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The Challenges of the Old-age Allowance System in Thailand

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The old-age allowance system in Thailand is a non-contributory social protection scheme which aims to guarantee basic income for the Thai population at the age of 60 or above. Up until 2009 such a scheme targeted the underprivileged elderly people of society, defined as those of at least 60 years of age:

- without enough income to meet necessary expenses; or
- who are unable to work; or
- who have been abandoned; or
- who are without a caregiver of any kind.

However, as of October 2009, the old-age allowance scheme was fundamentally expanded to all people aged 60 or older who:

- are not living in public old-people's homes; or
- do not receive a permanent income as a salary or pension (i.e. excluding government employees and recipients of pensions from central, local or public enterprises and the social security fund's old-age benefits).

This policy change presented an opportunity to close the gap created by limited access to a formal public old-age income maintenance system. The old-age allowance system has been regarded as the main pillar of the old-age income maintenance scheme for Thai workers in the informal sector. According to the National Survey of Older Persons in Thailand conducted in 2011 by the National Statistical Office, 11.4 per cent of Thailand's elderly population relies on the old-age allowance as their main source of income. Besides its income maintenance function, the expansion of the scheme also highlights the significance of its redistributive function. Furthermore, in 2012 the system was changed from a uniform pension rate — THB500 (less than USD16)[1] for all recipients — to a multiple-rate system. Currently, the monthly pension amount varies by age of recipient: THB600 per month for those aged 60–69 years, THB700 per month for 70–79 years, THB800 per month for 80–89 years and THB1000 per month for those 90 years of age and older.

The old-age allowance system is thus part of a wider pension system, within which it faces challenges in the context of broader public pension policy and the coexisting pension schemes. Although, the universalisation of the old-age allowance system has helped to provide financial security for elderly Thai people, there are concerns about the monthly pension amount, which is far from the poverty line. Moreover, the expansion of the old-age allowance system can lead to a situation of 'horizontal inequality' between the working population of the formal and informal sectors within the broader pension system.

Under current schemes, a formal-sector employee is eligible for old-age benefits on the basis of paying contributions, whereas an informal-sector worker can be eligible for an old-age allowance without making any social security contributions. This dichotomy and its incentives raise a challenging question: should the old-age allowance be redesigned into a basic pension scheme for all elderly people?

Policy recommendations:

- Establish an independent review mechanism to evaluate an increase in the benefit amount.
- Strengthen administrative, ICT and anti-fraud/corruption capacities. Databases should be connected to each other—namely, the database of current recipients and the database of unqualified older people (recipients of a government pension, income earners) and the registered population.
- Consider new sources of funds (or new tax reforms) to ensure the sustained delivery of benefits.
- Evaluate the social pensions system among other coexisting pension schemes—the social pension is a non-contributory benefit offered to the rest of the working population, differentiated from the old-age financial security scheme offered to contributing private- and public-sector employees.

Lessons from Thailand's experiences:

- Even small pension benefits can help reduce poverty rates of elderly populations, and the national rate of poverty more broadly.
- Relatively small investments have a high impact: pensions only account for almost 2 per cent of the government's total operating budget yet provide benefits to nearly 6 million beneficiaries—over 75 per cent of the population over 60 years of age.
- Prior to the 2009 shift to a universal scheme, the means-tested system in Thailand depended upon local officials to confirm eligibility—unfortunately a factor that led to cronyism and corruption in addition to the exclusion of some of those most vulnerable and in need of the pension benefits. Since the implementation of a universal scheme, most of these problems have been resolved.
- Strong political will matters in the process of expanding pension benefits and beneficiaries. Thailand started with a small pension benefit amount and low numbers of recipients. However, with time, both the benefit amount and the numbers who received such amounts were expanded through political will, which also enabled the beneficiary targeting systems to be changed and funds to be freed up to adopt a universal approach.
- The design of social pensions should occur within a broader pension framework. Governments may find it far easier to address social pension policy alongside existing complementary and differentiated pension policies. It is important to harmonise the pension system to provide financial security to older persons much more than fragmented target-specific or contributor-specific schemes.

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Note:

1. THB31.99 = USD1.

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