

“Key Success Factors in Establishing National Pension Fund (NPF) for Private Sectors”

by

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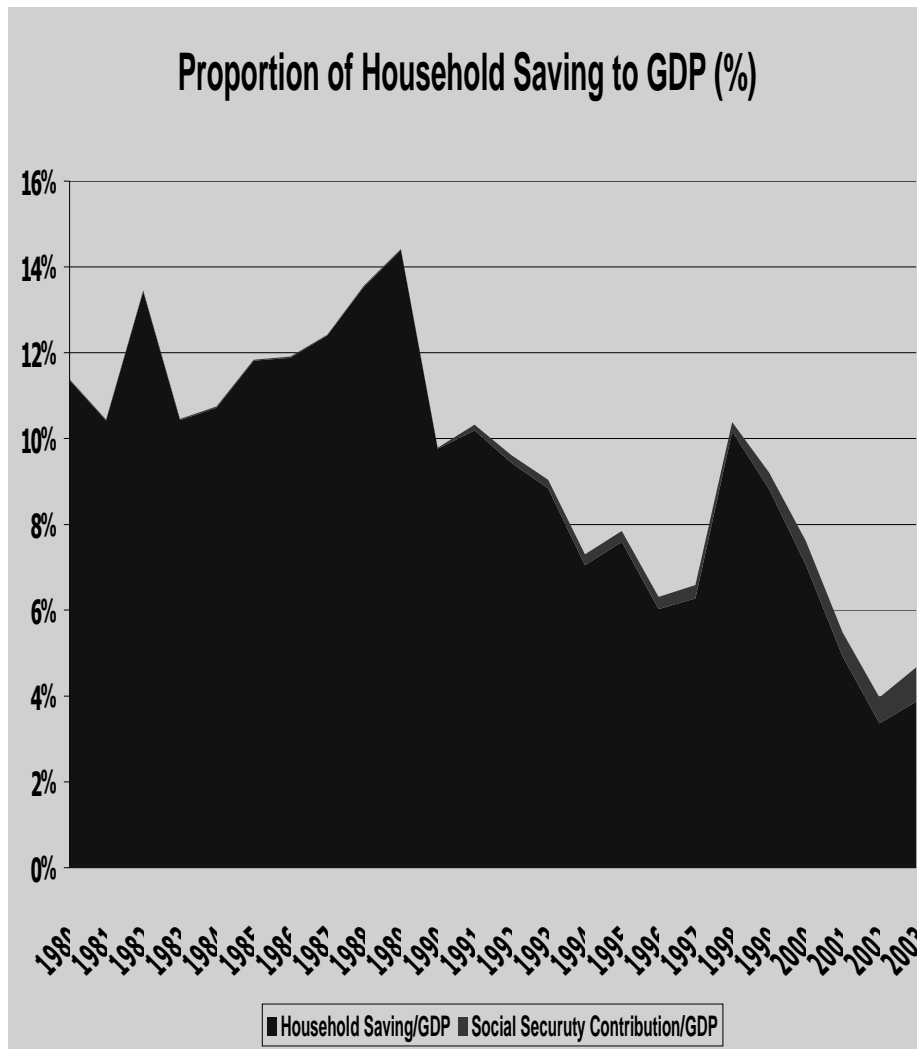


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1. The Rationale for Setting up NPF



Financial Assets as of 31 December 2004
(billion baht)

GDP	6,523
Bank Deposits	5,497
SET Market Capitalization	4,521
Thai BDC Registered Bonds	2,402
Mutual Funds/Private Funds/Provident funds	1,126
-Private Funds	687
-Private Funds	134
-Provident Funds	305
Government Pension Fund	220
Social Security Fund	271
Insurance	415*
Total Institutional Investor	1,977*

*2003



2. Coverage

- Traditional informal system for old age security breaking down everywhere
- NPF should eventually should cover self employed
- Initially should cover existing Provident Funds members and entities with >100 employees
- Expanded in steps to cover the whole labor force

4 Existing pension programs and coverage				
Pillar	Fund	Managed By	Coverage million person	Type
0	Means Tested Social Pension (MTSP)	Department of Public Welfare	~ 0.5	200-100฿/month 500฿ (2004)
1	OAP	SSO	7.87	Mixed DB (DC < 15 yrs)
2	GPF	GPF	1.13 (civil servants)	DC
3	PVD	Private Manager under SOC	1.52	DC
	RMF	Private Manager under SOC	0.07	DC



3. Appropriate Level of Replacement Rate

- Target replacement rate of each pillar must be carefully analyzed
- With 6% contribution rate for NPF (3+3) while maintaining existing schemes, replacement rate of 70% could be achieved for low income earners
- For those with higher income, replacement rate will be much lower
- Additional incentive needed to draw public into NPF, provident fund and RMF

The Target Replacement Rate Estimated Multi-Pillar System

Pillar	Contribution EC:CC%	Target Replacement Rate
I	3 : 3	~37%
II	3 : 3	~15% - 20%
III	~5 : 6.5	~20% - 30%

Note: * Salary Cap = 15,000 Baht/month (375 hours/month)



4. Centralization of Formulation of National Pension Fund Policy

- **Unify policy formulation on pension fund system**
- **Enact National Pension Fund Act and establish an independent regulatory body**
- **Major functions of Independent Regulatory Agency:**
 - **Policy formulation and co-ordinate pension programs**
 - **Set rules and guidelines**
 - **Approve, select and regulate service providers**
 - **Approve fund type and investment restrictions**
 - **Monitor compliance with NPF Act and regulation**
 - **Enforce compliance by employers through SSO or member system administration**
 - **Public education and communication**
 - **Investigate complaints**



5. National Pension Fund Act must be Comprehensive, Dynamic and Flexible

- Regulatory body
- Coverage
- Type of contribution
- Portability
- Switching Investment Policy
- Benefit Modalities (Lump sum and/or annuity)
- Investment diversification

Avoid putting too many details in the Act, but allow the Act to issue secondary legislations



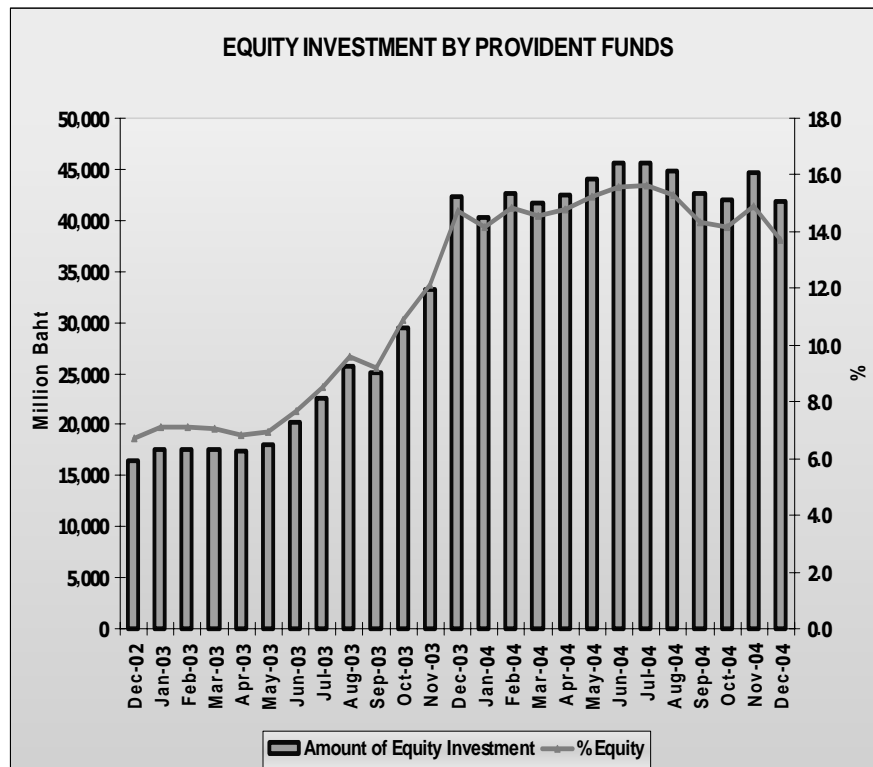
6. Decentralized Privately Managed Marketing and Fund Management

- **Competition creates efficiency**
- **Less political intervention**
- **Utilize existing infrastructure of provident fund and RMF**
- **Separation of functions between Regulator and Operations**
- **Regulator responsible for monitoring and policing of compliance**
- **Decentralized system can easily introduce employee investment choice**



7. Individual Investment Choice

- Allow participants (employee and employer – if any) to select from limited list of licensed and pre-approved fund managers.
- Let member match need with various risk preference
- Centrally managed funds on behalf of a large number of people tend to be more risk averse



Investment in RMF as of December 2004

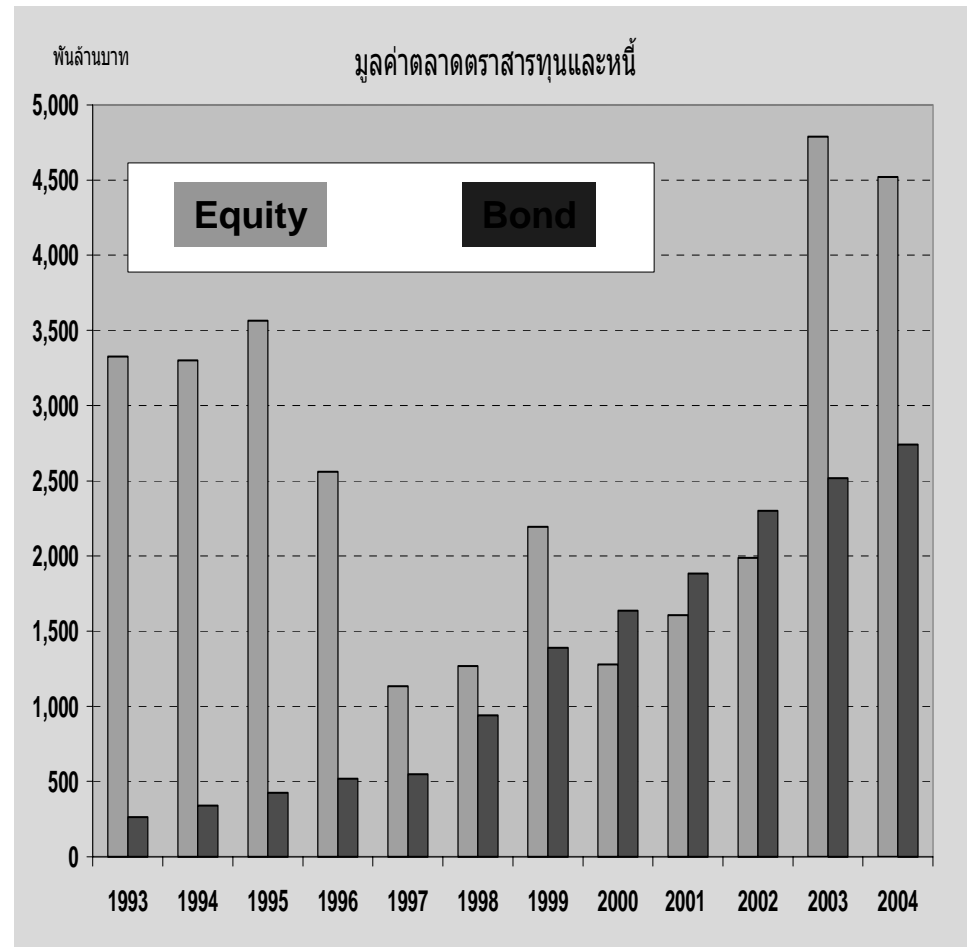
Type	No. of Funds	Asset Size (million baht)	%
Equity	12	2,156	17.6
Balance + Flexible Equity	17	5,261	39.4
Fixed Income	29	4,821	43.0



8. The Development of Thai Financial Market

- Develop Thai Bond and Equity Markets
- Promote new Financial Instruments
- Promote Credit Rating Agencies
- Good Corporate Governance
- Transparency Disclosure

Size of Bond and Equity Markets (billion baht)



9. Tax Incentive

- “ E E E ”
- Introduce an additional tax incentive in the initial period for NPF eg. higher deduction for employers
- Increase ceiling for tax deduction for provident fund and RMF to 600,000 baht
- Additional incentive will help to increase total aggregate household saving, alleviate short term impact on consumption, and reduce resistance to change



10. Creating Public Understanding and Communication on Savings for Retirement

- Intensive program should be implemented by regulator
- Create public awareness and understanding
- Educate the young people
- Provide basic information about savings for retirement, Pension schemes and Investment choice etc.



Key Success Factors in Establishing National Pension Fund in Private Sector:

- **Wide coverage**
- **Build on the existing infrastructure**
- **Decentralized fund management and allow the private sector to play the leading role**
- **Set up an independent regulatory body**
- **Promote employees investment choice**
- **“ E E E ” and provide additional tax incentives**





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