SSS also has problems with long-term financial stability and management. The UI is not yet working well -- the definition of the unemployed is broad, having also included the voluntarily unemployed. Even so, it presently covers only a fraction of the unemployed - in 2008, the number of UI beneficiaries increased from 59,214 persons in January to 71,951 persons in December.

On the health care side, there are some problems with the management of the UC. First, the government lacks sufficient funds to finance the entire universal coverage for all of the hospitals. The total health expenditure is estimated at about 3.7 percent of GDP (ILO 2004), of which about 70 percent is financed by the government. Despite a large portion of health expenditure financed by the government, the government could not allocate enough funds to finance inpatients and outpatients who registered in hospitals under the UC Scheme. Second, there is a problem of personnel redistribution to maintain public health services in remote areas. Some remote hospitals cannot recruit enough doctors and nurses to work in their hospitals. Third, the increased demand from patients leads to a poorer quality of service. For example, outpatients may need to wait in line for a considerable length of time in order to visit doctors.<sup>10</sup> Furthermore, there is a disparity problem among the 3 major health care systems. The best one is the CSMBS, followed by the SSS for private employees and the poorest system is the UC. (Thai Rath, November 21, 2009).

Because of space constraints, the authors limit their elaboration to only one income security scheme which has the biggest coverage but is being subject to reform at present; that is the SSS.

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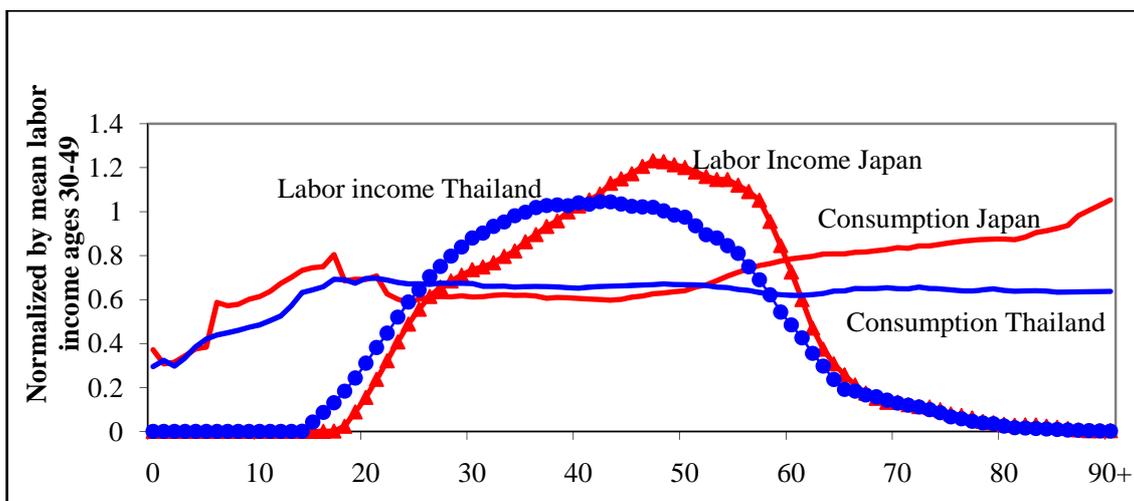
<sup>10</sup> For some more analyses of the 30 baht scheme see for example, (Adrian Towse, Anne Mills and Viroj Tangcharoensathien 2004; C. Suraratdecha, S. Saithanu and V. Tangcharoensathien 2009).

One of the main challenges of Thailand's SSS is the aging population. Population aging in Thailand is quite rapid demographically speaking and is the main challenge to a policy reform on the role of social protection for the elderly. In order to cope with the challenges, it is important to understand the pattern of consumption and how the elderly finance their consumption. For illustration purposes, we compare the pattern of consumption and financial consumption of the elderly in Thailand with Japan, a model of a rapidly aging society in Asia.

The method used to estimate consumption and consumption finance is adopted from the National Transfer Account (NTA), an accounting system that measures economic flows from one age group to another. For example, children and the elderly do not work and they receive economic flows from working adults to support their consumption. Economic flows could be in forms of transfers through the public sector, or the family, or reallocations through assets. Regarding social protection, the NTA can be used to measure the amount of public intervention, such as public transfers in various programs that target the elderly in Thailand. Methods and further references to the NTA can be found at (Mason, et al. (2006) and [www.ntaccounts.org](http://www.ntaccounts.org)).

Consumption for the elderly in Thailand, as shown in Figure 1, is quite flat relative to the working ages, whereas consumption for the elderly in Japan increases rapidly relative to consumption by the working ages. One of the reasons for the Japanese consumption pattern is a rapid increase in consumption for health care and long-term care insurance in Japan (Ogawa, et al, forthcoming). Consumption for the elderly in Thailand seems to show a pattern of generational equity. The pattern of consumption in Thailand implies that even though the elderly do not work enough to support their consumption, the elderly still receive other sources of support to maintain a standard of living as good as their working age counterparts.

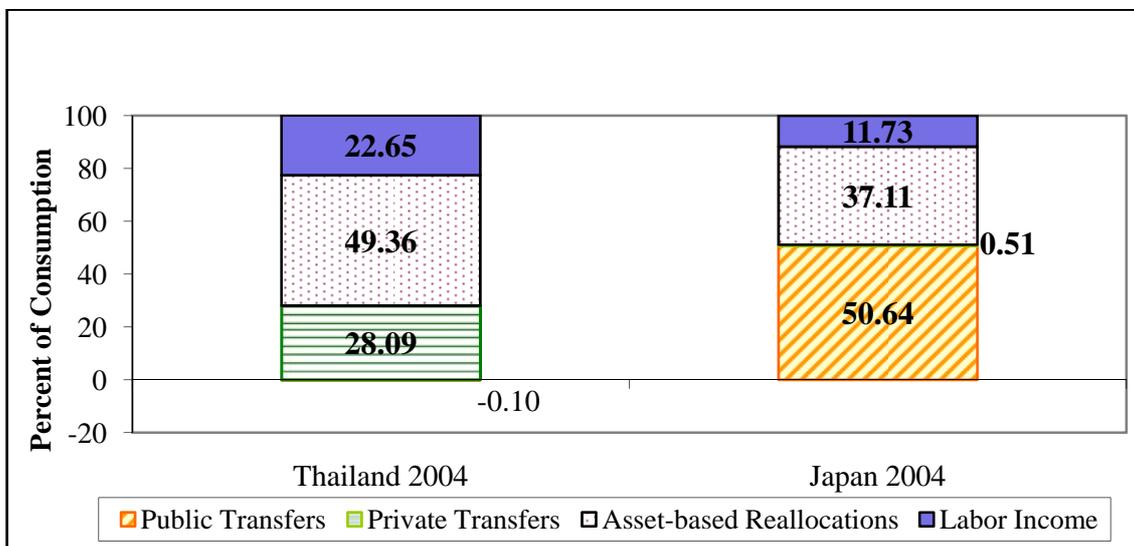
**Figure 1. Per Capita Consumption and Labor Income, Thailand and Japan, 2004**



Source: Ogawa (forthcoming) and Chawla (2008).

Based on the NTA method, there are generally four mechanisms the elderly may rely on to support their consumption: Labor income, asset-based reallocations, private transfers and public transfers. Figure 2 shows a comparison of how the elderly in Thailand and Japan finance their consumption. There are some important notes to consider. First, the elderly in Thailand rely more on labor income to finance their consumption compared to the elderly in Japan. Second, the major source of support for the elderly in Thailand is through asset-based reallocations, such as asset income and dis-saving. Next, in Thailand, the family plays a bigger and more important role in financing the elderly through private transfers. In Japan, the elderly rarely receive anything from their adult children. Finally, the role of public intervention to provide social protection for the elderly in Thailand is negligible or even negative (as the elderly pay taxes more than they receive benefits back from the government), whereas public transfers in Japan are the major source of support for the Japanese elderly. It is thus a challenge to elaborate on the role of social protection provided by the government in Thailand.

**Figure 2. Consumption Finance for the Elderly (65+) for Thailand and Japan, 2004**



Source: Ogawa (forthcoming) and Chawla (2008)

Another major challenge to the SP, particularly the SSS, in Thailand is a huge sector of informal workers who have not been covered by any income security system. In Thailand, an informal worker is defined broadly as “an employed person who earns income but does not have an employer nor is under the protection of the Social Security Act” (Niratorn, Narumon et. al., 2007, 22) By this definition, based on the data in Table 1, the number of informal workers can be roughly counted as about 23.4 million workers. These workers and their families could be vulnerable to any form of shocks, such as an income shock due to a financial crisis or sickness. Furthermore, it is unlikely that these workers would have access to a source of funds to support their consumption during their retirement. At present, the role of the government in Thailand is very small in supporting the elderly. Thus, it is important that consideration is given on how to provide income security for the elderly in the informal sector.

The last major challenge to Thailand’s SP (in the context of income security for retirement) is the low rate of personal savings in Thailand that will essentially lead to income insecurity in old age. As shown in Table 5, the proportion of personal savings to net disposable income was 6.8 percent in 2003 increasing to 12.4 percent in 2007. The level of personal savings per capita was 3,907 baht in 2003 increasing to 10,011

baht in 2007. Although the trend has been encouraging, the rate and level of personal savings are too low to sustain a living after retirement.

**Table 5. Income and Saving in Thailand, 2003-2007**

<b>Year</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
Disposable Personal Income					
- Total (Millions of Baht)	3,691,646	4,090,863	4,457,665	4,892,526	5,325,480
- Per capita (Baht)	57,698	63,394	68,475	74,611	80,639
Personal Outlay					
- Total (Millions of Baht)	3,441,650	3,771,332	4,128,926	4,468,994	4,664,356
- Per capita (Baht)	53,791	58,442	63,425	68,152	70,628
Personal Savings					
- Total (Millions of Baht)	249,996	319,531	328,739	423,532	661,124
- Per capita (Baht)	3,907	4,952	4,050	6,459	10,011
Percentage of Personal Savings to Disposable Personal Income	6.8	7.8	7.4	8.7	12.4
Net Savings (Millions of Baht)	867,530	984,320	1,038,276	1,352,612	1,626,971
Gross Domestic Product (GDP) (Millions of Baht)	5,917,369	6,489,476	7,092,893	7,841,297	8,493,311
Percentage of Net Savings to GDP	14.7	15.2	14.6	17.2	19.2

Source: National Account Bureau, Office of the National Economic and Social Development Board.

### **3. Main Critical Reforms of SP**

In response to the challenges, the Ministry of Finance (MOF) has formulated 2 government policies aimed at ensuring that every Thai has sustainable income security in old age:

#### **3.1. Policy on Mandatory Savings under Project on the National Pension Fund (NPF) which later has been renamed as the National Savings Fund.**

With regard to this policy, the MOF had been trying to establish an NPF in pursuance of the Cabinet resolution of 25 April 2000. According to the resolution, the Cabinet had endorsed in principle that Thailand should have a Multi-Pillar system of SP and assigned the MOF to establish a mandatory savings fund (Pillar 2).

At the beginning, the MOF proposed that the fund should have a defined contribution of 3 percent of a worker's monthly wage each from the employer and the

worker. The range of the wage was fixed between 6,000 baht to 40,000 baht per month. For a worker with a wage lower than 6,000 baht per month, only his/her employer had to pay the contribution. Members of the fund would have individual savings accounts. The fund would be managed jointly by the Office of the NPF and a private management company selected by the Office of the NPF. The Office of the NPF would be a Public Organization. The NPF was expected to yield a pension of about 17 percent of the last month's salary. It was also expected that the fund would increase the country's long-term savings by 22,950 million baht in the first year and that the fund will increase long-term investment in the country's securities market. (Mitranont, Preeya et.al., 2009, 119-120).

### **3.2. Policy on Savings for Informal Workers.**

Regarding this policy, the MOF had proposed 3 major alternatives of savings systems as follows.

- (1) The NPF as discussed above in 3.1.;
- (2) The extension of SSS coverage to the informal sectors; and
- (3) The reform of area-based savings for retirement among informal workers such as Community Fund Institutions and Community Savings Groups into community welfare activities (Mitranont, Preeya et.al. 2009, 120).

These policies have been publicly reviewed a few times. For example, there was a national forum to develop the quality of life of older persons organized by the Thai Research Fund and National Public Health Foundation 2007 on "National Pension System for Older Persons in Thailand" in Bangkok on October 1, 2007 (National Public Health Foundation, 2007). Another national forum was organized by the Thailand Development Research Institute on "the Design of the National Pension Fund" at TDRI on April 21, 2009. In connection with the latter forum, a final report on "Thailand's National Pension System" was submitted by Charndoevmit *et.al.*, in September 2009 (2009).

After Charndoevmit's report, on 21 October 2009 the Cabinet approved a draft National Savings Fund Act B.E. as submitted by the MOF. The NPF's name has been changed to National Savings Fund (NSF) to reflect the integration of the 2 policies proposed by the MOF.

The NSF is a voluntary program that individuals may choose to save some part of their income in every month in order to guarantee that they will have some funds to support themselves during their retirement. The NSF is aimed at covering workers in the informal sector which accounts for the majority of the labor force in Thailand.

According to the draft National Saving Fund Act (Cabinet, 2009), the NSF will be established to promote savings in the country and to promote income security by ensuring pensions and other benefits to its members. The member must be of Thai nationality and not older than 60 years of age, and must not be a member of other social security schemes or the Government Pension Fund<sup>11</sup>. The membership expires when the member reaches the age of 60. Members must contribute to the fund with additional contributions by the government as stipulated by the Ministerial Regulation. In case a member is not able to make a contribution, his/her membership does not expire but the government will not pay a supplementary contribution. Members pay a contribution ranging from 100 baht to 1,000 baht a month. The government pays a counterpart contribution based on the age of the members. When the membership expires at the age of 60, a member is entitled to a pension from his/her contribution, the government's contribution and benefits accrued to the contributions until maturity.

The NSF Committee consists of 6 members appointed by agencies, 3 specialists from the legal, accounting and finance sectors respectively and 5 representatives from the members. The committee is chaired by the permanent secretary of the MOF with the Secretary General of the NSF as a committee and the secretary of this committee.

To ensure the sustainability of the fund, the government will provide compensation to the NSF if the fund's investment loses or receives a rate of return less than the 12-month time-deposit rate, based on the average of five major commercial banks and the Government Savings Bank and the Bank for Agriculture and Agricultural Cooperatives. The government will compensate for the loss from the government annual budget. The assets of the NSF shall be kept by asset management agencies who are certified by the Securities and Exchange Commission.<sup>12</sup>

From the draft NSF Act, it can be seen that the reform will answer a few questions on coverage, governance and management, and adequacy of benefits. First, on the

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<sup>11</sup> This requirement will limit the participation of workers in the formal sector.

<sup>12</sup> More details of the NSF can be accessed from (Cabinet 2009).

coverage, the NSF is established to ensure that all of the population who are not government employees or insured by the SSS retirement benefit scheme will have old-age financial support. In addition to individuals' savings and return on the savings through this fund, the elderly can still receive the OAA of 500 baht per month. The fund plans to include members from various walks of life with a range of ages from 20 to 60 years old.

Second, the financial sustainability is, however, not promising at this stage. According to an estimate by Suwanrada and Chandoevrit (2009), each member needs to save adequately for a number of years to ensure their income security during old age. Members who save at an earlier age will receive a larger retirement fund than those who started to save later. For example, a member who saves 100 baht a month is expected to receive a monthly allowance, including OAA, of 877 baht if he starts to save at the age of 20, whereas he may receive 738 baht if he starts to save at the age of 30<sup>13</sup>. This amount of pension may not be adequate support during old age if members do not save enough. Given a poverty level of approximately 1,500 baht a month, those who are 20 years old may need to save about 300 baht a month in order to ensure a reasonable standard of living during old age, not counting inflation. The question is whether people have the ability to save enough every month.

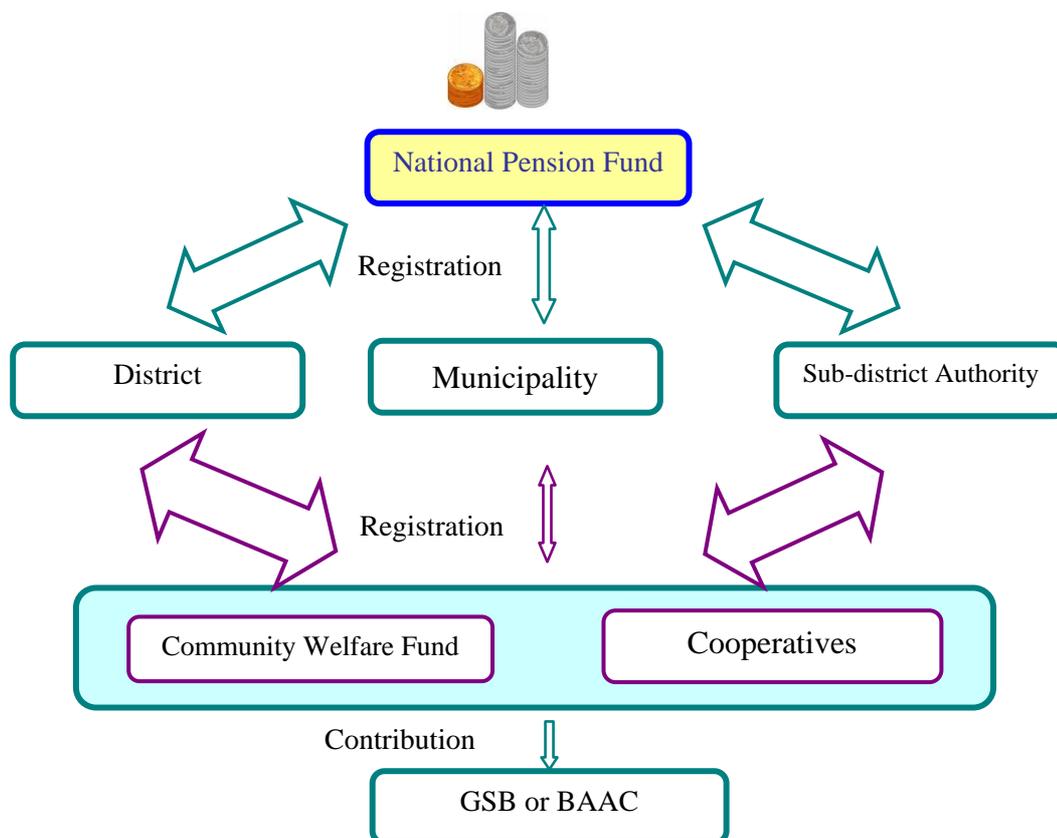
Third, in terms of governance and management, the NSF will be established as an independent organization in order to guarantee less interference from bureaucracy. The NSF Committee includes a Board of Directors who supervises any investment activity of the fund. The Board of Directors is selected from various groups, such as investment specialists, members of sub-district authorities and members appointed by the MOF. The Board of Directors includes a number of sub-committees, namely the investment committee, audit committee; governance committee; human resources and compensation committee; and information management committee.

The management of the fund will be decentralized to the local level. The local level organizations such as the Tambon or Provincial Administrative Organizations will perform the function of the NSF at the local level which is to receive contributions from the members and provide pensions to retirees as depicted in Figure 3.

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<sup>13</sup> Given a rate of return of 3 percent per year.

**Figure 3. Organization Chart for Management of the National Pension Fund at the Local Level.**



Source: Adjusted from Charndoevrit *et.al.* (2009)

It is too early to judge the success or failure of the NSF scheme. The MOF speculated that at first there may not be many members. It is anticipated that within 1-2 years, the membership will reach 7 million. Meanwhile, the draft NSF Act is still subject to the approval of parliament. It is hoped that the draft Act will be submitted for consideration and approval by early 2010. The MOF stated that it had not yet fully prepared for the establishment of the fund as it was not sure whether the draft act will pass through parliament (Matichon Daily November 16, 2009).

## **4. Policy Recommendations and Conclusion**

### **4.1. Policy Recommendations**

Based on the foregoing analysis, a few recommendations are offered:

- 1) The existing Multi-Pillar SP system needs constant and continued evaluation and reform. There have been problems of disparities among different schemes, inadequate coverage, and financing problems, while the country has become an aging society which demands better income security.
- 2) The SSS coverage is still low, particularly among employees of micro enterprises (employing 1-9 workers) and the voluntary insured persons (under Article 40 of the Social Security Act 2542) because of limited benefits. Although the former is mandatory under the SS Act, the compliance rate is low. The government should develop a policy and measures to increase the participation rate.
- 3) The UI has also not been effectively implemented. The application of UI to the voluntary unemployed should be reviewed and the coverage should be expanded to cover more of the laid-off and the unemployed who are unaware of their rights.
- 4) To reach the informal sector, through the NSF, the database system must be better prepared than those of the SSS or GPF to keep track of the fund members and fund administration.
- 5) At present the rate of personal savings is low and the reliance of the elderly on personal savings is also low (the proportion of the elderly having income from savings was 18 percent in 2002 and 38 percent in 2007 (NSO, 2002 and 2007). Although the government will provide joint contributions for members, it may also provide tax incentives for additional contributions to savings for retirement.
- 6) The role of the local administration should be emphasized with regard to their readiness, database and personnel to handle the implementation of the NSF scheme.

People's awareness and appreciation of the NSF is an important factor. Therefore, apart from providing an incentive to save, the government may need to develop public relation material and information on the importance of savings for all people.

## **4.2. Conclusion**

In conclusion, the review has shown that Thailand's SP is a multi-pillar system which has been continuously developed. Many of the schemes are still young, while the older schemes are not appropriate for the current situation either in terms of coverage, adequacy of benefits or management. Both the young and the old schemes are in need of adjustment for a new environment with an aging society as a backdrop. Many challenges have been waiting in line for the SP in Thailand for some years. Thailand is now taking a giant step towards the informal sector by initiating a National Savings Fund to collect savings from informal workers. Considerable work has been done in the establishment of the Fund including a draft National Savings Fund Act B.E. to be submitted to Parliament for approval probably early next year. The mobilization of savings for retirement is a sound move but questions surround the implementation of the Act.

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