Pensions at a Glance

ACROSS ASIAN COUNTRIES

OECD/Korea Regional Centre on Health and Social Policy
KIHASA (Korea Institute for Health and Social Affairs)

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Foreword

This study was jointly sponsored the OECD (Organisation for Economic Co-operation and Development) and RCHSP(Government of Korea Research Center on Health and Social Policies) to undertake comparative analysis on pension systems in Asian countries. The OECD published *Pensions at a Glance* of OECD countries in 2005, and the same methodology as used in the *Pension at a Glance -2005* has been applied in this study. OECD is publish Pensions at a Glance- Across Asian Countries in mid-2008. This report is sponsored by the RCHSP to enhance research and technical capacity of pension experts of Korea in producing an Asian version of the Pensions at a Glance in the future.

The OECD pension model uses the APEX (Analysis of Pension Entitlements across Countries) and Rie Fujisawa and Edward Whitehouse were responsible for the pension modeling and the analysis of the tax position of pensioners in *Pensions at a Glance*-OECD countries.

This study was conducted by Jongwook Won and Yeonhee Lee of KIHASA(Korea Institute for Health and Social Affairs) with active assistance from Rie Fujisawa of OECD in technical support, especially sharing knowledge of APEX program with KIHASA. KIHASA uses APEX program developed by the OECD and country reports contributed by M.Ramesh and Mukul Asher of Singapore National University in reporting indicators of comparing pension policies across Asian countries.

This study is the first step in building up capacity of producing an independent report of Pensions at a Glance in Asian countries by RCHSP(Government of Korea Research Center on Health and Social Policies). In the meantime, with cooperation with OECD, RCHSP intends to gradually increase its contribution toward producing the Pensions at a Glance in Asian countries initiated by the OECD.

RCHSP also acknowledges valuable contributions made by country representative through extensive discussions in two rounds of meetings in Seoul hosted by the RCHSP to improve quality of the report.

Giwon Cho
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PART Ⅰ

Monitoring Pension Policies

This part contains the comparative analysis of pension entitlements.
The framework of the report is same as the one established in the *Pensions at a Glance-Public Policies Across OECD Countries 2005.* This report basically summarizes pension policies in Asian countries by utilizing methodologies developed in OECD version of the report. This report follows same chaptering as in *Pensions at a Glance-Public Policies Across OECD Countries 2005.*
The first chapter gives a typology of pension systems that shows the main features of mandatory pension systems in the 12 Non-OECD Asian countries and 4 OECD Asian countries. In chapter 2, this framework is filled out with cross-country comparisons of the parameters and rules of all types of pension schemes. There is also information on the treatment of pensioners and pension incomes under the personal income tax and social security contributions. Chapter 3 outlines the methodology and the assumptions that have to be made to generate comparative information on pension entitlements. The remaining chapters contain comparative information on pension benefits. Chapter 4 and 5 present the main results on pension entitlements across countries. Chapter 6 extends the analysis to provide more comprehensive indicators that are of most use in monitoring pension policies. Finally, the country studies (Part Ⅱ) describe national pension systems and provide further country-specific results on pension entitlements.

PART Ⅰ

Chapter 1

Pension System Typology

The OECD has developed a taxonomy that avoids the concepts of pillars altogether. It aims, instead, for a global classification for pension plans, pension funds and pension entities that is descriptive and consistent over a range of countries with different retirement-income systems (OECD, 2004).

The approach adopted here follows same taxonomy used in *Pensions at a Glance (OECD,2005).* The framework has two mandatory tiers: a redistributive part and an insurance part. Redistributive components of pension systems are designed to ensure that pensioners achieve some absolute, minimum standard of living. Insurance components are designed to achieve some target standard of living in retirement compared with that when working. Voluntary provision, be it individual or employer-provided, makes up a third tier. Within these tiers, schemes are classified further by their form (public or private, defined benefit or defined contribution). Table 1.1 summarizes the systems of 16 Asian countries divided into the redistributive first tier and the insurance second tier.

1. First-tier, redistributive pensions.

All Asian countries have safety-nets in place that aim to prevent poverty of general population. But the data on formal first-tier were not available for many of Asian countries. Unlike OECD countries, it is extremely difficult task to classify Asian countries' first-tier into social assistance, targeted, basic, and minimum assistance.

Most Asian countries have informal public assistance system targeting population of under poverty line. Hong Kong and Thailand are two countries that have official targeted scheme. References on these countries mention different types of redistributive systems, however, more detail information including level of assistance and coverage are not available.

2. Second-tier, mandatory, insurance pensions

The second tier in this typology of pension schemes plays an "insurance " role. It aims to ensure that retired people have an adequate replacement rate(retirement income relative to earnings before retirement) and not just a poverty-preventing absolute standard of living. Like first tier, it is mandatory. China and India have hybrid (DC and DB) second-tier system. Hong Kong and

Singapore maintains provident fund system of second-tier. The traditional second-tier system of Taiwan is DB system ,however, new legislation was recently passed to introduce DC type of second-tier system.

Besides few affluent nations such as Hong Kong, Singapore, and Taiwan the coverage of the second-tier system is quite low. Even though second-tier system is mandatory only small fraction of population earns income to be covered by the pension system. Despite the low coverage of the second-tier system this report assumes that second-tier systems are applicable to these countries.

Table 1.1 Structure of pension systems in non-OECD Asian countries

Tier: function	First tier: universal coverage, redistributive				Second tier, mandatory, insurance		
Provision	Public				public		
Type	Social assistance	Targeted	Basic	Minimum	DB	DC	Hybrid
China	√		√				√
Hong Kong	√	√				√	
India	√						√
Indonesia	√					√	
Malaysia	n/a	n/a	n/a	n/a		√	
Pakistan	√			√	√		
Philippine			√	√	√		
Singapore	√					√	
Sri Lanka	√					√	
Taiwan						√	
Thailand		√			√		
Vietnam				√	√		

DB: Defined benefit, DC: Defined contribution

Notes on first-tier schemes: Social assistance refers to general programmes that also cover older people. Targeted covers specific schemes for older people that are resource-tested. Basic schemes are either universal, flat-rate programmes or pay a flat amount per year of coverage. Minimum pensions are redistributive parts of earnings-related schemes.

PART 1

Chapter 2

Comparing Pension System Parameters

The main features of pension systems in Asian countries are summarized in Table 2.1. This follows the typology of *Pensions at a Glance (OECD 2005)* classifying the pension system into two tiers. More complete descriptions are provided in the country studies.

1. First-tier, redistributive schemes

The level of benefits under first-tier, redistributive scheme is expressed as a percentage of average earnings in report of OECD member countries. However, the majority of Asian countries do not provide detail information on redistributive schemes including the levels of assistance. This report summarizes level of benefits of redistributive schemes in few countries that provide value of the benefits.

2. Second-tier, earnings-related schemes

Only four countries (Pakistan, Philippine, Thailand, and Vietnam) maintain traditional defined-benefit system. China and India have hybrid system of DC and DB. Unlike OECD countries, Notional Accounts is not found among Asian countries.

Table 2.1. Summary of pension system parameters

	China	Hong Kong	India	Indonesia	Malaysia
First tier (% average earnings)					
Social assistance		40	7		
Targeted		5.3			
Basic	40				
Minimum					
Overall entitlement (full-career worker)	40	45.3	7		
Second tier (Earnings-related)					
Type	DB/DC	DC	DB/DC	DC	DC
Accrual rate (% average earnings)			1.4		
Defined contribution					
Contribution rate(% of average earnings)		10	15.6	5.7	23
Ceilings(% average earnings)					
Public		170	224		
Private/occupational					
Pension age					
Normal	60	65	58(DB) 55(DC)	55	55
Early			50(DB) 54(DC)		

	Pakistan	Philippine	Singapore	Sri Lanka	Thailand
First tier (% average earnings)					
Social assistance				9	
Targeted					
Basic		3			
Minimum	34	12			
Overall entitlement (full-career worker)	34	15		9	
Second tier(Earnings-related)					
Type	DB	DB	DC	DC	DB
Accrual rate (% average earnings)	2	2			1
Defined contribution					
Contribution rate(% of average earnings)		8.4	10	23	
Ceilings(% average earnings)					
Public		118	130		
Private/occupational					
Pension age					
Normal	60	60	62	55	55
Early	55				

	Taiwan	Vietnam	Australia	Japan	Korea	New Zealand
Social assistance						
Targeted			23			
Basic				19	30	38
Minimum						
Overall entitlement (full-career worker)			23	19	30	38
Type	DC	DB	none	DB	DB	None
Accrual rate (% average earnings)				0.71	1.25	
Contribution rate(% of average earnings)			9			
Public						175
Private/occupational			234			
Pension age						
Normal		60	65			65
Early			55			60

3. Earnings measures and valorization in earnings-related schemes

There are two important mechanisms in earnings-related schemes that greatly influence the level of benefits that pensioners will eventually receive. The first is the measure of individual earnings used in the benefit formula. The measure might be, for example, a period of final earnings, the lifetime average or a number of best years of earnings. When individual earnings increase over a worker's career, as is often the case, using only final or a few last years of earnings will result in higher benefit than when taking into account early years of the career when earnings were much lower.

The second mechanism is valorization, which is often over-looked in pension policy analysis, but has a large effective on pension entitlements. Past earnings are "valorized" to take account of changes in living standards between the time pension rights accrued and the time they are claimed.

Hong Kong and Singapore have provident fund scheme, and earnings measure and valorizations are not applicable.

Rest of non-OECD Asian countries does not use price index in calculating benefit levels, and valorization are not applicable to most of Asian countries. Many Asian countries simply use country's average earnings in calculating Defined Benefit pension benefit.

Table 2.2 Earnings measure and valorization: earnings-related schemes

	Measure of individual earnings	Valorisation of earlier years' earning
China	Local avg. wage	Prices
Hong Kong	Provident Fund	Provident Fund
India	N/A	N/A
Indonesia	N/A(Lump-sum benefits)	N/A
Malaysia	Provident Fund	Provident Fund
Pakistan	Lifetime Average	N/A
Philippine	Avg. of last 60 months	N/A
Singapore	Provident Fund	Provident Fund
Sri Lanka	N/A(lump-sum benefits)	N/A
Taiwan	N/A	N/A
Thailand	Avg. salary of final 60 months	N/A
Vietnam	Last 5 years	N/A

4. Defined-contributions schemes

Among Asian countries, five countries maintain DC pension systems. Malaysia has the highest contribution rate of 23%. The next highest contribution rate is 20% of Sri Lanka.

Hong Kong has contribution rate of 10%. Singapore has 40% of contribution rate but 30 % of contribution is channeled to the Ordinary account. In this report, only 10% is considered as contribution for retirement income purpose. Indonesia has the lowest contribution rate of 5.7%.

5. Ceilings on pensionable earnings

The ceiling on the earnings covered by the pension system has an important effect on the structure, size and cost of the second-tier systems. High ceilings or the absence of a ceiling means that high-income workers receive a high replacement rate and there is little need for take-up of voluntary private pensions. Only four countries have ceilings on pensionable earnings. India has the highest ceiling as 224% of average economy wide earnings. Hong Kong has 170% and Singapore has 130% of average economy wide earnings. Philippine has 118% as the lowest ceiling among four nations. Other nations may have ceilings on pensionable earnings, but information is not available.

6. Pension eligible ages

Table 2.1 shows that the majority of Asian countries have a standard retirement age of 60 for men. Thailand, Malaysia, Sri Lanka, and Indonesia have pensionable ages of 55 for men. Hong Kong has the highest eligible age of 65 which is similar to the majority of OECD member countries.

7. Indexation of pensions in payment

Indexation refers to the policy for the up-rating of pension in payment from the point of claim of the pension benefit onwards. Typically, pension benefits are adjusted in line with an index of consumer prices, although in some cases the adjustments also take account changes in average earnings.

Many countries do not have specified indexation formula. In these countries, indexations are made in ad-hoc basis. Thailand uses wages for indexation and China uses wage and price for indexation.

Among countries that have DB schemes, Thailand is the only country that has formal indexation rule of 100 % earnings indexation. China has indexation rule of using both prices and earnings, however the weight on each factor varies by provinces. Other DB schemes countries adjust pension benefits on ad-hoc basis.

Table 2.3. Procedures for adjustment of pensions in payment by country and scheme

	Scheme	Prices	Earnings	Other/notes
China	Social Assistance	40-80	20-60	Varies by province
	Basic	40-80	20-60	Varies by province
	DB/DC	40-80	20-60	Varies by province
Hong Kong	Social Assistance			Ad-hoc
	Targeted			Ad-hoc
	DC			Not Applicable
India	Social Assistance			Ad- hoc
	Targeted			Ad- hoc
	DB/DC			Ad –hoc
Indonesia	Social Assistance			Ad-hoc
	DC			Not Applicable
Malaysia	DC			Not Applicable
Pakistan	Social Assistance			Ad-hoc
	Targeted			Ad-hoc
	DB			Ad-hoc
Philippine	Basic			Ad-hoc
	Minimum			Ad-hoc
	DB			Ad-hoc
Singapore	Social Assistance			Not Available
	DC			Not Applicable
Sri Lanka	Social Assistance			Not Available
	DC			Not Applicable
Taiwan				
Thailand	Targeted			Not Available
	DB		100	
Vietnam	DB			Ad- hoc using cost of living index Economic growth

8. Taxes and social security contributions

Income taxes and, usually, social security contributions levied on pensioners have an important impact on net incomes from pensions relative to earnings during working life. Pensioners often do not pay social security contributions. Personal income taxes are progressive: the average tax rate on(lower) pension income will be less than the tax rate on (higher) earned income since replacement rates are nearly always less than 100%. In addition, most income tax systems give preferential treatment to pensions (exempting some or all of income from tax) or to pensioners (giving additional allowances, credits or zero-rate bands to the elderly). Replacement rates net of taxes and contributions are higher than gross replacement rates.

The relevant features of personal income taxes and social security contributions are divided into three categories. These categories are developed in *Pensions at a Glance-Public Policies Across OECD Countries 2005.* This report follows same categories as in the *Pensions at a Glance-Public Policies Across OECD Countries 2005.*

- Age-based tax allowance and tax credits, which exceed those available to taxpayers of working age. In many cases, the concessions are targeted on those with modest incomes and are withdrawn as income increases.
- Reliefs for some or all of pension income received. Several countries exempt fully or partially pensions paid from public sources from the personal income tax. And, in some cases, there is a preferential tax treatment for modest pensions paid from private-sector schemes.
- Social security contributions are typically levied only on wage income and not on pension benefits. However, some countries charge contributions on pension income for health and long-term care insurance or for survivors' insurance.

Table 2.4 gives an overview of the three categories of concessions in the 13 Asian countries.

China is the only country that taxes on pension income. In all Asian countries, pensioners do not pay social security contributions from their pension incomes. Countries that have DC plans do not offer any increased tax allowances or tax credit for the elderly. On the contrary, countries with DB plan have some type of increased tax allowances or tax credit.

Table 2.4. Categories of concession available to pensioners

	Increased tax allowances or tax credit	Relief or partial relief for pension income	Social security contributions paid by pensioners
China	√		None
Hong Kong		√	None
India	√	√	None
Indonesia			None
Malaysia		√	None
Pakistan	√	√	None
Philippine		√	None
Singapore		√	None
Sri Lanka		√	None
Taiwan	√	√	None
Thailand	√	√	None
Vietnam	√	√	None

PART Ⅰ

Chapter 3

Modeling Pension Entitlements

1. Future entitlements under today's parameters and rules

This Asian version of Pensions at Glance adopts same methodologies used as in *Pensions at a Glance –Public Policies Across OECD Countries(OECD 2005).* The pension entitlements that are compared are those that are currently legislated. All pension system parameters reflect the situation in the year 2007. Changes in rules that have already been legislated, but are being phased-in gradually, are assumed to be fully in place from the start. It is assumed that the pension rules remain unchanged.

The calculation show the pension entitlements of a worker who enters the system today and retires after a full career. This is defined here as entering at age 20 and working until the standard pension-eligibility age, which, of course, varies between countries. The implication is that the length of career varies with the statutory retirement age: 40 years for retirement at 60, 45 years for retirement at 65.

The reason for modeling only full careers is adopted and explained in *Pensions at a Glance –Public Policies Across OECD Countries(OECD 2005).* The background of modeling only full careers is that periods out of the labour market are covered in many countries pension systems, with credits for periods in higher education, military service, unemployment, child rearing, etc. Simply assuming that people who are not in work are not covered by the pension system during career gaps would produce inaccurate figures for pension entitlements.

The results are shown for a single person only. This is because the rules governing benefits for married couples are complex in many countries, and because the results depend on assumptions over both partners' career histories.

2. Coverage

The pension models presented here include all mandatory pension schemes for private sector workers, regardless of whether they are public(i.e. they involve payments from government or from social security institutions, as defined in the System of National Accounts) or private.

However, the coverage rates of mandatory public pension schemes of most non-OECD countries are very low. Singapore, Hong Kong, and Taiwan are exceptions in low coverage issue. The framework of the Pensions at a Glance is based on the main assumption that significant portion of the general public is covered by the mandatory public pension schemes. Therefore, readers of this report should be cautioned in interpreting the results shown in country reports.

3. Economic variables

The comparisons are based upon a single set of economic assumptions for all 16 countries. This assumption also follows methodologies reported in *Pensions at a Glance –Public Policies Across OECD Countries(OECD 2005).* In practice, the level of pensions received is affected by economic growth, wage growth and inflation, and these will vary across countries. A single set of assumptions, however, ensures that the outcomes of the different pension regimes are not affected by different economic conditions. In this way, differences across countries in pension levels reflect differences in pension systems and policies alone.

For non-OECD Asian countries, the baseline assumptions could be other than figures applied to the OECD countries as stated below. The sensitivity analysis might solve the puzzle of the appropriateness of the uniform baseline assumptions.

The baseline assumptions are:

- real earnings growth: 2% per year (given the assumption for price inflation, this implies nominal wage growth of 4.55%);
- individual earnings: assumed to grow in line with the economy-wide average. This means that, in the baseline case, the individual is assumed to remain at the same point in the earnings distribution, earning the same percentage of average earnings in every year of the working life;
- price inflation:2.5 % per year;
- real rate of return on funded, defined-contribution pensions:3.5% per year;
- discount rate(for actuarial calculations): 2% per year;
- mortality rates: the baseline modeling uses country-specific projections(made in 2002) from the United Nations/World Bank population database for the year 2040;

4. Average earnings data

It is difficult to produce data on average earnings that are consistent across Asian countries. This report used earnings data of IMF-WEO Database 2006. Due to limitation of the IMF-WEO Database, in most countries, economy-wide earnings were used.

Table 3.1 Average Economy-wide Earnings of 2006

National currency and USD at market exchange rates

	Earnings of economy-wide average worker		Exchange rate with USD
	National currency	USD, Market	Market
China	16,024	2,000	8.0
Hong Kong	136,397	17,600	7.75
India	34,770	770	45.15
Indonesia	13,125,000	1,400	9,375
Malaysia	66,507	18,372	3.62
Pakistan	51,666	854	60.5
Philippine	121,932	2,308	52.81
Singapore	66,957	42,647	1.57
Sri Lanka	135,958	854	159
Taiwan	965906	30,194	31.99
Thailand	154,813	4,058	38.15
Vietnam	7,616,910	646	11,790
Australia	54,966	34,353	1.3
Japan	4,572,000	41,601	109.9
Korea	3,4080,000	18,293	943
New Zealand	41,664	29,361	1.419

Source: www.worldsalaries.org

Average earnings of manufacturing industry are used for Australia, Japan, Korea, New Zealand.

5. Taxes and social security contributions

The information on taxes and social security contributions on which the calculations of the net indicators are based can be found in each country study (Part Ⅱ). The studies describe the tax and social security contribution regimes in each country as they applied to pensioners in 2006

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6. Indicators and results

Same indicators are used in this report as in *Pensions at a Glance –Public Policies Across OECD Countries OECD 2005).*

The basic indicators used in this report are:

- replacement rate: pension entitlements as a share of individual lifetime average earnings;
- relative pension level: pension entitlements as a share of average economy-wide earnings; and
- pension wealth: the discounted stream of future pension payments.

The replacement rate can be interpreted as an indicator of the insurance of the insurance role of a pension system, since it shows to what extent pension systems aim to preserve the previous, personal standard of living of a worker moving from employment into retirement. The indicator used here shows the pension benefit as a share of individual lifetime average earnings (revalued in line with economy-wide earnings growth). Under the baseline assumptions, workers earn the same percentage of economy-wide average earnings throughout their career, meaning that their individual earnings track the assumed growth in economy-wide earnings. In this case, lifetime average revalued earnings and individual final earnings are identical. If people move up the earnings distribution as they get older, then their earnings just before retirement will be higher than they were on average over their lifetime. In that case, replacement rates calculated on individual final earnings will be lower than when calculated on the basis of individual lifetime average revalued earnings. The sensitivity analysis in Annex 1.2 illustrates the effects of different individual career earnings profiles on pension entitlements in several countries.

Part Ⅰ

Chapter 4

Replacement Rates

This chapter shows gross and net pension replacement rates for 16 Asian Countries. For each country replacement rates are shown for people with different levels of earnings. Detailed results are shown in the country studies.

1. Gross replacement rates

Table 4.1 shows gross replacement rates by level of individual earnings for all countries. Figure 4.1 summarises the information for low, average and high earners, defined as workers earning half, once and twice average, respectively.

The replacement rate at average earnings is perhaps the most familiar indicator in pension analysis. At this earnings level, the non-OECD Asian countries' average gross replacement rate is 57.52. The OECD countries' average replacement rate of same earnings level is 57%. One country that draws attention is Singapore. Singapore's provident fund has total contribution rate of 40%, but only 10% of contribution is channeled into the special account that is primarily for securing retirement income. The remaining 30 % of contributions are channeled into other accounts for housing and medical insurance. In this report, we made assumption that only 10% of contribution is used for pension system.

Another country that needs explanation is Indonesia. Indonesia has replacement rate of 15.4%. The Indonesian provident program, Jamsostek, which is mandatory to the formal private sector, has contribution rate of 5.7% only. This explains low replacement rate.

India, Pakistan, Vietnam, and China show relatively high replacement rates. These countries have two common characteristic in their pension system.

They all have very low coverage rate and relatively high income earners are covered by the pension system.

Table 4.1 Gross replacement rates by earnings level, mandatory pension programmes, (men: percent of individual pre-retirement gross earnings)

	Individual earnings, multiple of average					
	0.5	0.75	1	1.5	2	2.5
China	117.9	91.2	77.9	64.5	57.9	53.9
Hong Kong	33.8	36.1	37.2	38.3	31.3	25.0
India	99.3	99.3	99.3	99.3	99.3	89.1
Indonesia	15.4	15.4	15.4	15.4	15.4	15.4
Malaysia	56.9	56.9	56.9	56.9	56.9	56.9
Pakistan	80.0	80.0	80.0	80.0	80.0	80.0
Philippines	86.4	84.3	83.2	82.1	65.6	52.5
Singapore	29.1	29.1	23.5	15.7	11.7	9.4
Sri Lanka	48.3	48.3	48.3	48.3	48.3	48.3
Taiwan	70.0	61.5	55.8	50.1	44.6	35.7
Thailand	35.0	35.0	35.0	27.1	20.3	16.3
Vietnam	77.8	77.8	77.8	77.8	77.8	77.8
Non OECD Average	62.49	59.57	57.52	54.6	62.89	46.69
Australia	64.6	48.2	40.0	31.8	27.7	24.3
Japan	50.0	40.3	35.5	30.6	28.2	23.5
Korea	83.3	64.9	55.7	42.1	31.6	25.3
New Zealand	75.2	50.1	37.6	25.1	18.8	15.0
4 OECD Average	68.2	50.8	42.2	32.4	26.5	22.0

Table 4.2 Net replacement rates by earnings level, mandatory pension programmes, (men: percent of individual pre-retirement gross earnings)

	Individual earnings, multiple of average					
	0.5	0.75	1	1.5	2	2.5
China	128.1	99.1	84.6	71.1	66.7	63.3
Hong Kong	36.4	39.7	41.5	43.2	35.4	28.3
India	112.9	112.9	112.9	112.9	112.9	101.3
Indonesia	16.1	16.3	16.3	16.3	16.2	16.2
Malaysia	64.9	65.2	65.4	66.1	66.7	67.7
Pakistan	80.8	80.8	80.8	80.8	80.8	80.8
Philippines	89.4	87.2	86.1	84.4	66.9	53.3
Singapore	30.2	30.7	25.0	17.0	12.9	10.5
Sri Lanka	52.5	52.5	52.5	52.5	52.5	52.5
Taiwan	77.4	69.0	63.1	57.4	51.6	41.9
Thailand	35.7	35.7	35.7	28.0	21.4	17.3
Vietnam	81.9	83.1	82.8	82.6	83.9	83.6
Non OECD Average	**61.1**	**64.3**	**62.2**	**59.3**	**75.0**	**51.4**
Australia	78.3	61.9	53.0	43.8	38.9	34.6
Japan	54.7	45.0	40.3	34.9	32.4	27.4
Korea	88.0	69.2	60.9	47.0	36.3	29.9
New Zealand	77.2	52.0	39.8	28.1	22.1	18.2
Total Average	**74.5**	**57.0**	**48.5**	**38.5**	**32.4**	**27.5**

Figure 4.1 Gross replacement rates at different earnings levels

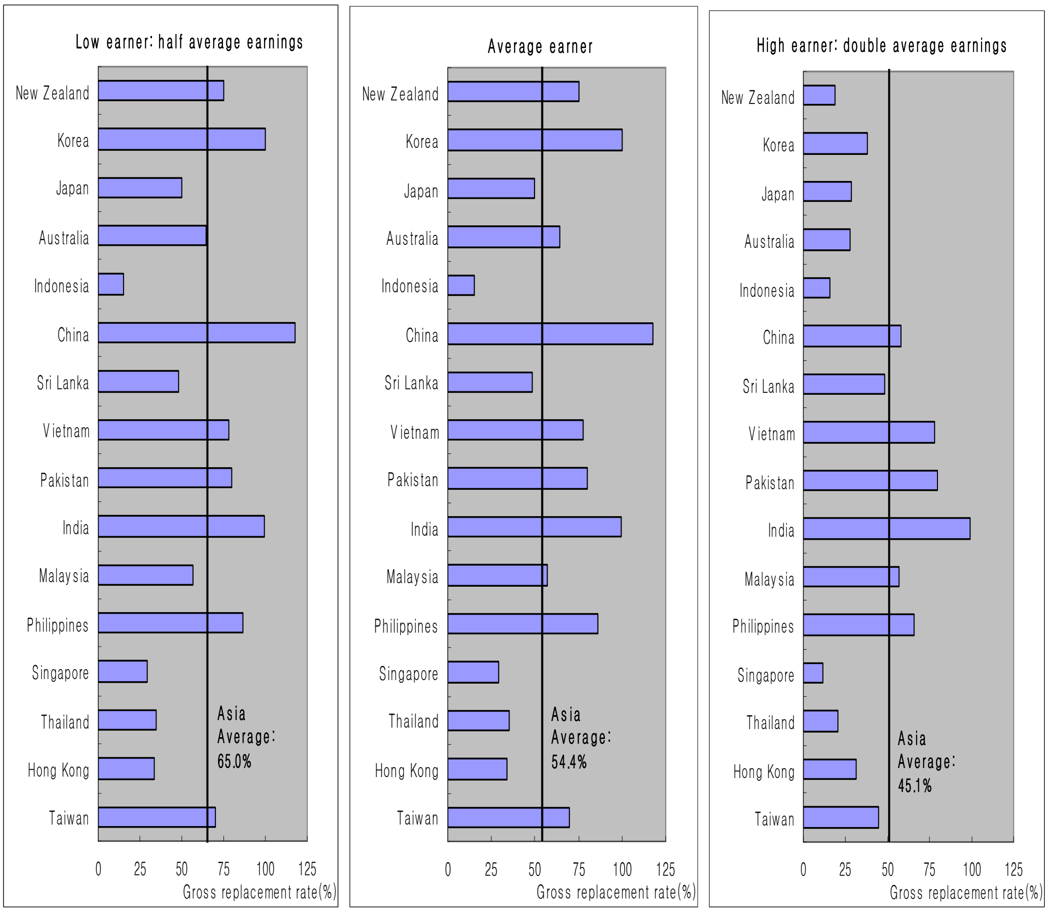
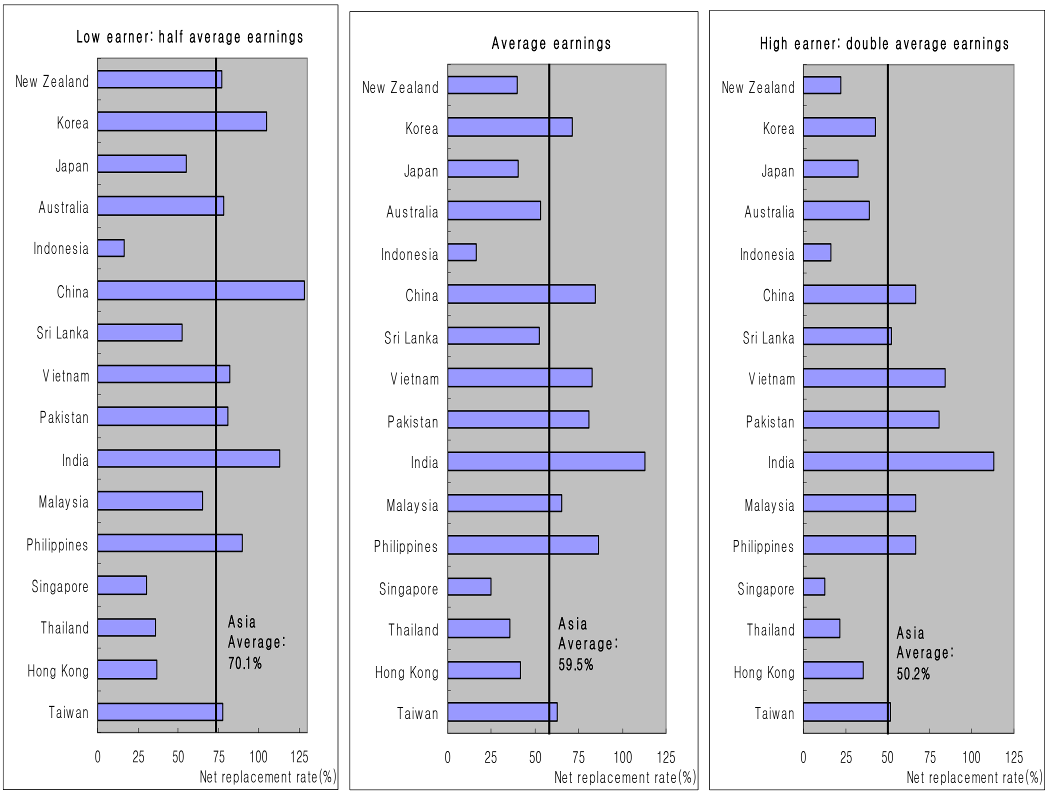


Figure 4.2 Net replacement rates at different earnings levels



Part Ⅰ

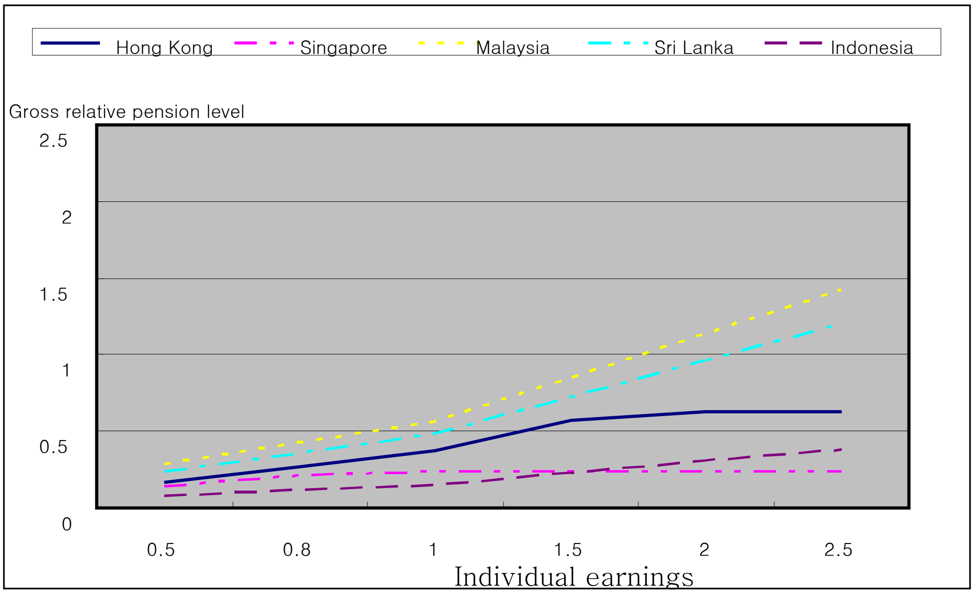
Chapter 5

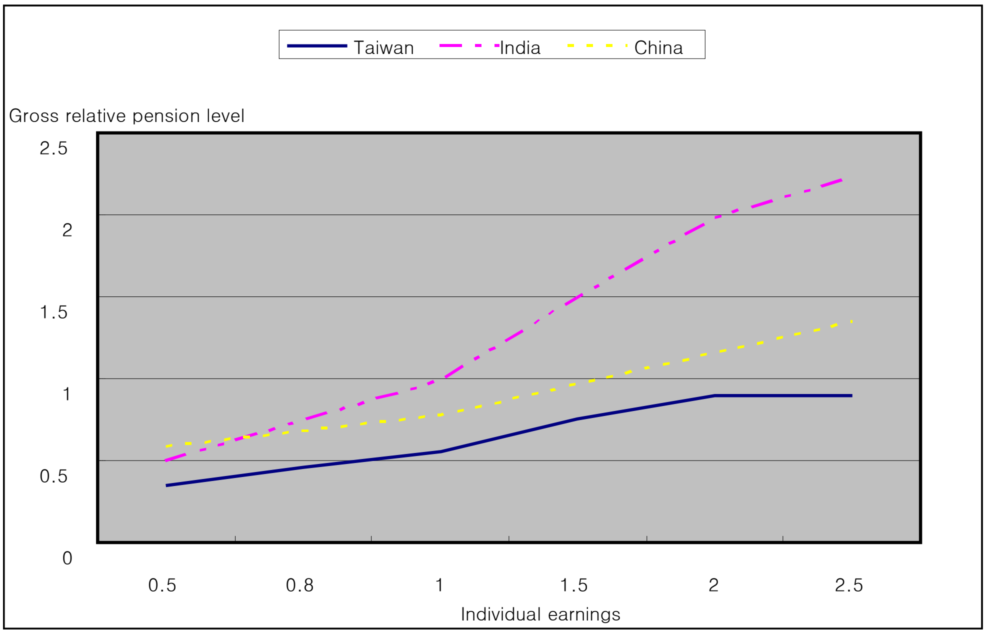
Relative Pension Levels

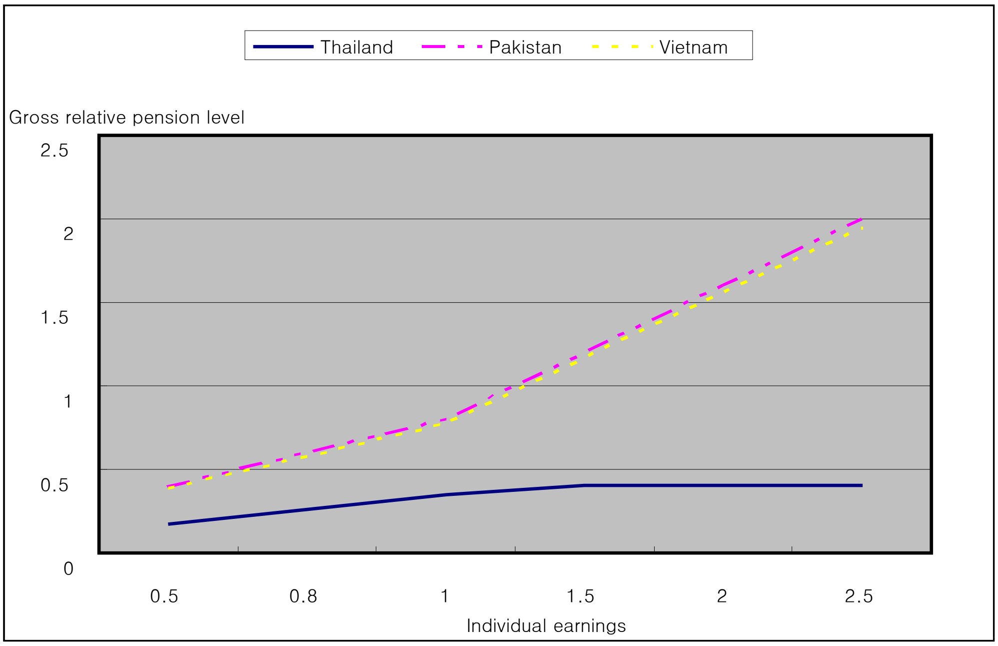
The relative pension level is the individual pension divided by economy-wide average earnings, rather than by individual earnings as in the replacement-rate results in the previous chapter. Figure 5.1 shows relative pension levels in Asian countries on the vertical axis and individual pre-retirement earnings on the horizontal.

Countries with relatively low national income levels such as China, India, Pakistan, Sri Lanka, and Vietnam show relative pension level of greater than 1. On the other hand, relatively affluent countries such as Hong Kong, Singapore, and Taiwan show relative pension level of less than 1. Countries with low national income levels have low coverage in mandatory pension system. It implies that only high income earners are covered by the pension system and their income levels are much higher than that of economy-wide income levels. High income earners in countries such as India, Pakistan, and Vietnam have relative pension levels equal or higher than 2.0.

Figure 5.1 The link between pre-retirement earnings and pension entitlements




Taiwan
India
China
Gross relative pension level
2.5
2
1.5
1
0.5
0
0.5
0.8
1
1.5
2
2.5
Individual earnings


Thailand
Pakistan
Vietnam
Gross relative pension level
2.5
2
1.5
1
0.5
0
0.5
0.8
1
1.5
2
2.5
Individual earnings

Part Ⅰ

Chapter 6

Key Indicators

1. Weighted average pension levels and pension wealth

The measure of weighted average relative pension level combines the earnings distribution with the projections of pension entitlements. The relative pension level is averaged over individuals earnings across the range from 0.3 to three times average economy-wide earnings using the earnings-distribution weights. The result is the weighted average of the pension entitlement expressed as a percentage of economy-wide average earnings. This provides a useful indicator of the scale of the pension promise made to today's workers.

This indicator is presented in the first column of Table 6.1. There are vast differences between countries.

Table 6.1 weighted average pension level and pension wealth

	Pension level	Pension wealth	Pension wealth(USD)
Taiwan	53.6	9.1	275,000
Hong Kong	34.6	5.5	97,000
Thailand	30	5.2	21,000
Singapore	20.9	3.5	149,000
Philippines	77.9	12.0	28,000
Malaysia	57.2	10.6	54,000
India	97.7	15.2	12,000
Pakistan	80.9	11.5	10,000
Vietnam	78.2	14.1	9,000
Sri Lanka	48.5	9.3	12,000
China	78.1	13.5	27,000
Indonesia	15.5	2.6	4,000

ANNEX 1.1

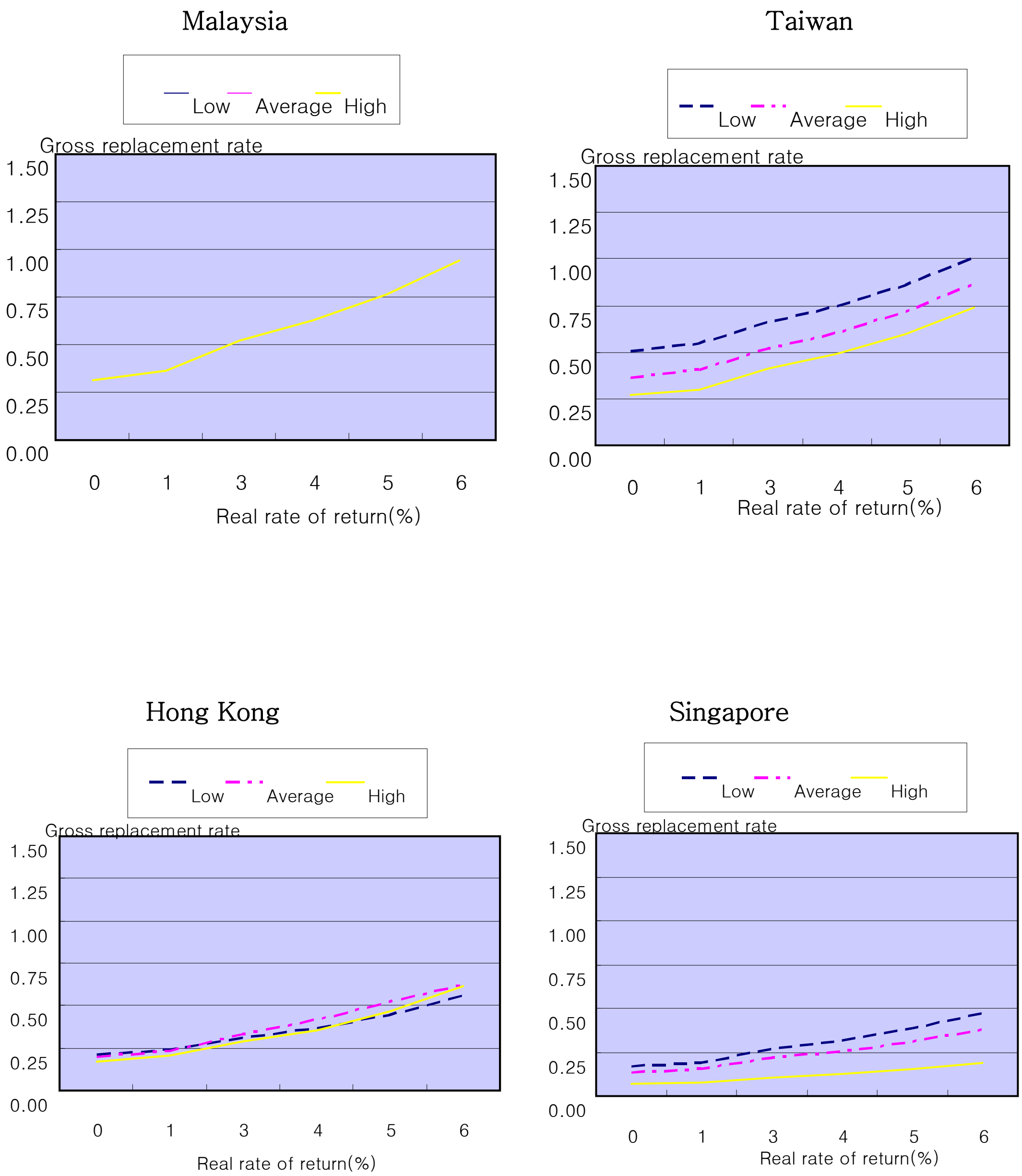
Sensitivity Analysis

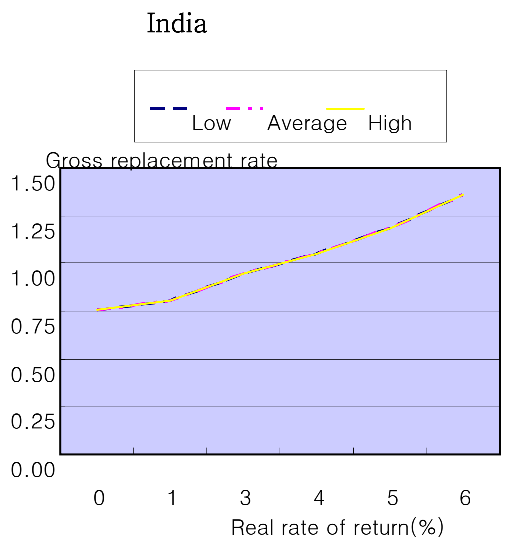
1. Varying rates of return on defined-contribution pensions

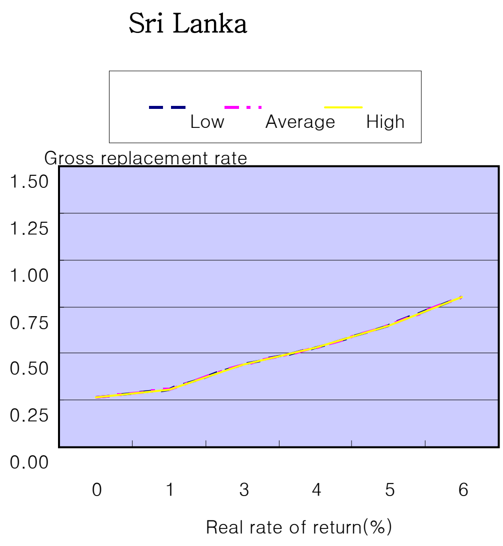
Eight Asian countries have defined-contribution (DC) pensions. The baseline assumption of the modeling is that the real rate of return earned by DC pensions is 3.5% per year which is same figure used in Pensions at *a Glance-Public Policies Across OECD Countries 2005.* Given the uncertainty about future rates of return on DC pensions, pension entitlements have been modeled using a wide range of real returns, from zero to 6%. The total pension entitlement is shown in Figure 1.2.1 including all pension sources. The figures show the replacement rate for low, average and high earners (defined as earning half, average and twice average) under different assumptions for the real rate of return.

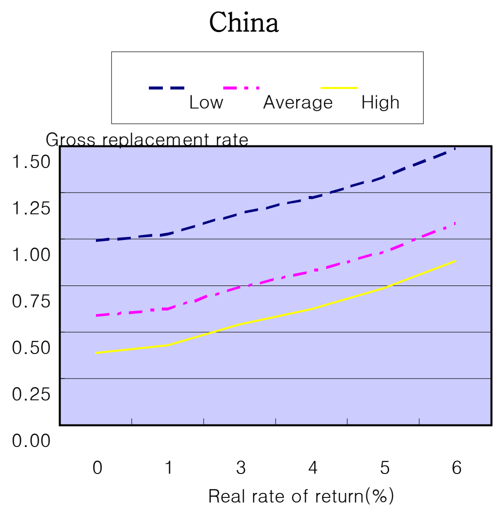
Figure 1.1.1 Total gross replacement rates for low, average and high earners by rate of return on defined-contribution pensions

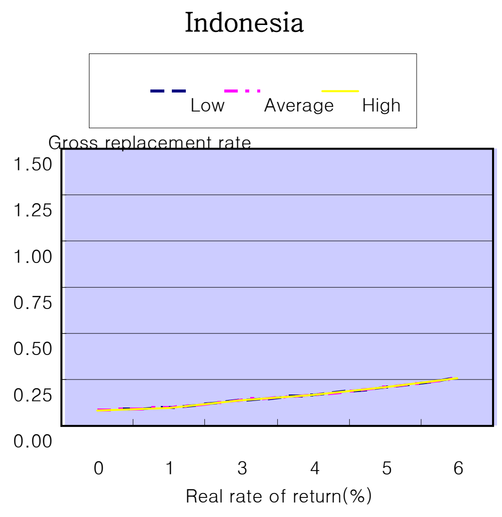
As a proportion of individual earnings




India
Low
Average
High
Gross replacement rate
1.50
1.25
1.00
0.75
0.50
0.25
0.00
0
1
3
4
5
6
Real rate of return(%)


Sri Lanka
Low
Average
High
Gross replacement rate
1.50
1.25
1.00
0.75
0.50
0.25
0.00
0
1
3
4
5
6
Real rate of return(%)


China
Low
Average
High
Gross replacement rate
1.50
1.25
1.00
0.75
0.50
0.25
0.00
0
1
3
4
5
6
Real rate of return(%)


Indonesia
Low
Average
High
Gross replacement rate
1.50
1.25
1.00
0.75
0.50
0.25
0.00
0
1
3
4
5
6
Real rate of return(%)

PART Ⅱ

Country Studies

Introduction

The country studies follows a standard schema developed in *Pensions at a Glance- Public Policies Across OECD Countries 2005*. First, there is a detailed description of the rules and parameters of the pension schemes.

- Qualifying conditions: pension eligibility (or “retirement”) age and years of contributions required to receive a pension.
- Benefit Calculation: the rules for each schemes making up the pension system, such as earnings-related schemes, mandatory private plans and resource-tested schemes.
- Treatment of pensioners under the personal income tax and social security contributions, including any reliefs for pension income.
- Economic variables: the earnings of the average production worker in local currency and, using the market exchange rates shown, converted into US dollars. For some countries, earnings of the average production worker were not available and economy-wide average earnings were used.

Values of the parameters of pension, tax and social security contribution systems are given in national currencies and as a proportion of average earnings. A summary results table gives relative pension values, replacement rates and pension wealth at different individual levels of earnings. These are given in both gross and net terms (the latter taking account of taxes and contributions paid when working and when drawing pension). Summary charts show the breakdown of the gross relative pension value into the different components of the pension scheme. As far as possible, the same, consistent terminology is used to describe these schemes.

- SA: social assistance
- Targeted: a minimum pension within an earnings related scheme.
- Basic: a pension based only on number of years of coverage or residency.
- Earnings-related: all public earnings-related programmes including traditional defined-benefit plans.
- DC: defined-contribution, mandatory private plans

The charts use a standard scale to ease comparison between countries: the scale for replacement rates runs to 200% while that for relative pension values runs to 2.5 times average earnings. In some cases, pension benefits exceed these maxima and so the measure has been capped at these levels.

The final row of country charts shows, for reference, the taxes and contributions paid by pensioners and workers. This illustrates the source of any concessions to older people in these systems since the values are for workers and pensioners with the same income. The effect of taxes and contributions on the net replacement rates is more complex than illustrated here. Since replacement rates are usually less than 100%, the normal progressivity of the tax system means that people tend to pay fewer taxes when retired regardless of any concessions.

The final row also shows the sources of the net replacement rate. In addition to the components of the pension system shown in the first two charts, this includes the effect of taxes and contributions. This is computed using the results of the tax models on the amounts of taxes paid on earning of a particular level and the amount of taxes due on the pension entitlement calculated for someone earning at that level.

China

Qualifying conditions

Current normal pension ages for men and women are60 for men and 55 for women (50 for those who engaged in physical works). Retirement age for women working in strenuous or hazardous jobs is 50. Workers qualify for basic pension after 15 years of contributions in social pool scheme and individual account scheme. Workers who have contributed for less than 15 years receive the savings in the individual account as a lump sum.

Benefit formula

First-tier schemes

Basic pension

Basic pension or social pool pension is paid after 15 years of contributions. According to Document 26, value of benefits equals 20% of city average wage after 15 years of service. No additional benefits are paid for additional years of service. According to Document 38, value of benefits equals 15% of city average wage after 15 years of service, plus 1% for each additional year of service.

According to document 26, benefits are indexed to a combination of local wage inflation and price inflation. Depending on the province, the combination can be 40-80% wage inflation to 60-20% price inflation. According to Document 38, benefits are indexed to a combination of local wage inflation and price inflation.

Targeted schemes/social assistance

The Ministry of Civil Affairs administers a non-contributory minimum living allowance scheme which provides a subsistence living allowance. Benefits are determined as an absolute amount and are adjusted periodically according to the price index or other factors. Benefits are principally paid form employer's contributions to local governments (city or county level).

Second-tier schemes

Individual account scheme is DC/DB hybrid. Individuals contribute to their own account. Benefits are returns by a factor based on average longevity of the province. Total benefits continue to be paid out of social pool. It is mandated to be fully funded, but currently notional in many provinces in respect to previous years' contributions. Contributions are capped at 3x city average pay. Indexation of individual account pensions is same as the social pool pension.

Although the individual account scheme is considered a defined contribution scheme, it has design characteristics that resemble that of a hybrid defined benefit scheme. That is after 15 years of contributions to the individual account, benefits are calculated by dividing the accumulate contributions and investment returns by an annuity factor as with a DC scheme, but it resembles a DB scheme in that the pension is paid until the individual's death. If an individual out-lives the term of the annuity, the provincial government will continue to pay the annuity out of the basic pension social pool.

Defined contribution

Total Contribution rates are split between employer and employee. Since January 2006, according to guidelines set by State Council Document No. 38, individual accounts will be funded solely by employee contributions of 8% of wages. In addition to the north-eastern provinces - Liaoning, Jilin and Heilongjiang – about 8 or so other provinces have started to fund individual accounts according to these new guidelines. Other provinces are still following guidelines set by the State Council Document No. 26, which mandates an 8% contribution by employees and 3% by employers for a total of 11%. However, it is expected that all provinces will eventually implement guidelines set by Document 38.

Annuity factor to convert capital into flow of pension benefits is specified as 120 according to Document 26. Document 38 does not provide a set of annuity factors but does specify that the annuity factor should reflect the individual's retirement age and the average local life expectancy. In Jilin and Heilongjiang, the annuity factors are:

Table Ⅱ.1 Actuarial factor of China

Retirement age	Actuarial factor
40	233
45	216
50	195
55	170
60	139
65	101
70	56

Early and late retirement

Early retirement

Women in strenuous and hazardous job are allowed early retirement at age 50. Other qualifying conditions for early retirement, such as years of contributions, according to Document 26, after 15 years of contributions, individuals can retire and receive a basic social pool pension of 20% of the previous year's local average monthly wage. In addition to that an individual account pension calculated by dividing accumulated contributions and investment returns by an actuarial factor of 120.

According to Document 38, after 15 years of contributions, individuals can retire and receive a basic social pool pension of 15% of local average wage, and an individual account pension calculated by dividing accumulated contributions and investment returns by an actuarial factor which reflects the individual's retirement age and the average life span of the province.

According to Document 26, there is no reduction of basic social pool benefits for early retirement. In fact, even if an individual continues to work beyond 15 years, the basic social pool pension benefit will not increase. According to Document 38, individual can collect a basic social pool pension of 15% of the previous year's local average wage after 15 years of contributions. By opting for retirement after 15 years of forfeits the opportunity to earn 1% higher pension benefits for each additional year of service and contribution.

For the individual account scheme, there is a reduction in benefits in so far as there are less accumulated contributions and a higher annuity conversation factor, leading to a lower pension.

Late retirement

Document 38 encourages individuals to work beyond 15 years by increasing the basic social pool pension by 1% of the previous year's local average wages for each additional year of service. The limit to the increase is reached at retirement age.

Document 26 does not encourage nor reward late retirement. Basic social pool benefits are the same regardless of whether an individual retires after 15 years of service or 30 years of service.

Personal income taxes and social security contributions

Personal income tax for workers

Wages and salaries are subject to the following progressive tax rates:

Table Ⅱ.2. tax rates of wages and salaries

Monthly Taxable Wage/Salary (RMB) (after 1600 deductible)	Tax Rate
<500	5%
500-2,000	10%
2,000-5,000	15%
5,000-20,000	20%
20,000-40,000	25%
40,000-60,000	30%
60,000-80,000	35%
80,000-100,000	40%
>100,000	45%

Other types of income, such as remuneration for authors, contract service fees, franchise fees, interest, dividends, lease income, etc., are subject to a 20% flat tax rate subject to deductions. Self-employed individuals are subject to a separate tax schedule ranging from 5% to 35%. Standard income tax reliefs(e.g., allowances, credits of zero-rate bands). Standard deduction is RMB 1,600 per month. Income above and beyond RMB 1,600 is considered taxable income.

For income of self-employed individuals and income from contracted management or leasehold management, expenses can be deducted. For income from the remuneration of labor services, income from author's remuneration, income from franchise royalties, and income from the lease of property, if the income received each time does not exceed RMB4,000, then RMB800 is deductible as expenses; if it exceeds RMB4,000, 20 percent shall be deducted as expenses. The balance in each case is the taxable income. Basic pension contributions are deductible.

Personal income tax for pensioners

According to Chinese Personal Income Tax Law, tax may be abated after approval when it involves the income of disabled, or elderly persons, or family members of a martyr. Survivors' pensions are not taxable, however public and private pension incomes are subject to personal income tax.

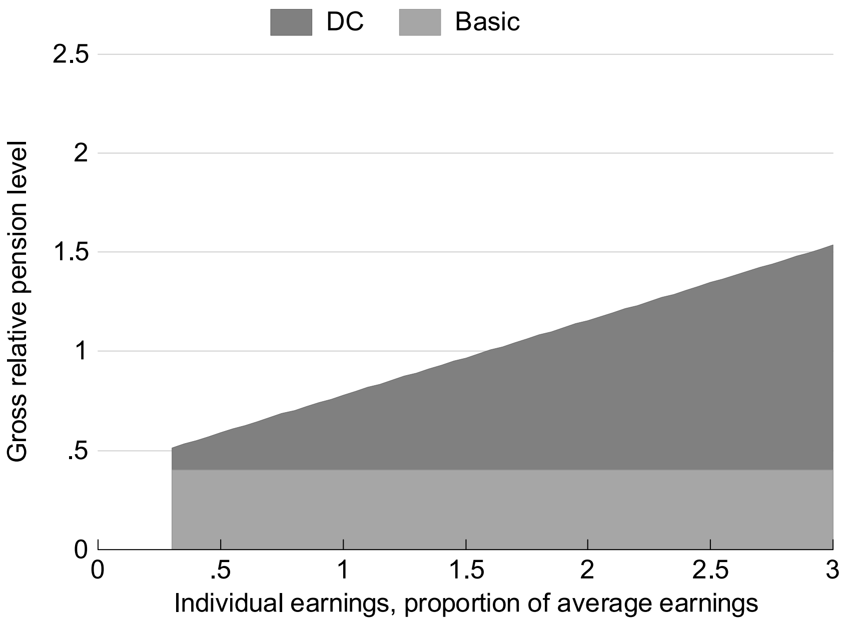
Pension and social security contributions

Employer and employee rates of contributions for pensions and other social security benefits split where available.

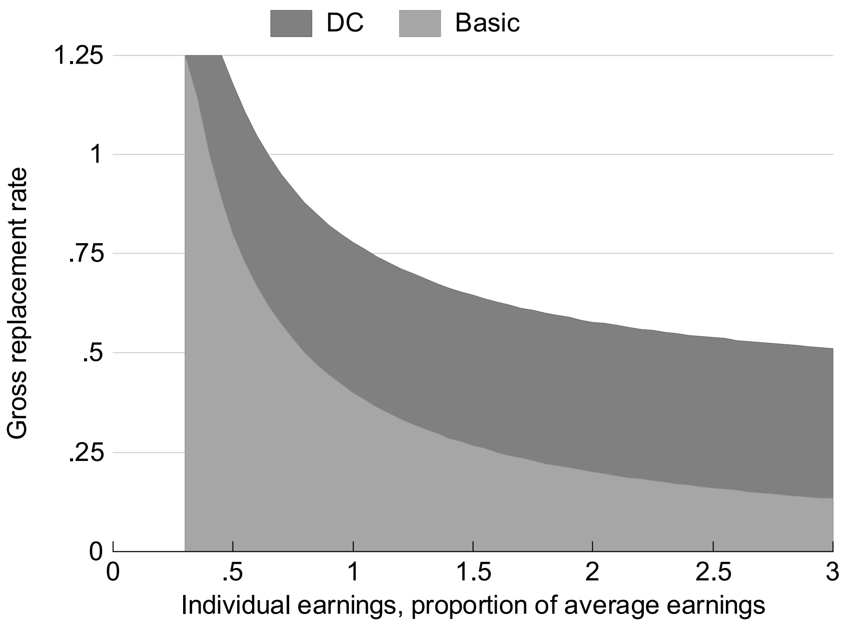
Table Ⅱ.3. contribution rates between employer and employee

Document 26	Employer	Employee
Basic social pool scheme	Employer contributes about 17% of actual wages, with max and min contributions set at 300% and 60% of City Average Pay	--
Individual account scheme	Employer contributes 3% of wages	Employee contributes 8% of wages
Document 38	Employer	Employee
Basic social pool scheme	Employer contributes 20% of actual wages, with max and min contributions set at 300% and 60% of City Average Pay	--
Individual account scheme	--	Employee contributes 8% of wages, capped at 300% of city average pay

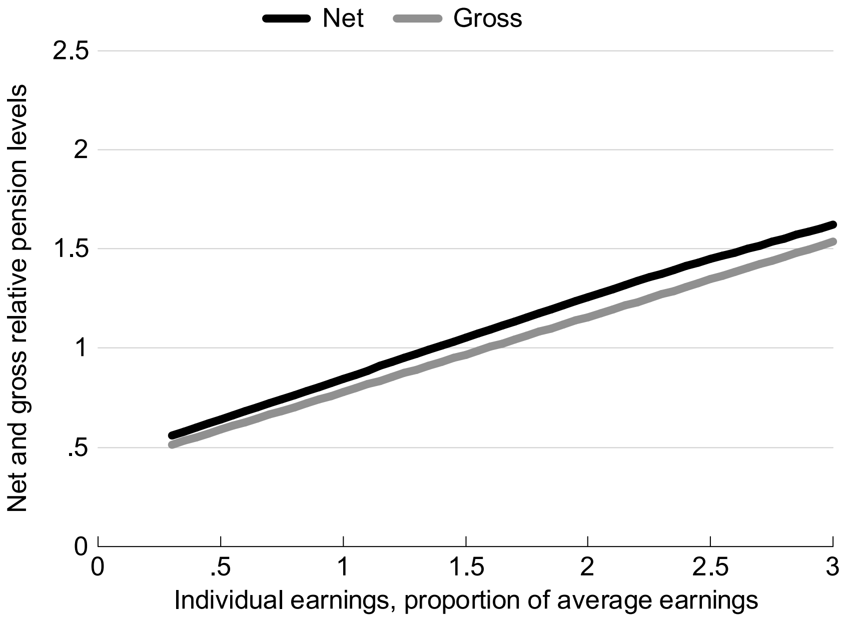
Gross relative pension level



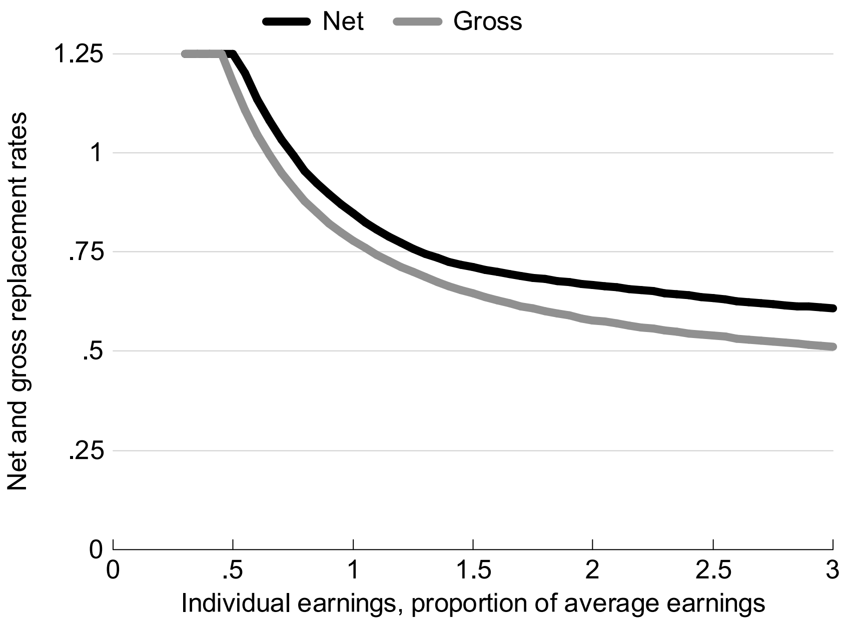
Gross replacement rate



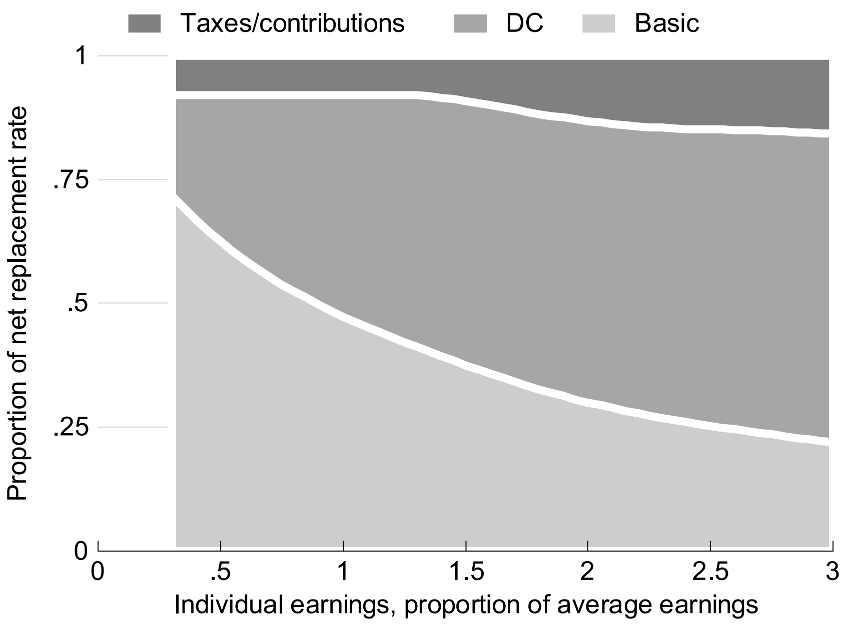
Net and gross relative pension levels



Net and gross replacement rate



Taxes paid by pensioners and workers



Sources of net replacement rate

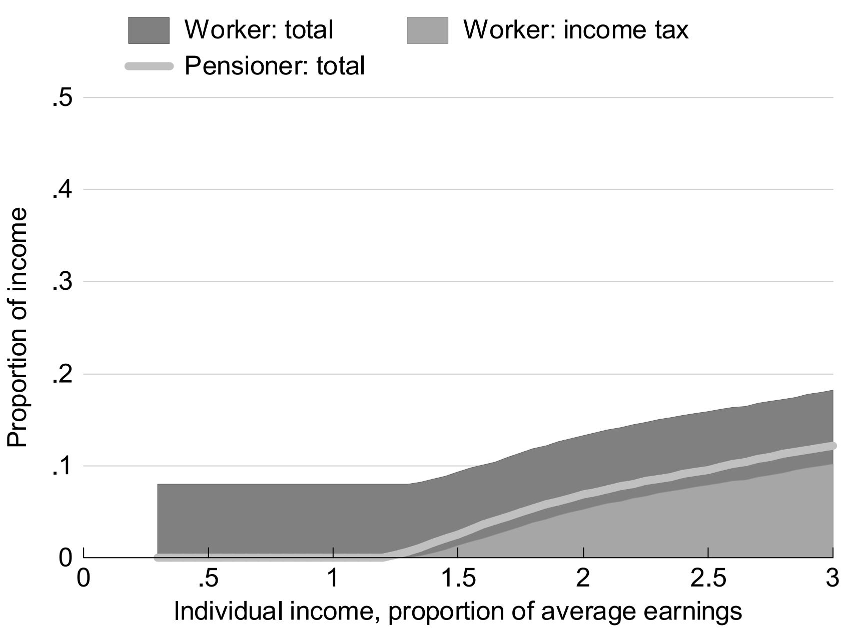


Table Ⅱ.4. **Pension modeling results: China(growth rate of earning: 2%)**

	Individual earnings, multiple of average					
Men	0.5	0.75	1	1.5	2	2.5
Gross pension level *(% of average earnings)*	58.9	68.4	77.9	96.8	115.7	134.6
Net pension level *(% of average net earnings)*	64.1	74.3	84.6	105.2	125.8	144.8
Gross replacement rate *(% of individual earnings)*	117.9	91.2	77.9	64.2	57.9	53.9
Net replacement rate *(% of individual net earnings)*	128.1	99.1	84.6	71.1	66.7	63.3
Gross pension wealth *(multiple of average earnings)*	10.2	11.9	13.5	16.8	20.0	23.3
Net pension wealth *(multiple of average net earnings)*	20.4	15.8	13.5	11.2	10.0	9.2

Hong Kong

Qualifying Condition

For the general public in Hong Kong, public assistance (SSAS and CSSA) and compulsory savings (MPF) are the main forms of statutory income maintenance. Mandatory Provident Fund is DC plan and Social Security Allowance Scheme and Comprehensive Social Security Allowance Scheme are DB plan. Mandatory for all self-employed persons in the 18-65 age group (MPF); the SSAS and the CSSA are means tested.

Hong Kong's employed population of 3.4 million was made up of 3.0 million employees and 0.4 million self employed. Among this population, 66 per cent are covered under MPF schemes and 19 percent are covered under other retirement schemes, such as Civil Service Pension Scheme. MPF Exempted ORSO schemes, 11 per cent, mostly domestic employees and employees who are aged below 18 or above 65, are not required to join any local retirement schemes. The remaining 4 per cent of the employed population are people who should have joined the MPF but have not done so. Indexation of benefits is made by discretionary adjustments.

Benefit Formula

First tier

SSAS is intended to provide financial assistance to the disabled and the elderly to meet part of their living expenses. The SSAS provides normal and higher levels of benefit which are means tested for individuals between the age group 65-69 years.

The CSSAS is a means-tested public assistance scheme for those whose income is insufficient to meet the "recognizable needs".

For those subject to means test, the monthly income limit is HK$ 5,910 and asset limit is HK$ 169,000 for single persons, and HK$ 9,740 and HK$ 254,000 respectively for a married couple. The SSAS provides 'normal' and 'higher' levels of benefit according to age or the degree of disability. The normal old age allowance is HK$ 625 per month, while the higher allowance for those aged 70 years or above is HK$ 705. The normal disability allowance is HK$ 1,260 per month, while those requiring constant attendance receive HK$ 2,520 per month.

The qualifying condition of CSSAS(in 2002) is income below HK$ 2,612 for a single, able-bodied adult and assets below a fixed limit, ranging from HK$ 24,000 for an able-bodied adult to HK$ 130,000 in the case of family of six with a disabled adult. There are three types of benefits under CSSA: standard, special, and supplementary. The standard benefits are paid to cover the recipients' basic needs and vary widely according to the characteristics of the recipients. This ranges from HK$ 2,555 per month for an able-bodied adult under the age of 60 years to HK$ 4,670 for an elderly person requiring constant attendance (as of year 2002). Able-bodied single parents receive HK$ 1,965 per month, while each of their able-bodied children receive HK$ 1,795 and their fully disabled child receives HK$ 3,055 Statutory age for receiving assistance is 65 for both men and women.

Benefit Formula

Second-tier schemes

The Mandatory Provident Fund scheme is mandatory for all residents in the age-group 18-65. Exceptions are domestic servants, civil service employees, teachers, hawkers, and temporary residents.

Statutory pensionable age is 65 for both men and women. Contribution split between employer and employee: *Employers are* responsible for deducting an employee's 5 per cent contribution from the employee's income and remit this amount, along with the employer's own 5 per cent contribution, to the scheme's trustee. Mandatory contributions are fully vested immediately. Generally, MPF benefits must be preserved until retirement at age 65 or until age 60 for workers who retire early. Benefits are paid in lump sum. Before MPF, about one-third of the workforce of 3.2 million between the ages of 18 and 65 had any form of retirement protection apart from the means-tested social security benefits. As at December 2005, five years after the introduction of MPF, this proportion has risen to around 85 per cent. This includes around 2 million members of MPF schemes, and half a million members of MPF exempted ORSO schemes, and other public sector pension plans. Employees earning less than HK$5,000 per month are not required to contribute but may choose to do so, while employers must make the 5 per cent contribution regardless of the employee's decision. The maximum level of income on which the contribution is calculated is HK$20,000. Therefore, if an employee's monthly salary exceeds HK$20,000, the employer and the employee will each be required to contribute only 5 per cent of HK$20,000 for a total of HK$2,000 per month. MPF amounts can be withdrawn in a lump sum at the age of 65.

Personal income taxes and social security contributions

Personal Income Tax for Workers

Table Ⅱ.5. Income tax schedule for Hong Kong

	Net Chargeable Income	Rate	Tax
On the First	35,000	2%	700
On the Next	35,000	7%	2,450
	70,000		3,150
On the Next	35,000	12%	4,200
	105,000		7,350
Remainder		17%	

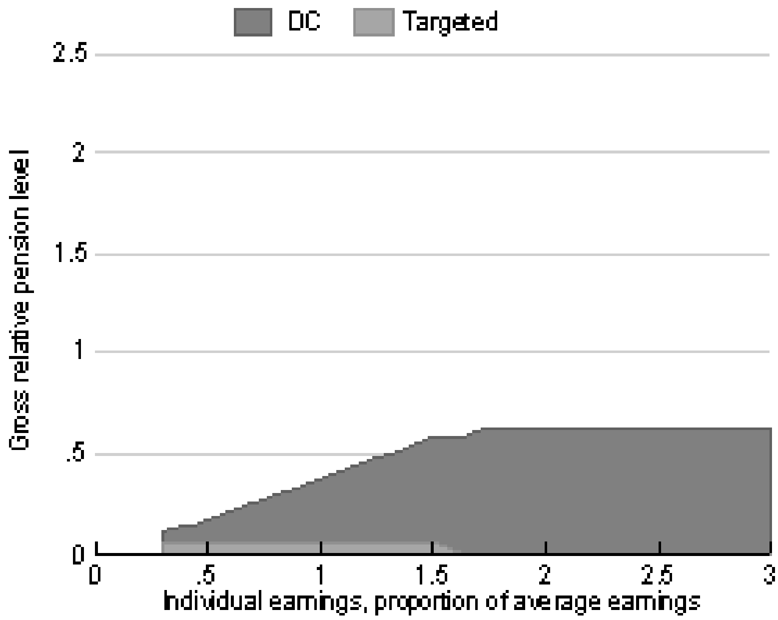
Pension and other social security contributions are deductible, however are subject to a ceiling of HKD 12000. Employee can claim a tax deduction under Salaries Tax for the mandatory contributions that he makes to an MPF scheme. The maximum amount deductible for each year of assessment is $12,000. However, any voluntary contributions made by participants are not deductible. Self-employed person can claim mandatory contributions which he has made for himself to an MPF scheme as allowable business expenses under Profits Tax. The maximum amount that can be claimed for deduction is $12,000 for each year of assessment. Any voluntary contributions made by him are not tax deductible

Employee can claim deduction for the mandatory contributions which he makes to different MPF schemes. However, irrespective of the amount of mandatory contributions and the number of MPF schemes the employee has contributed to, the maximum amount of deduction that he can claim for each year of assessment is restricted to $12,000. Any contributions exceeding this limit will not be deductible. Employer's contributions are tax deductible to the extent that they do not exceed 15 percent of each employee's emolument.

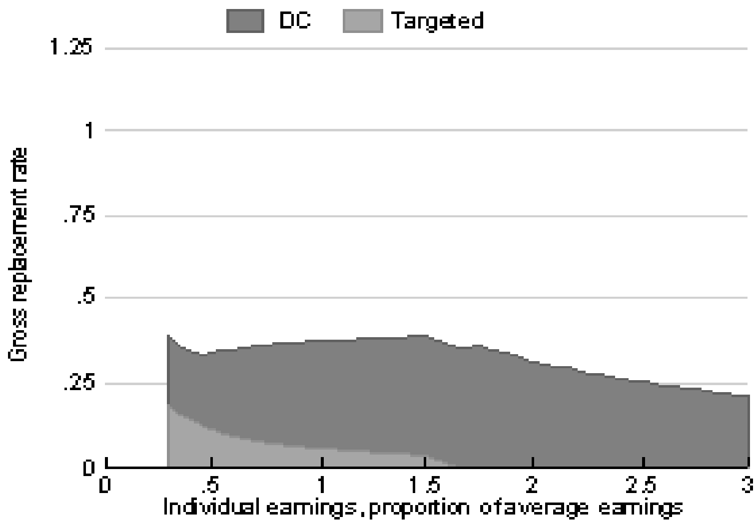
Personal Income Tax for Pensioners

There is no additional standard relief for older people and their value. Public and private pension income is not subject to personal income tax. Sources.

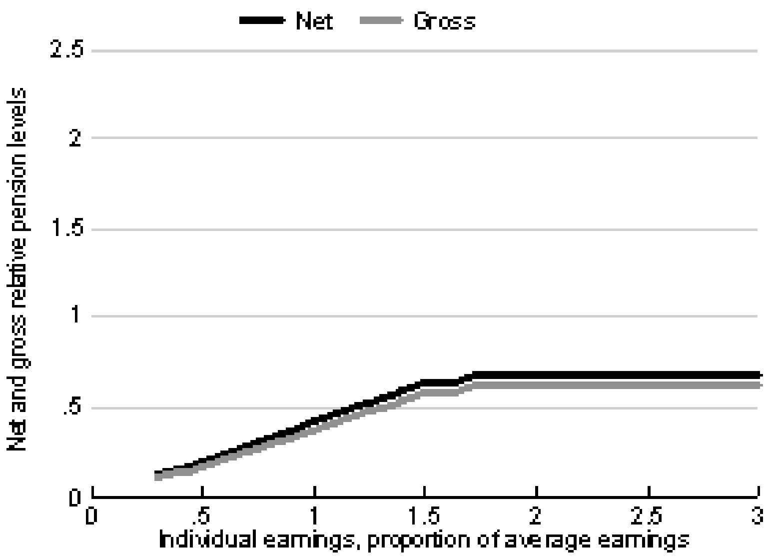
Gross relative pension level



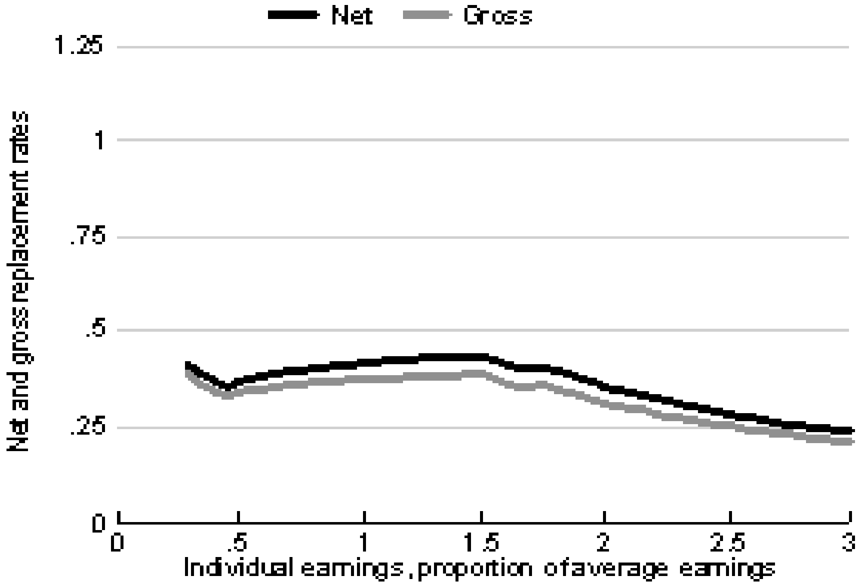
Gross replacement rate



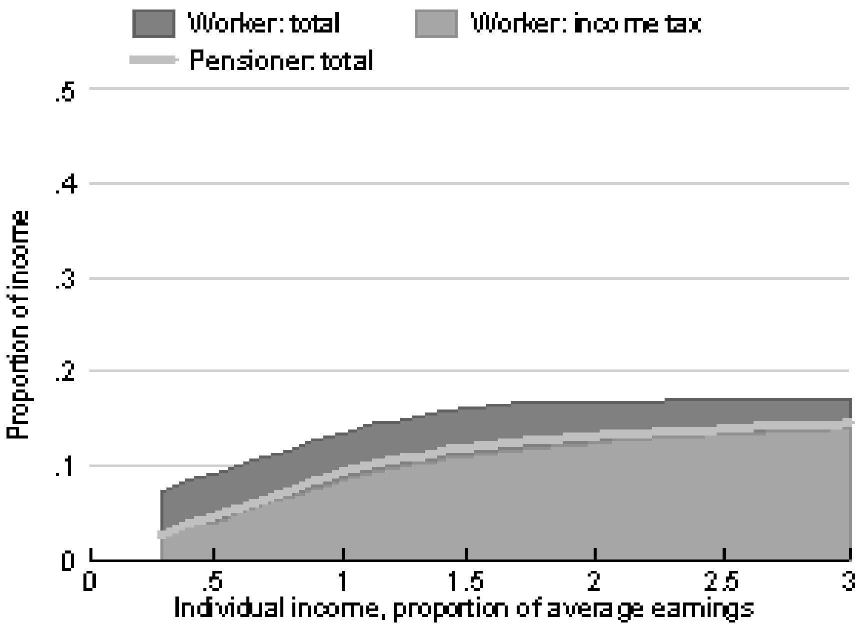
Net and gross relative pension levels



Net and gross replacement rate



Taxes paid by pensioners and workers



Sources of net replacement rate

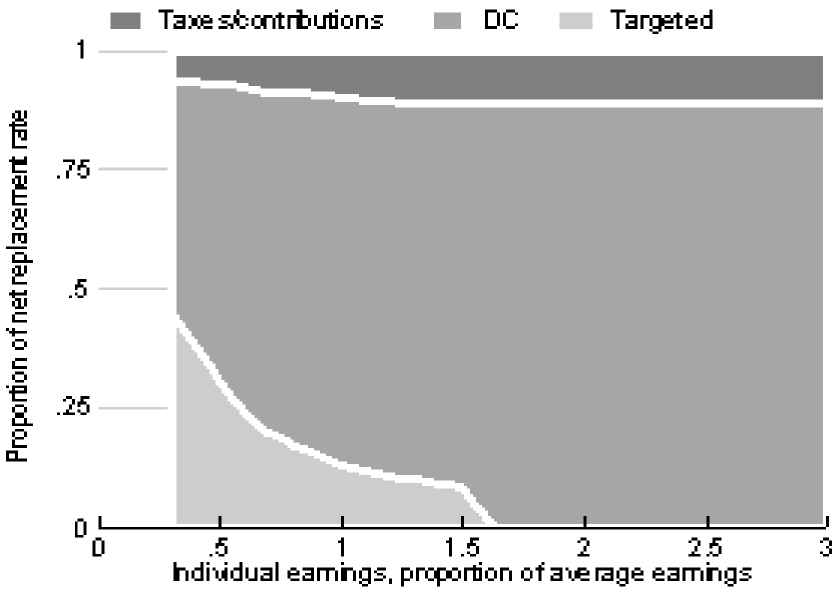


Table Ⅱ.6. Pension modeling results: Hong Kong (growth rate of earning:2%)

	Individual earnings, multiple of average					
Men	0.5	0.75	1	1.5	2	2.5
Gross pension level	16.9	27.0	37.2	57.5	62.6	62.6
(% of average earnings)						
Net pension level	19.1	30.5	41.5	62.9	68.1	68.1
(% of average net earnings)						
Gross replacement rate	33.8	36.1	37.2	38.3	31.3	25.0
(% of individual earnings)						
Net replacement rate	36.4	39.7	41.5	43.2	35.4	28.3
(% of individual net earnings)						
Gross pension wealth	2.7	4.3	5.9	9.1	9.9	9.9
(multiple of average earnings)						
Net pension wealth	5.2	5.6	5.7	5.7	4.7	3.7
(multiple of average net earnings)						

Taiwan

Qualifying Condition

The nation-wide Labour Insurance Act, enacted in 1958 covers all retail and farm workers employed by firms with five or more workers. Despite all the expansion, the scheme still covered only 52 percent of the labour force and 22 percent of the population in the late 1980s.

The Labour Retirement Fund is a compulsory employer liability scheme for private-sector employees. The LRF scheme is an entirely employer liability program in that it requires employers to pay a lump sum retirement amount to all private sector employees, except for certain service industries and the self- and informally employed. Amendment of the law in 1996 extended coverage to all employed persons receiving regular wages, except those whose working conditions make the application of the law difficult. The Labour Insurance covers about 60% of the workforce and close to 600,000 people benefit from the National Pension Saving Insurance Scheme. Both Labour Insurance and Labour Pension are defined benefit plans.

Social Assistance Act 1997 provides public assistance to those in need. Social Assistance is available to those who are below the minimum living expenditure mark, the contributory schemes are voluntary for those firms employing less than five people and the self-employed. However, the saving component in the NPSI is compulsory

Benefit Formula

First tier

The Social Assistance Act of 1997 requires the provincial and local governments to provide public assistance to those in need. The 1980 amendment introduced income criterion – to be set by local governments – for determining eligibility, unlike the earlier law, which used causes of poverty such as aged, youth, and disability. The 1997 amendment further relaxed the eligibility conditions for receiving benefits. Now living assistance, medical subsidy, personal accident assistance and calamity assistance is available to everyone whose income is below the 'minimum living expenditure'. The 1990s saw the launch of new and expansion of the existing programs for the disabled, aged, and youth. The problem of income maintenance for the unemployed was addressed in 1999 with the introduction of unemployment insurance which replaces 50 percent of the income and is available for 6 – 16 months.

Also, the first component of the NPSI Scheme provides the aged population with a monthly payment of NT$ 3000. However, beneficiaries of this scheme must not be covered by any other pension or social assistance scheme. Scheme is funded by the government, business taxes and also lottery taxes. Social Assistance is provided to those who are below the minimum living expenditure standard. Current normal pension ages for men and women are 60 for male and 55 for female and early pensions are available at age 50 only in the contributory schemes

Second-tier schemes

All retirement schemes in Taiwan are contributory and offer at the time of retirement or monthly annuities. Coverage is voluntary for firms with less than 5 members and the self-employed. It covers employees aged between 15-60 in firms in the private sector.

For the Labour Insurance scheme, the contribution rate will be 5.5-6.5 percent of the wages shared between employer and employee. The current rate is 5.5% for those who are not eligible for unemployment insurance and 6.5% for others. Employees pay a mere 20% of the premium and the employers pay 70%, the government paying the last 10%. An insured person who has been insured for 25 years and reaches the age of 50, or who has been insured for 15 years and reaches the age of 55 is eligible for old-age pension.

For the Labour Pension Fund, to obtain retirement payment, a worker must have worked 25 years or must have worked 15 years and reaches the age of 55 under the sa me employer. The benefit is neither portable nor vested. Statutory pensionable age i s 60 for men and 55 for women and pensions may be deferred until age 65. Early p ensions are available at age 50 provided 25 years-worth of contributions have been made. Initially, the Labor Insurance provided lump sum payments on retirement howe ver, recent reforms allow for the amount to be transferred to a string of monthly an nuities.

In May 2007, the Taiwanese Cabinet approved a draft bill governing the implementation of a national pension program designed to expand the nation's social security net to cover more of the underprivileged. The legislation will cover those aged over 25 and under 65 who are excluded from labor insurance, farmers' insurance, as well as military, civil servant and teachers' insurance, or other social insurance programs.

Under the bill, those who are covered by the national pension insurance system will have their monthly insurance payment set at the same level as the minimum monthly wage, now standing at NT$15,840 (to be adjusted to NT$17,280). Uninsured persons can start to pay monthly premiums of NT$622 for 40 years, or more than NT$290,000 in total, and then claim five-fold that amount, or more than NT$1.55 million. In the past, quite a few insured workers failed to keep their labor insurance after withdrawing from the job market well before the age of 60, thus losing the qualification to receive pension for retired insured workers. Under a revised statue, such retired workers, however, will be allowed to receive the pension on a lump-sum or monthly basis after they are aged 60 although they fail to keep buying labor insurance after they retire before 60.

For instance, if a worker retires at the age of 53 after having been insured for 23 years with an insured monthly salary of NT$30,000 and fails to keep his labor insurance after retirement, the worker won't be granted any pension. But under the new system, the worker will be allowed to get a lump-sum pension payment of NT$930,000 or a monthly pension of NT$8,280. In addition, if a worker chooses to receive his post-retirement pension on a monthly basis, then there will be no ceiling on the number of months based on which to calculate the pension, in contrast to the maximum of 50 months set in the existing system.

Under the new pension system, insured workers will be allowed two optional formulas for calculating their annuity on a monthly basis. One is the insured monthly salary x (times) 1.2 percent x the number of years of insurance coverage, and the other is a fixed monthly payment of NT$3,000 + (plus) (insured monthly salary x 0.6 percent x the number of insurance years.) Meanwhile, insured workers will also be allowed to receive the old-age pension payment on lump sum basis. But the payment will be calculated based on the average insured monthly pay during their labor insurance coverage.

Personal income taxes and social security contributions

Personal Income tax for workers

Table Ⅱ.7. income tax schedule for salary workers

Taxable Income	Tax Rate
0 to 370,000	6%
370,001 to 990,000	13%
990,001 to 1,980,000	21%
1,980,001 to 3,720,000	30%
3,720,001 and above	40%

The allowable personal exemptions are prescribed each year by the government. For 2004 individual income tax calculation, the personal exemption is NT$74,000 each for the taxpayer, spouse, and any dependent, or NT$111,000 if any dependent is 70 years of age or older.

Each taxpayer may choose to take either standard deduction or itemized deductions. For 2004 individual income tax calculation, the standard deduction is NT$44,000 for an unmarried taxpayer and NT$67,000 for a married couple. If the total deduction on itemized basis exceeds the standard deduction amount, a taxpayer may choose to take itemized deductions instead of standard deduction.

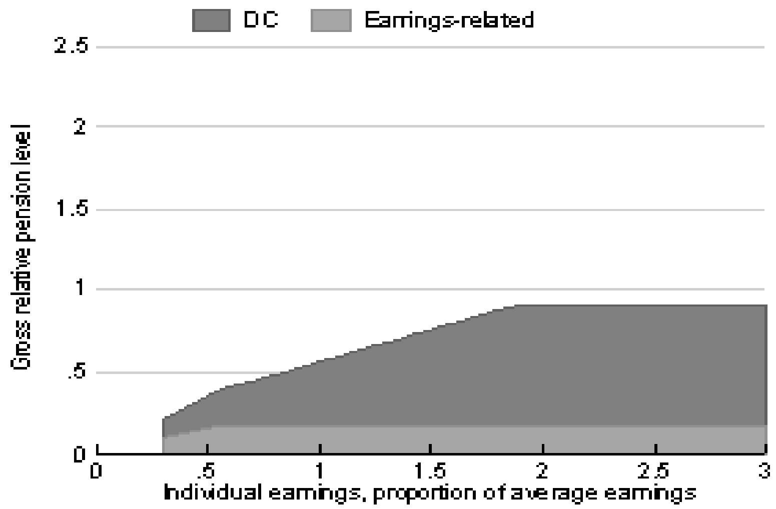
The following is a list of allowable itemized deductions and special deductions available for resident taxpayers:

- Donations to the government, and to educational, cultural, public welfare, or charitable organizations. Donations to non-government organizations are limited to 20% of gross income per return. Donations to political parties and candidates, provided that the amount of donation does not exceed the limits provided by law;
- Life or health/medical insurance premium up to NT$24,000 per insured person;
- Mortgage interest paid to financial institutions for purchasing principal residence is deductible up to NT$300,000 per income tax return per year;
- . Rental expenses are deductible up to NT$120,000 per income tax return per year;
- . Deduction for the disabled up to NT$74,000 per disabled person in 2005

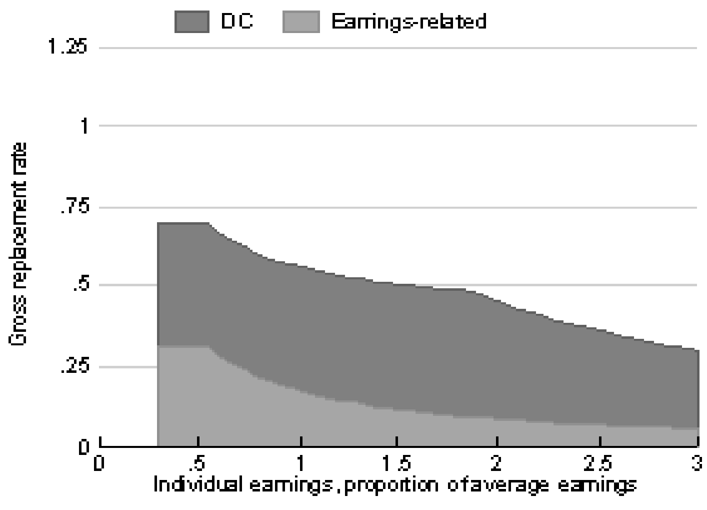
Income Taxes for Pensioners

Pension and other social security contributions can be deducted up to the ceiling of 44,000 NT$ a year. Public pension income is not subject to personal income tax.

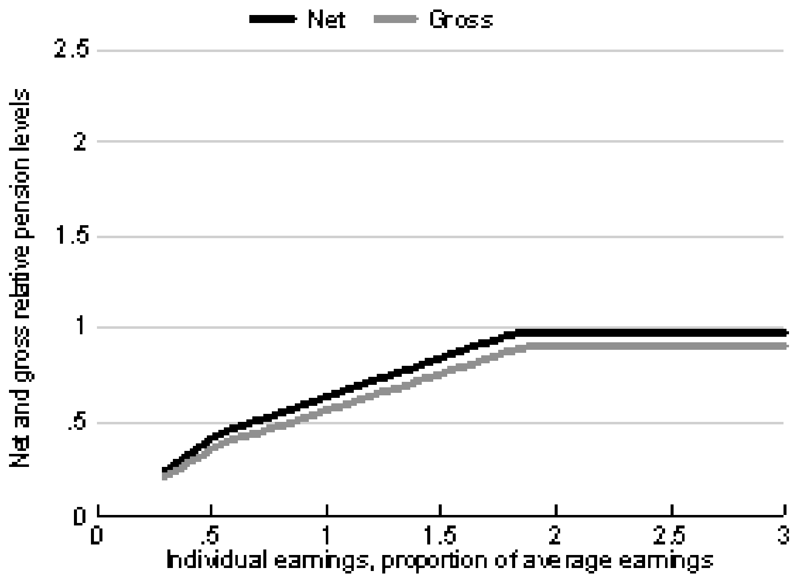
Gross relative pension level



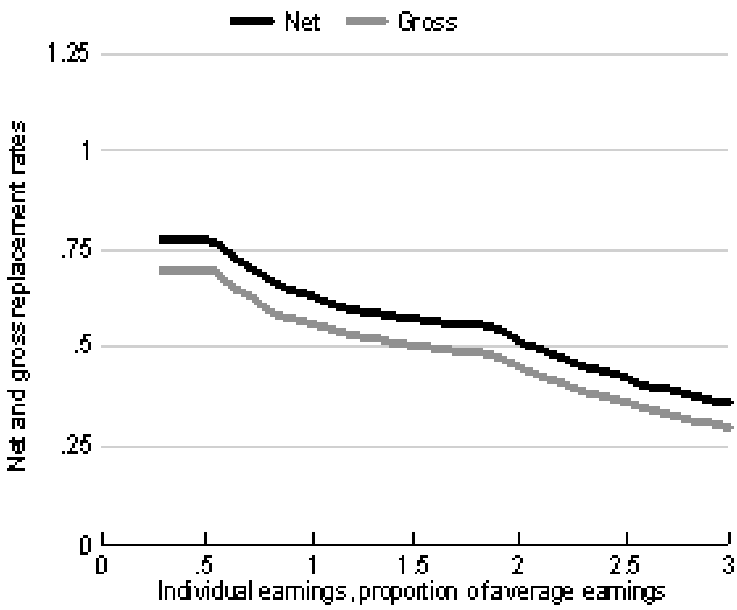
Gross replacement rate



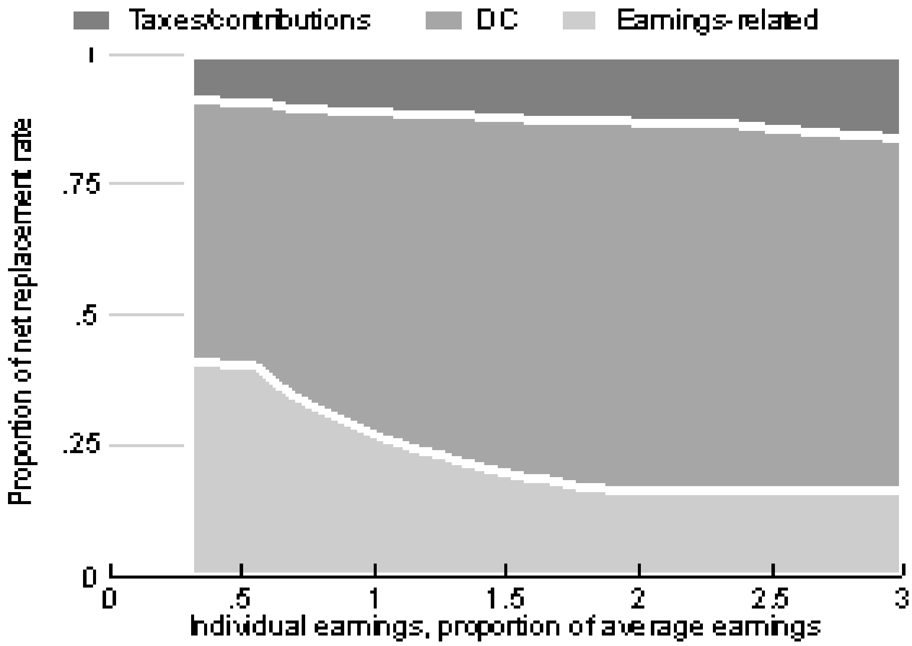
Net and gross relative pension levels



Net and gross replacement rate



Taxes paid by pensioners and workers



Sources of net replacement rate

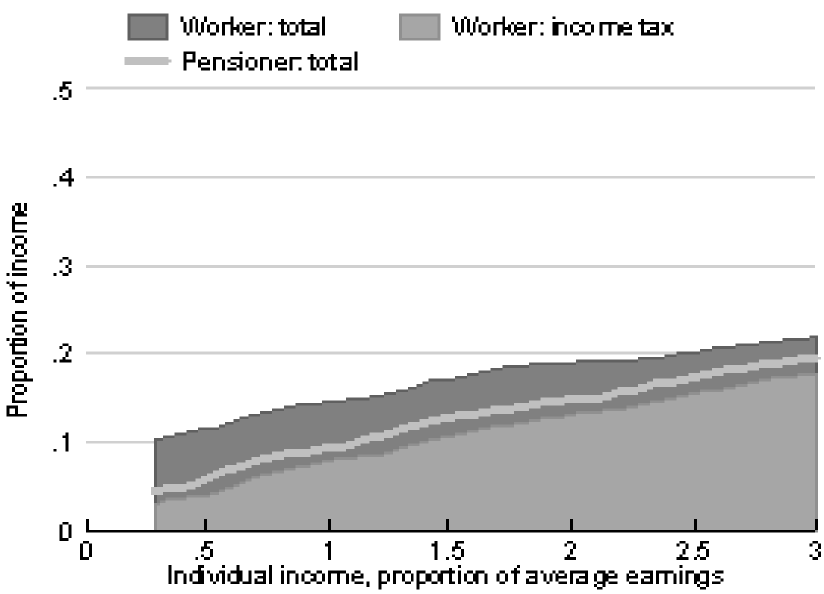


Table Ⅱ.8. Pension modeling results: Taiwan

	Individual earnings, multiple of average					
Men	0.5	0.75	1	1.5	2	2.5
Gross pension level	35.0	46.1	55.8	75.2	89.3	89.3
(% of average earnings)						
Net pension level	40.2	52.5	63.1	83.5	97.8	97.8
(% of average net earnings)						
Gross replacement rate	70.0	61.5	55.	50.1	44.6	35.7
(% of individual earnings)						
Net replacement rate	77.4	69.0	63.1	57.4	51.6	41.9
(% of individual net earnings)						
Gross pension wealth	5.9	7.8	9.5	12.8	15.1	15.1
(multiple of average earnings)						
Net pension wealth	11.6	10.1	9.2	8.1	7.1	5.7
(multiple of average net earnings)						

Thailand

Qualifying Condition

The Social Security Act of Thailand provides one encompassing social security scheme (which is a pay-as-you-go system) that includes various sub-schemes intended for different contingencies for the private sector. The public sector is covered by several generous schemes. There is a tax-funded pension scheme for public servants including military. The Social Security Act has a DB component.

The Social Security Act is a contributory scheme for the private sector. In addition to the SSA Thailand offers its citizens a Pension Fund. The scheme covers all private sector employees between the age group 15 and 60. Coverage is voluntary for the self-employed and persons who cease covered employment after contributing for at least 12 months. Civil servants, members of the judiciary in addition to seasonal and temporary workers are excluded from the scheme. Approximately 18 percent of the labour force and 45 percent of wage and salary earners are thus covered under the SSA; the shares are projected to rise to 21 and 58 percent respectively by the year 2025. There is low coverage due to a large informal labour market. Benefits are indexed to wages.

Benefit formula

First tier

There is no formal first tier scheme in Thailand

Second-tier schemes

There are two types of second tier schemes; Social Security Act and Provident Fund and Social Security Act. The scheme requires contributions of 2 percent each from employer, employee, and the government towards the pension scheme and 1 percent each towards Children's allowance. The self-employed are subject to the same contribution rate as other members, except that they pay both the employer and employee portions.

The following contingencies are covered under the SSA schemes: Non-work-related sickness; Maternity; Physical disability; Death; Retirement; and Child birth. Pension is available only to those who contribute for at least fifteen years and are at least fifty-five years old; in other words, no one will receive full pension until the year 2014. After lengthy studies by the World Bank and its own bureaucracy, the government set the benefit formula as 15 percent of the average wage over the last five years of service plus 1 percent of salary for every additional year over fifteen. Under this formula, for example, after thirty-five years of contributions, a member will receive monthly pension equivalent to 35 percent of the average wage during the last five years of employment.

Current normal pension ages for men and women are 55 for both men and women. Minimum pension is payable after 15 years of contribution. To receive full pension 30 years of contribution is required. Pensionable earnings and pensions in payment are indexed to wages. Pension benefits are 15% of average salary over the last 60 months and in addition, 1% is granted for each additional one year of contribution on top of the required 180 months. Therefore, someone who has contributed for 30 years will receive a replacement rate of 30% of their average salary over the last 60 months of employment. Pension streams can start after 15 years of contribution

Personal income taxes and social security contributions

Personal Income Tax for Workers

Table Ⅱ.9. personal income tax schedule for Thailand

Taxable Income	Tax Rate	Tax Amount	Accumulated Tax
0-80,000(before 2004)	Exempt	-	-
0-100,000(2004 onwards)	Exempt	-	-
100,001 -500,000	10	40,000	40,000
500,001 – 1,000,000	20	100,000	140,000
1,000,001-4,000,000	30	900,000	1,040,000
4,000,001 and over	37		

In the case where income categories (2) - (8) mentioned in 2.1 are earned more than 60,000 Baht per annum, taxpayer has to calculate the amount of tax by multiplying 0.5% to the assessable income and compare with the amount of tax calculated by progressive tax rates. Taxpayer is liable to pay tax at the amount whichever is greater. Certain deductions and allowances are allowed in the calculation of the taxable income. Taxpayers shall make deductions from assessable income before the allowances are granted.

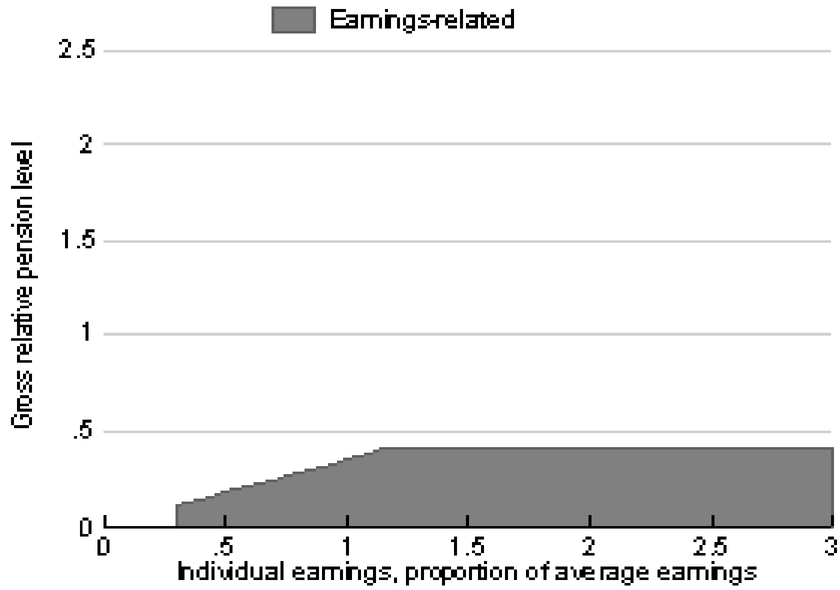
Income tax for pensioners

Pension and other social security contributions are deductible. Employer's contribution is tax deductible, subject to a maximum of 15 percent of the employees' salaries. Employees' contribution is also exempt from taxes, subject a maximum of Baht 7,000 per annum.

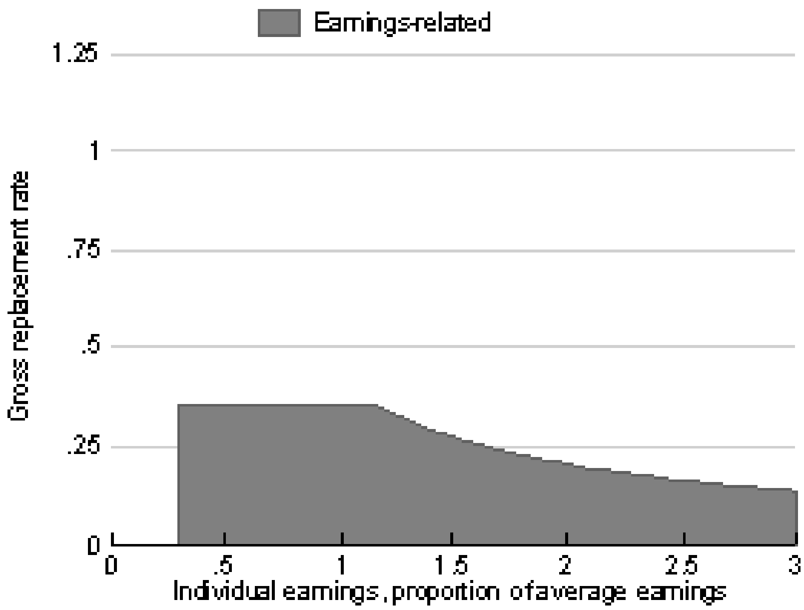
Table Ⅱ.10 Tax Deductions in Thailand

Type of Income	Deduction
Income from employment	40% but not exceeding 60,000 Baht
Income received from copyright	40% but not exceeding 60,000 Baht
Income from letting out of property on hire	
- Building and warehouse	30%
- Agricultural land	20%
- All other types of land	15%
- Vehicles	30%
- Any other type of property	10%
Income derived from contract of work whereby the contractor provides essential materials besides tools	Actual expense or 70%
Income derived from business, commerce, agricultural, industry, transport, or any other activities not specified	Actual expense or 65-85% depending on the types of income

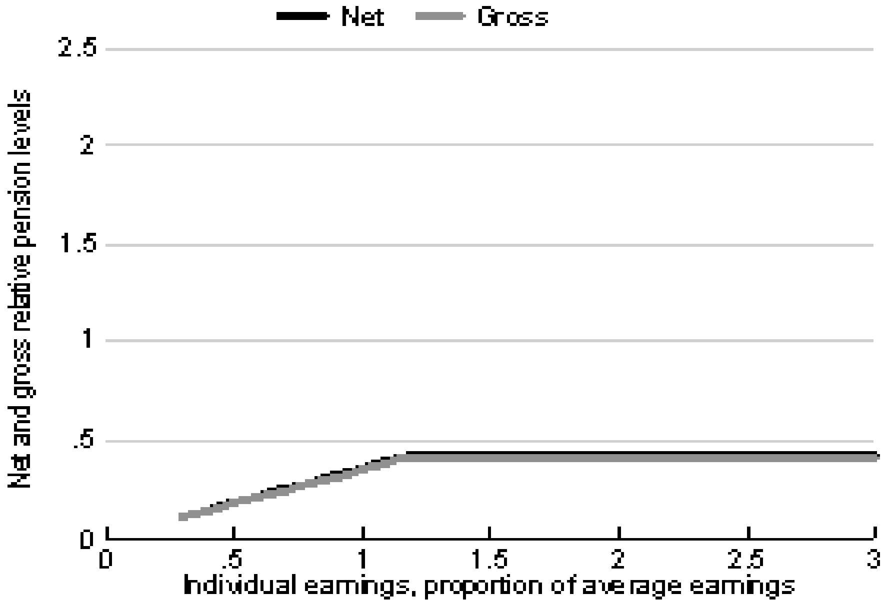
Gross relative pension level



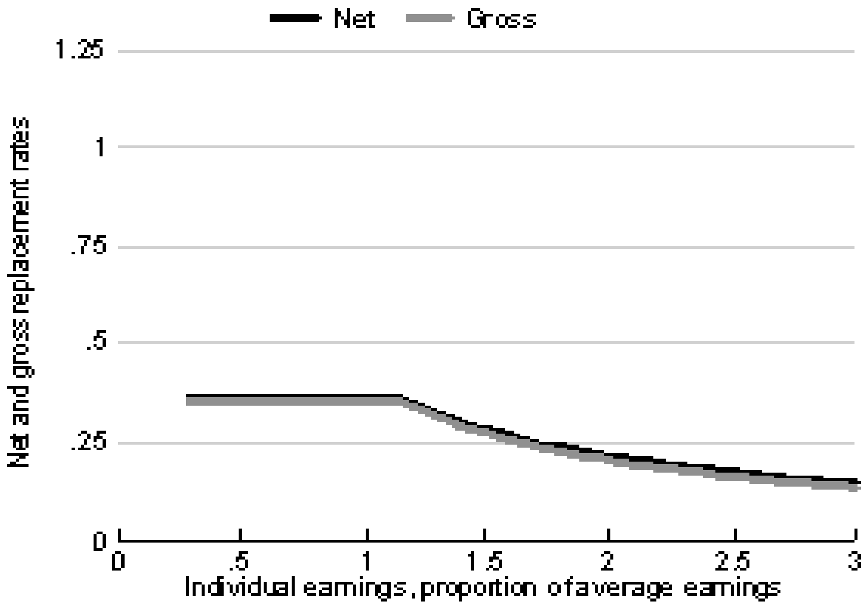
Gross replacement rate



Net and gross relative pension levels



Net and gross replacement rate



Taxes paid by pensioners and workers

Sources of net replacement rate

Table Ⅱ.11. Pension modeling results: Thailand

	Individual earnings, multiple of average					
Men	0.5	0.75	1	1.5	2	2.5
Gross pension level	17.5	26.3	35.0	40.7	40.7	40.7
(% of average earnings)						
Net pension level	17.9	26.8	35.7	41.5	41.5	41.5
(% of average net earnings)						
Gross replacement rate	35.0	35.0	35.0	27.1	20.3	16.3
(% of individual earnings)						
Net replacement rate	35.7	35.7	35.7	28.0	21.4	17.3
(% of individual net earnings)						
Gross pension wealth	3.0	4.6	6.1	7.1	7.1	7.1
(multiple of average earnings)						
Net pension wealth	6.1	6.1	6.1	4.7	3.5	2.8
(multiple of average net earnings)						

Singapore

Qualifying Condition

Singapore has separate schemes for public and private sector employees, although the distinction has eroded somewhat in recent years. What is unique about the island state is the extent to which it relies on one scheme - the Central Provident Fund (CPF), which is a DC program - for serving a variety of social security needs.

Participation in the scheme is compulsory, except for foreign workers (who form a fifth of the labour force) casual and part-time workers, and certain categories of contract workers. Self-employed are required to participate in the Medisave component of the scheme and may participate in the overall scheme on a voluntary basis, though only a small percentage have chosen to do so. In 1996, CPF had a membership of 2.74 million and that membership has grown to 3.12 million as of 2007.

CPF covers approximately 60 percent of the labour force. The minimum amount required in the account is periodically adjusted. The current CPF Minimum Sum is set at $99,600 from 1 July 2007 and will be raised gradually until it reaches $120,000 (in 2003 dollars) in 2013.

Benefit formula

First-tier

The government does have small, token social assistance schemes for the severely disabled and poor. However, these are means-tested and constitute a negligible proportion of social security expenditure in Singapore. There is no specific programme for the aged, though most recipients of public assistance are aged.

Second-tier

Provident Fund (CPF) operates four types of individual account: an ordinary account, to finance the purchase of a home, approved investments, CPF insurance, and education; a special account, principally for old-age provisions; a Medisave account, to pay for hospital treatment, medical benefits, and approved medical insurance; and, from age 55, a retirement account, to finance periodic payments from age 62. All permanent residents, and citizens of Singapore are required to participate in the Central Provident Fund. Self-employed persons are required to participate only in the Medisave component of the scheme.

The rate of contribution to the CPF has varied widely over the years: it was 5 perc ent of the wages each by employer and employee in the 1950s and 1960s, and 25 p ercent each in the early 1980s. The rate is currently set at 20 percent of the wage s each for the employer and employee. Maximum contribution for the private sector is calculated based on a salary ceiling of $4,500 for both the employer and the emp loyee. Maximum contribution for Non-Pensionable Employees in Government Ministri es and Statutory Bodies & Aided Schools are calculated based on a salary ceiling of $4,500 for both the employer and the employee. Maximum contribution for Pensiona ble Employees in Government Ministries and Statutory Bodies & Aided Schools grou ps are calculated based on a salary ceiling of $6,000 for both the employer and the employee. Following the increases in retirement age - which rose to 60 in 1994 and is scheduled to rise to 65 in 1999 and eventually to 67 years- the contribution rate for older employees was reduced to decrease the cost of employing such workers and thus make them attractive to employers. The joint contribution rate for those between the age of fifty-five and sixty is 20 percent, for those between sixty and sixty-five is 15 percent and 10 percent for those over the age of sixty-five.

The CPF is a fully-funded scheme in which members' entitlements to benefits are the sum of their own and their employers' contributions, incomes from the investments in their account, and any ad hoc contributions the government may make. Statutory pensionable age is 55 for both men and women and no early pension scheme available. "If you had bought a life annuity, you will receive the monthly income for life. If you leave your CPF Minimum Sum with a participating bank or with CPF Board, you will receive the monthly income until your CPF Minimum Sum is exhausted. To stretch the Minimum Sum, you may wish to start your monthly payouts later. If the payout is deferred by a year, they will last two more years. For example, if you start your payouts at age 63 instead of 62, the payouts will last till age 84 instead of 82”.

The bulk of CPF contributions, 30 percentage points out of the total of 40, is chann elled to the Ordinary account. Funds in this account can be used for housing, appro ved investments, tertiary education, mortgage insurance and other approved purpose s. The Medisave account can be used only for hospitalisation and other approved he alth care services, as discussed in the next chapter. The Special account is reserve d for old age and contingencies. Withdrawal of the balance in one’s account is permi tted at age fifty-five.

Since 1987, however, a minimum sum must be set aside at the time of withdrawal to ensure that members have funds to pay towards their basic expenses during retirement. The minimum sum in July 1998 was S$55,000, of which S$16,000 must be in cash and the rest may be pledged with property. It is set to increase in a phased manner until it reaches S$80,000 in 2003, of which S$40,000 will be in cash. The balance is returned to survivors in the event of member’s death. The CPF Minimum Sum is set at $99,600 from 1 July 2007 and will be raised gradually until it reaches $120,000 (in 2003 dollars) in 2013.

If you meet the CPF Minimum Sum, you will need to set aside a Medisave Required Amount when you withdraw your CPF. If you have less than the Medisave Required Amount, you can use your Special and/or Ordinary Accounts, in excess of the CPF Minimum Sum to set aside the Medisave Required Amount. This includes the first withdrawal upon reaching 55 and all subsequent withdrawals. The Medisave Required Amount is set at $11,500 from 1 January 2007 and will increase by $2,500 (adjusted for inflation) each year until it reaches $25,000 (in 2003 dollars) on 1 January 2013.

Table Ⅱ.12. CPF account balances stand(2007)

Total Members’ Balance	S$125,803.8 m
Ordinary Account	S$57,742.7 m
Special Account	S$22,758.8 m
Medisave Account	S$37,268.0 m
Retirement Account and Others	S$8,034.3 m

Maximum earnings for contribution purposes are $5,500 a month. Employers may pay additional voluntary contributions on behalf of employees. The total employer and insured person voluntary and mandatory contributions must not exceed $23,760 a year.

Personal income taxes and social security contributions

Personal Income Tax for Workers

Table Ⅱ. 13 Personal Income Tax Schedule for Singapore

	Chargeable Income ($)	Rate (%)	Gross Tax Payable ($)
On the first	20 000	0	0
On the next	10 000	3.5	350
On the first	30 000		350
On the next		5.5	550
	10 000		
On the first	40 000		900
On the next		8.5	3 400.00
	40 000		
On the first	80 000		4 300.00
		14	11 200.00
On the next	80 000		
On the first	160 000		15 500.00
On the next		17	27 200.00
	160 000		
On the first	320 000		
Above		20	
	320 000		42 700.00

Provident Fund Relief

For a Singaporean or Singapore Permanent Resident salaried employee, the maximum amount of Provident Fund Relief for employees will be revised based on the new ceiling for ordinary wages. Please refer to the table below for a summary of the new income cap.

Table Ⅱ.14. Provident Fund Relief of Singapore

Date	Wage Ceiling	Overall income cap
Up till 31 Dec 2003	$6,000	$100,000
1-Jan-04	$5,500	$ 93,500 *
1-Jan-05	$5,000	$ 85,000 *
1-Jan-06	$4,500	$ 76,500 *

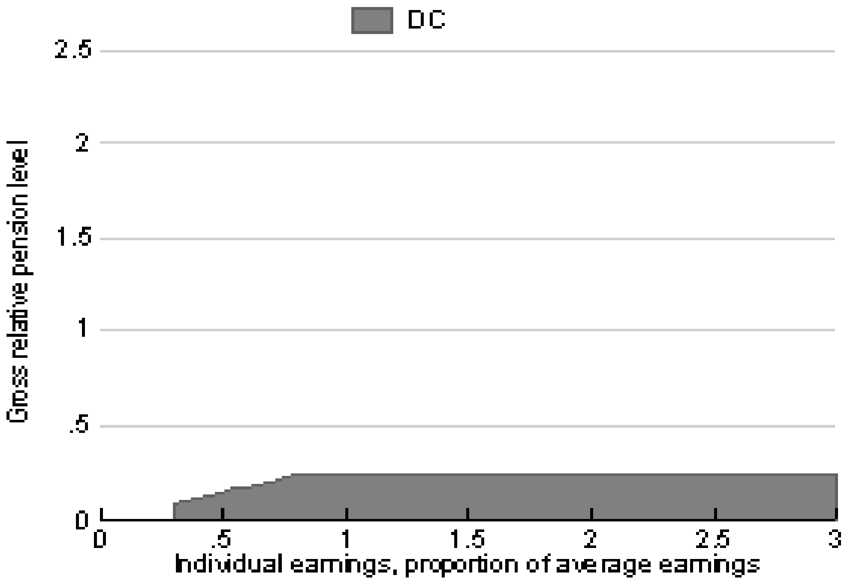
For ordinary wages of more than 12 times the ordinary wage ceiling, the current rule of 40% of ordinary wages or actual additional wages, whichever is the lower, will be replaced with an absolute dollar amount pegged at 5 months of the ordinary wage ceiling. This effectively means that the overall income cap is 17 months of the ordinary wage ceiling.

Relief for Life Insurance Premiums

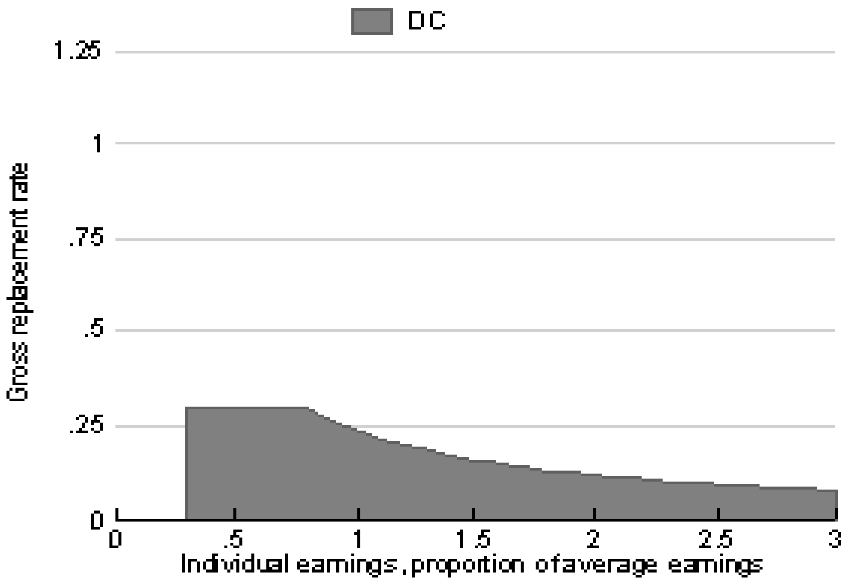
People can claim relief on the insurance premium paid on your own or your wife's life assurance policies. No relief will be allowed to the wife for premiums paid on her husband's life assurance policies. Premiums paid on children's life assurance policies do not qualify for relief. For policies taken by you on or after 10 August 1973, the insurance company must have an office or branch in Singapore. The relief you can claim is up to 7% of the capital sum assured. However, if your total CPF contributions exceed $5,000, you will not get any relief for the insurance premium aid.

Pension and other social security contributions are deductible up to the ceiling of $ 23, 760 a year. Public pension income is not subject to personal income tax.

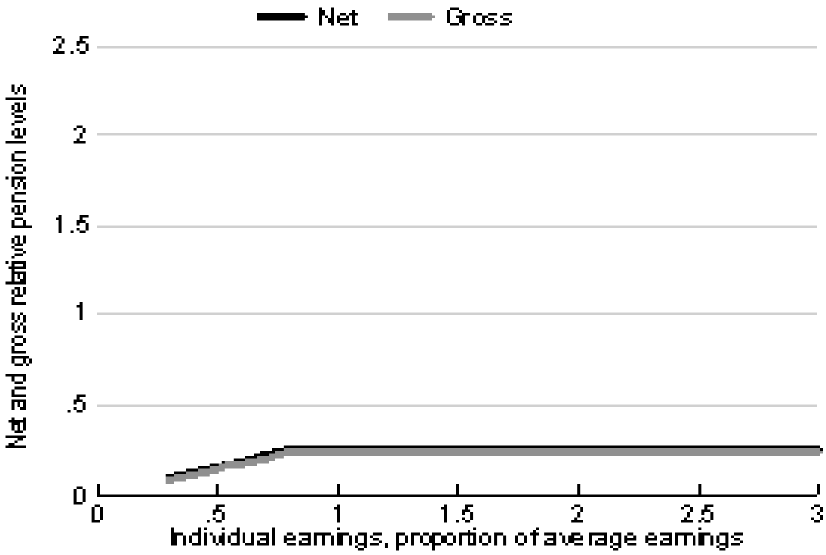
Gross relative pension level



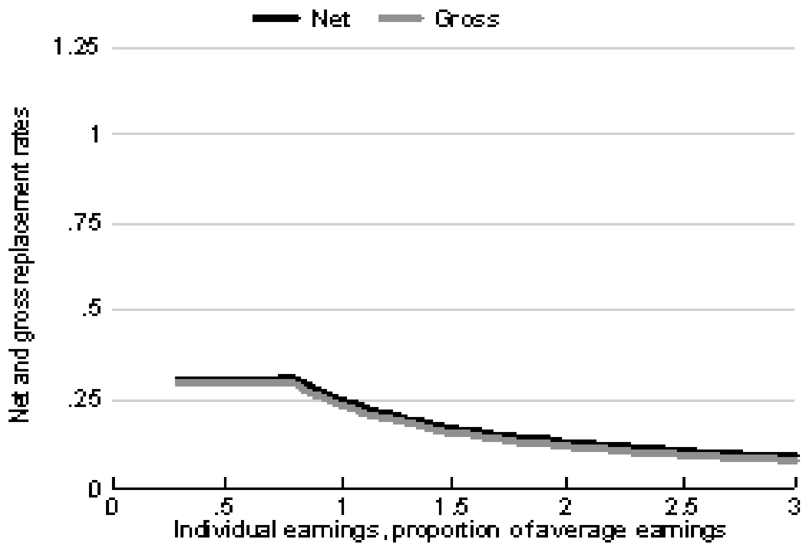
Gross replacement rate



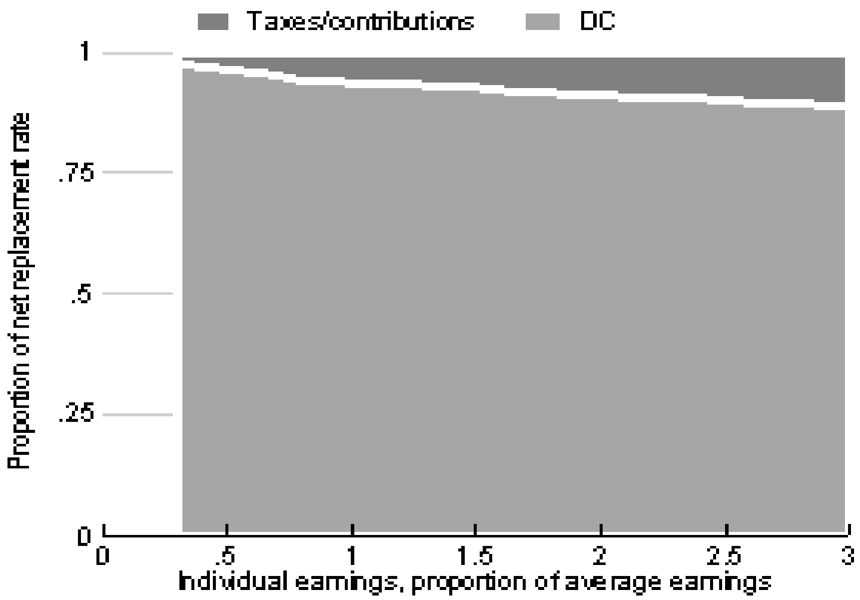
Net and gross relative pension levels



Net and gross replacement rate



Taxes paid by pensioners and workers



Sources of replacement rate

Table Ⅱ.15. Pension modeling results: Singapore

	Individual earnings, multiple of average					
Men	0.5	0.75	1	1.5	2	2.5
Gross pension level *(% of average earnings)*	14.6	21.8	23.5	23.5	23.5	23.5
Net pension level *(% of average net earnings*)	15.6	23.4	25.2	25.2	25.2	25.2
Gross replacement rate *(% of individual earnings)*	29.1	29.1	23.5	15.7	11.7	9.4
Net replacement rate *(% of individual net earnings)*	30.2	30.7	25.0	17.0	12.9	10.5
Gross pension wealth *(multiple of average earnings)*	2.5	3.7	4.0	4.0	4.0	4.0
Net pension wealth *(multiple of average net earnings)*	4.9	4.9	4.0	2.7	2.0	1.6

Philippine

Qualifying Condition

The Social Security System (SSS) is the most comprehensible social security scheme in the region. It is an umbrella program that covers most common types of contingencies against which income protection is normally sought. The schemes offers a wide range of benefits with respect to retirement (this is the largest component, consuming about 85 percent of all benefits provided) death, disability, medical care, and industrial injury and sickness. The SSS however, does not offer a life insurance or general insurance contract unlike the social security system for the public sector, the Government Services Insurance Scheme (GSIS).

The Social Security System (which consists of three components: Social Security, Medical Care and Employees' Compensation) is DC scheme. The program was initially limited to employees in firms employing 50 or more, but in 1980 coverage was extended to all workers in the private sector as well as the self-employed earning more than Peso 1,800 per year (roughly USD 90). However, seasonal agricultural labourers, fishermen, domestic servants, and casual labourers continue to remain excluded. In 1997, SSS membership was 65 percent of labour force, which was a huge increase from 50 percent in 1990.

Not only is a large chunk of the labour force excluded from SSS, even those who are members suffer from the problem that 45-65 percent of the employers do not make regular contribution on behalf of their employees. The SSS covers approximately 20-25 percent of the labour force providing coverage to private-sector employees up to age 60 earning at least 1,000 pesos a month; domestic employees up to age 60 earning at least 1,000 pesos a month; and all self-employed persons up to age 60 with 1,000 pesos or more in monthly income.

Voluntary coverage for Filipinos recruited by a foreign-based employer for employment abroad; insured persons who are no longer eligible for compulsory coverage; and nonworking spouses of insured persons.

Benefit formula

First tier

There is not formal first tier system in Philippine.

Second-tier schemes

Private sector employees; domestic employees, and self-employed persons earning at least 1000 pesos a month up to the age of 60 and maximum insured monthly earnings for contribution and benefit purposes are 15,000 pesos. Statutory pensionable age is 60 for both men and women. No early pension scheme available except for underground coal miners. However, under SSS, minimum pension may be availed after 10 years of contribution. Pension benefits are indexed on pensionable earnings ad-hoc basis.

Accrual rate/ year of service, earnings measure (e.g. final year, best five lifetime avg.) 300+20%x AMSC+2%x (CYS-10)x AMSC where AMSC is the average of the last 60 months salary credits, and CYS is the number of credited years of service. The total contribution rate for the retirement component of the scheme is 8.4 percent of the salary, with the monthly salary ceiling of P12,000 (it was P7,000 until 1994). Of the total, the employee pays approximately 40 percent and the employer the remainder. For the self-employed, the contribution rate is 8 percent of the earnings.

Retirement pensions under SSS are available upon reaching the age of sixty, provide d at least 120 monthly contributions have been made. The monthly pension it provid es is generous, about 70 percent of final salary. Minimum monthly pension is curren tly set at forty percent of insurable monthly salary, or P1,200 for those with ten ye ars of service and P1,500 for those with 20 years of service, whichever is higher. I n addition, dependents' pension equivalent to 10% of monthly pension for each of up to five dependent children is also available. In case of less than 120 monthly contrib utions, the contributions are in paid in lump sum with 6 percent interest. Survivors pension is paid to primary and secondary beneficiaries if 36 monthly contributions h ave been made. Pension levels are computed in the same manner as for retirement, with surviving spouse and dependent children receiving 100% of the monthly pensio n. SSS also pays P6,000 in funeral benefits. The eligibility conditions and benefit lev els for disability pension, in the event of total permanent disability, are essentially t he same as for survivors pension.

To receive sickness benefits, the member must be sick for at least four days, ex hausted company sick leave credits, and made at least three monthly contributions in t he preceding twelve months. Daily sickness allowance (DSA) is set at ninety percent of the average insurable daily salary; the minimum amount is P10 and maximum P2 25. The benefits can be received for a maximum of 120 days in a calendar year. SS S also offers maternity benefits, which are available towards birth, miscarriage or ab ortion, provided at least three monthly contributions have been made in the precedin g twelve months. Benefit is equal to 100 percent of the insurable daily salary for 4 5 days.

At the age of 60 monthly pension streams are started with a generous replacement rate of 70 percent. Early retirement is offered only for underground coal miners who have worked underground for a period of 5 years and are involuntarily unemployed. If the pensioner starts employment before reaching 65, the pension is suspended. However, after the age of 65 a pensioner work and receive his pension. After age of 65, there is not earnings test applied to people who claim pension and continue to work.

Personal income taxes and social security contributions

Personal Income Tax for Workers

Table Ⅱ.16. Personal income tax schedule for Philippine

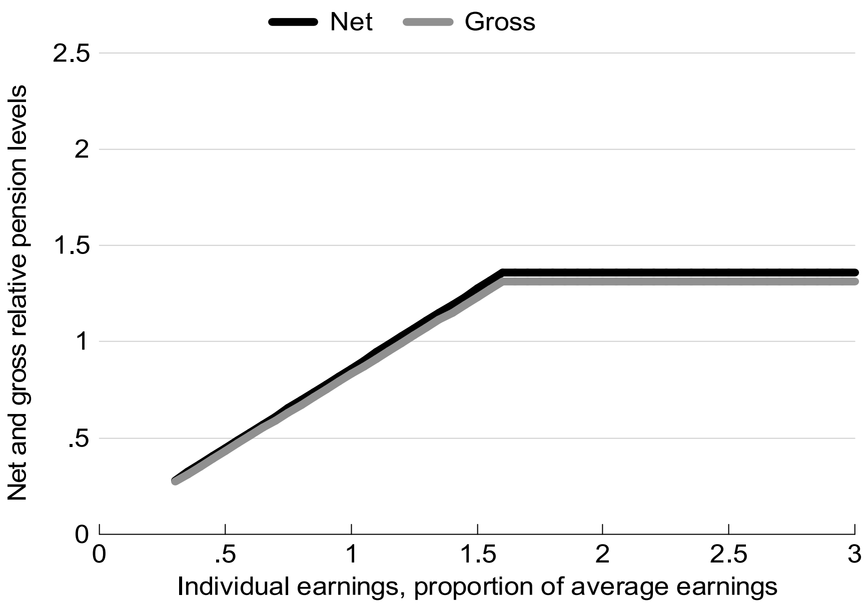
Over	But Not Over	Rate
	P10,000	5%
P10,000	P30,000	P500 + 10% of the excess over P10,000
P30,000	P70,000	P2,500 + 15% of the excess over P30,000
P70,000	P140,000	P85,00 + 20% of the excess over P70,000
P140,000	P250,000	P22,500 + 25% of the excess over P140,000
P250,000	P500,000	P50,000 + 30% of the excess over P250,000
P500,000		P125,000 + 34% of the excess over P500,000 in 1998

All public and private sector social security contributions are exempt from in come tax.

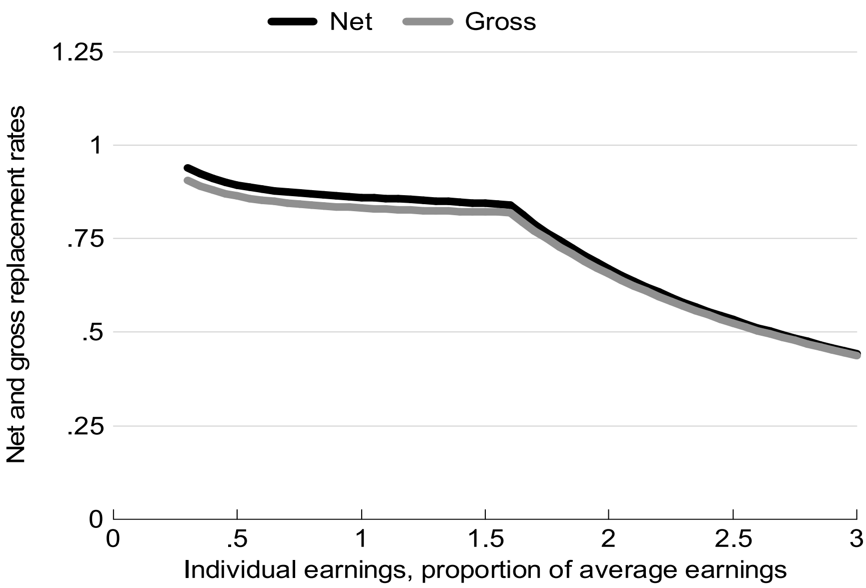
Gross relative pension level

Gross replacement rate

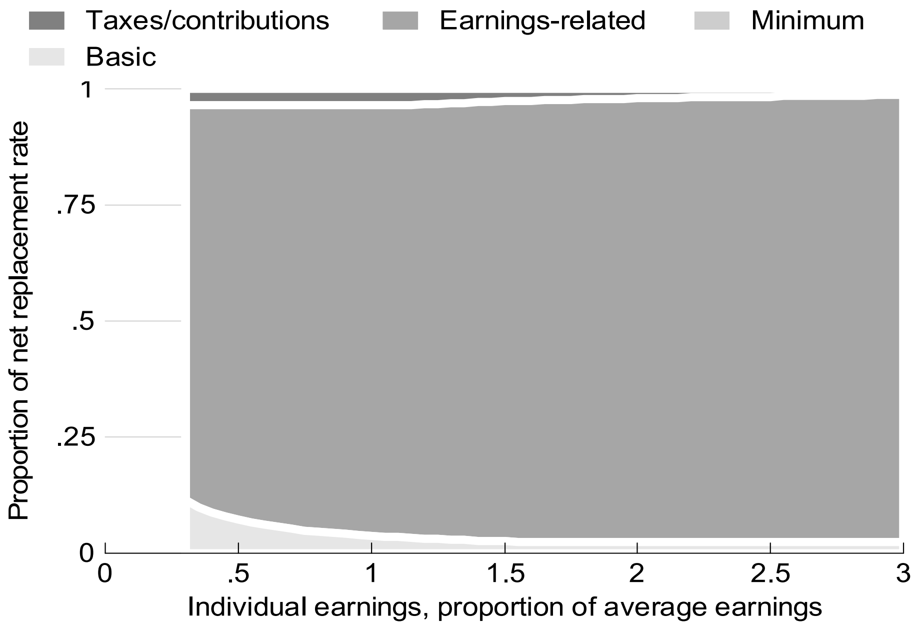
Net and gross relative pension levels



Net and gross replacement rate



Taxes paid by pensioners and workers



Sources of net replacement rate

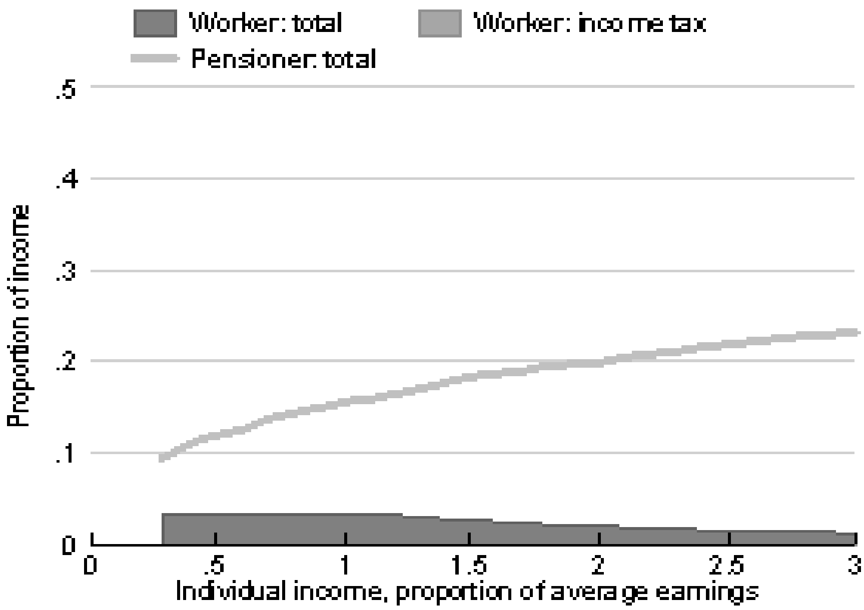


Table Ⅱ.17. Pension modeling results: Philippine

	Individual earnings, multiple of average					
Men	0.5	0.8	1	1.5	2	2.5
Gross pension level	43.2	63.2	83.2	123.2	131.1	1341.1
(% of average earnings)						
Net pension level	44.7	65.4	86.1	127.5	135.7	135.7
(% of average net earnings)						
Gross replacement rate	86.4	84.3	83.2	82.1	65.6	52.5
(% of individual earnings)						
Net replacement rate	89.4	87.2	86.1	84.4	66.9	53.3
(% of individual net earnings)						
Gross pension wealth	6.7	9.7	12.8	19.0	20.2	20.2
(multiple of average earnings)						
Net pension wealth	13.3	13.0	12.8	12.7	10.1	8.1
(multiple of average net earnings)						

Malaysia

Qualifying Conditions

The main social security programs in Malaysia is the Employee Provident Fund (EPF); Employment Injury and Invalidity Benefits Scheme. There are also other schemes - such as the Teachers Provident Fund (TPF), the Malaysian Estates Staff Provident Fund, and a handful of statutory and private provident funds - but they are rather small and do not play a significant role in the social welfare system in Malaysia.

The Employees Provident Fund (DC) established in 1951 is the primary social security institution in Malaysia. In addition to the PF, Malaysia also provides employment injury and invalidity benefit under the Employees' Social Security Act 1969, popularly referred to as SOCSO. Employee Provident Fund is compulsory for all private sector employees and non-pensionable public-sector employees. The Voluntary covers for domestic servants, foreign workers, self-employed persons, and pensionable public-sector employees. As of 2005, the EPF had 11 million members out of which 47.44% were active members. Active members who were under the EPF scheme as self-employed were 42,000. It should be noted that coverage is voluntary for self-employed persons. The coverage as measured by the ratio of active contributors to labour force as at end of 1995 stood at 49.5 per cent. Current figures, using the same calculation, show that the coverage has marginally increased to approximately 53.1 per cent.

Benefit formula

First tier

There are modest, discretionary public assistance schemes. However, no published data is available.

Second-tier schemes

Since 1995, individual EPF accounts have been divided into three. Account I holds 60 percent of a member's total balance and can be withdrawn only upon retirement at the age of fifty-five or in the event of death, physical or mental incapacitation, or permanent emigration from Malaysia (and Singapore). Account II holds 30 percent of one's fund and is intended for purchase or upgrade of members' home. The remaining 10 percent is set aside in Account III for paying towards medical care.

Originally a compulsory savings mechanism for retirement, it has over the years been expanded to accomplish a range of objectives. All workers except domestic servants, casual and agricultural workers, and certain groups of government employees, are compulsorily included under the scheme. Statutory pensionable age is 55 for both men and women.

Maximum pension, maximum replacement rate (if applicable) is 50 % (based on simulation and not actual data – actual replacement rate is likely to be much lower). The rate of contribution was originally set at 5 percent each for the employer and the employee and remained unchanged until 1975. From 1975 to 1980, the rate of contribution for the employee was 6.0 percent and for the employer 7.0 percent; it was 9.0 and 11.0 percent respectively during 1980-1992, and 10.0 and 12.0 percent respectively during the period of 1993-1994. Since 1995, the rate has been 11 and 12 percent respectively, giving a total contribution rate of 23.0 percent of the employee's base remuneration, which excludes overtime payment, gratuity, and retirement benefit. In 1996, the EPF contributions were equivalent to 5.5 percent of GDP, while net contributions (contributions minus withdrawals) were equivalent to 4.0 percent of GDP.

At the age of 55 individuals can either receive a lump sum benefit or convert the amount in their PF into an annuity stream. In addition to provident fund, Malaysia also provides employment injury and invalidity benefit under the Employees' Social Security Act 1969, popularly referred to as SOCSO. It consists of two separate schemes: the Employment Injury scheme which was implemented in 1972, and the Invalidity Pension scheme which was introduced in 1974. All employers, including those in religious and educational institutions,

employing one or more employees are covered under the Act. The Act however applies only to those employees with earnings of less than M$2,000 per month. Once an employee is covered, s/he continues to stay covered regardless of increase in her/his income. The main groups exempted are domestic servants, casual workers, and military and police personnel.

The contribution rate for the Employment Injury Scheme is approximately 1.25 percent of wages and is wholly paid by the employer. For the Invalidity Pension Scheme, the rate of contribution is 1.0 percent of wages shared equally by the employer and the employee. Under the Employment Injury Scheme, SOCSO provides medical benefits and cash benefits for temporary and permanent disability as well as dependents' benefits and benefits for occupational diseases. Other benefits towards constant attendance, rehabilitation, artificial limbs and other appliances, and funeral are also provided.

The Invalidity Pension Scheme provides coverage against death or invalidity irrespective of how and where it happens. To be eligible, a member must have made at least 24 contributions over the preceding 40 months at the time of applying for invalidity benefits. Full pension is 50 percent plus 1 percent for every 12 contributions over and above the basic 24 contributions subject to a maximum of 65 percent. There is also a provision for a reduced pension. The scheme also provides benefits towards constant attendance, artificial limbs and other appliances, funeral, and survivors. Workmen's Compensation Scheme, established in 1952, insures against employment injury and occupational diseases in both the private and the public sectors. All manual workers and non-manual workers except domestic servants, casual workers, military and police personnel, all civil servants, and those covered by SOCSO - earning less than M$500 per month are covered under the scheme. The purpose and relevance of the scheme is questionable as most workers it intends to cover are covered by other schemes.

Personal income taxes and social security contributions

Personal Income Tax for Workers

Table Ⅱ.18. Personal Income Tax of Malaysia

Chargeable Income	RM	Rate	Tax (RM)
On the first	2,500	0%	0
On the next	2,500	1%	25
On the first	5,000	-	25
On the next	5,000	3%	150
On the first	10,000	-	175
On the next	15,000	3%	300
On the first	20,000	-	475
On the next	15,000	7%	1,050
On the first	35,000	-	1,525
On the next	15,000	13%	1,950
On the first	50,000	-	3,475
On the next	20,000	19%	3,800
On the first	70,000	-	7,275
On the next	30,000	24%	7,200
On the first	100,000	-	14,475
On the next	50,000	27%	13,500
On the first	150,000	-	27,975
On the next	100,000	27%	27,000
On the first	250,000	-	54,975
Exceeding	250,000	28%	-

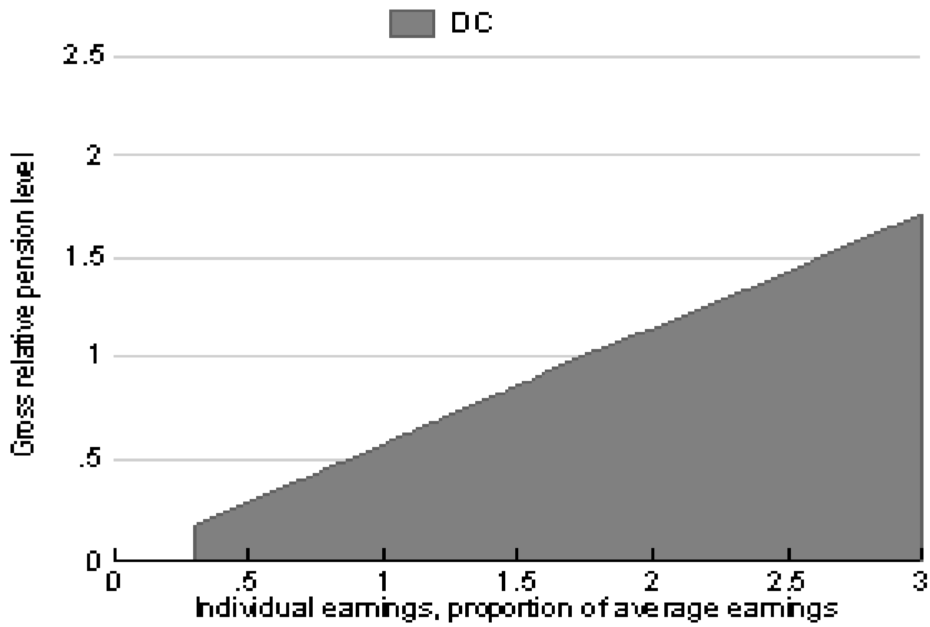
A resident individual is taxed on his chargeable income at graduated rates from 2% to 30% after the deduction of tax relief. However, an individual with chargeable income of less than RM 2,500 is taxed at zero rate.

Table Ⅱ.19. Personal Relief of Malaysian Tax Schedule

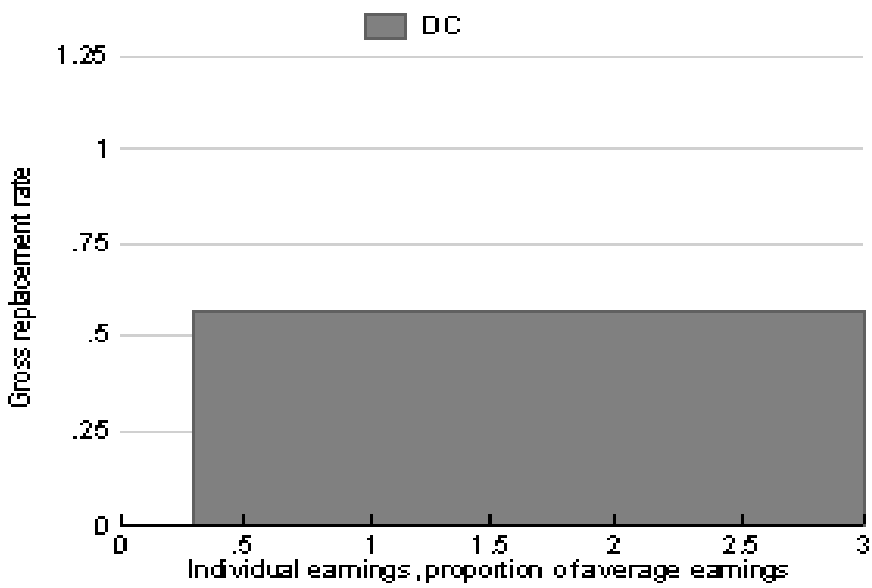
Type of Relief	Amount
· Personal	RM5,000 (a further relief of RM 5,000 if the taxpayer is a disabled person)
· Wife	RM3,000 (a further relief of RM 2,500 if the wife is a disabled person)
· Medical expenses of parents	up to a maximum of RM 5,000
· Medical expenses for serious illnesses for the individual, his wife or child	up to a maximum of RM 5,000
· Expenditure for the purchase of basic support equipment for the individual, his wife, child or parent who is disabled	up to a maximum of RM 5,000
· Incapacitated children per child	RM 5,000

The chargeable income of an individual resident is arrived at by deducting from his total income the following personal reliefs. Contributions to the Employees Provident Fund and insurance or premiums for life policies are allowed a maximum total tax relief of RM 5,000. A further tax relief of RM 2,000 is given for insurance or premiums with respect to medical and educational purposes. The maximum relief for unmarried children (regardless of age) receiving full-time education in universities and institutions of higher education in Malaysia is four times the normal relief. For work-related expenses, deduction of 500 MYR for purchase of computer, insurance premiums, medical bills are allowed.

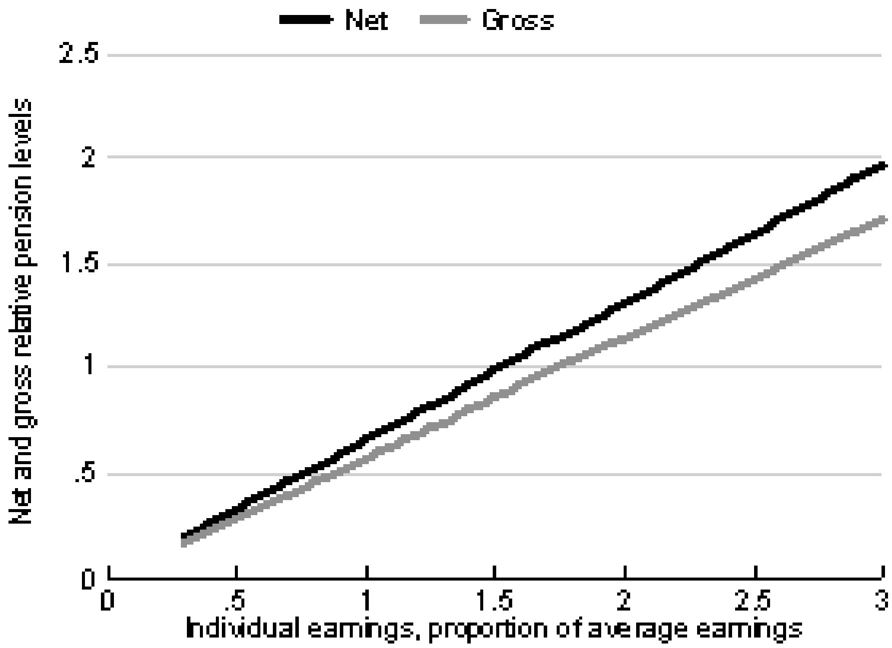
Gross relative pension level



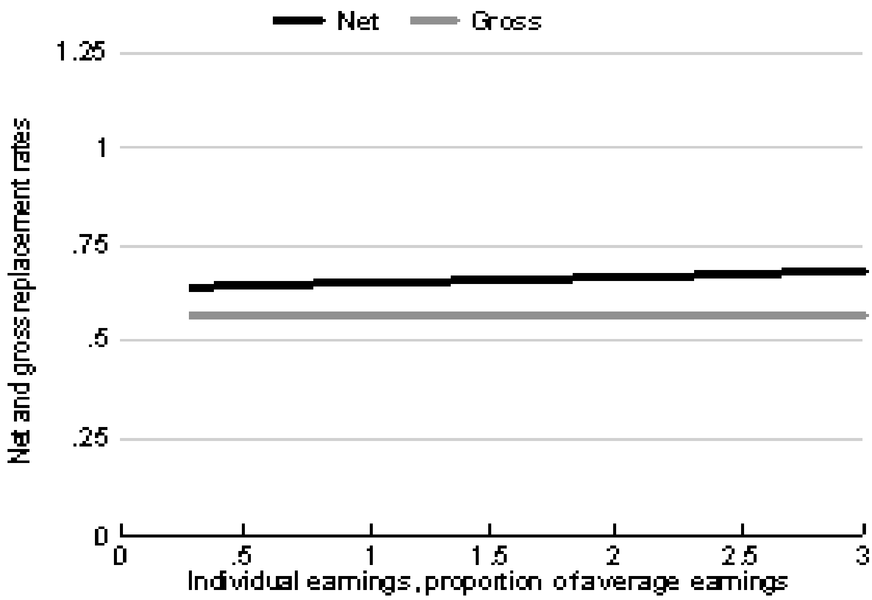
Gross replacement rate



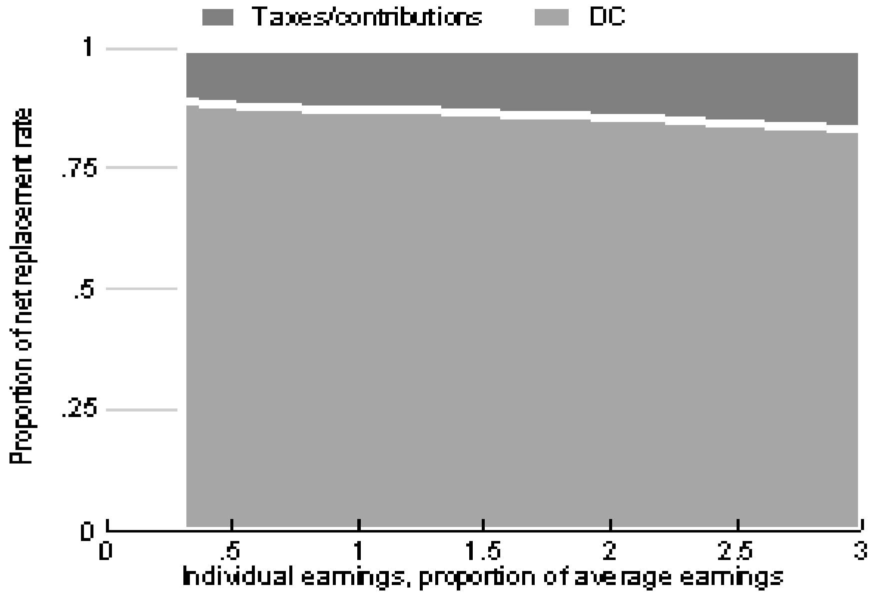
Net and gross relative pension levels



Net and gross replacement rate



Taxes paid by pensioners and workers



Sources of net replacement rate

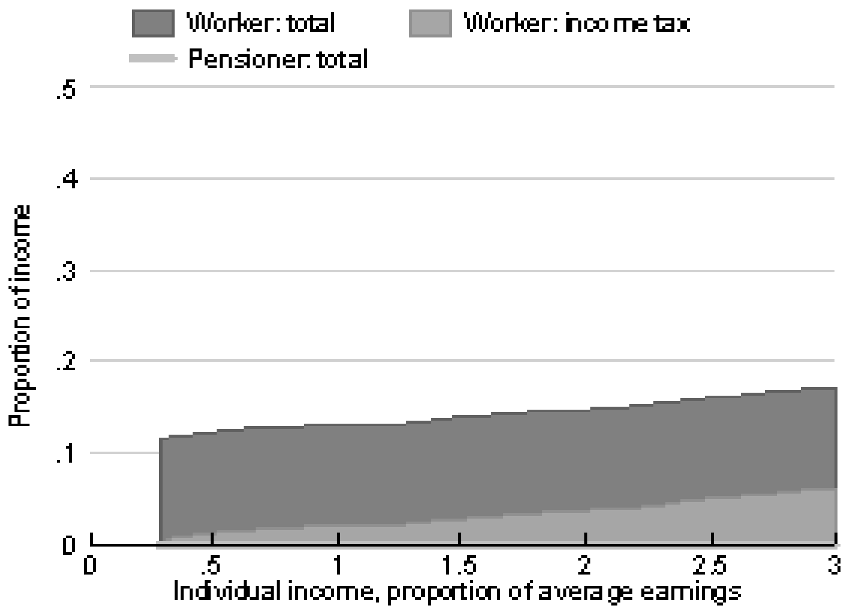


Table Ⅱ.20. Pension modeling results: Malaysia

	Individual earnings, multiple of average					
Men	0.5	0.75	1	1.5	2	2.5
Gross pension level *(% of average earnings)*	28.5	42.7	56.9	85.4	113.8	142.3
Net pension level *(% of average net earnings)*	32.7	49.1	65.4	98.1	130.8	163.5
Gross replacement rate *(% of individual earnings)*	56.9	56.9	56.9	56.9	56.9	56.9
Net replacement rate *(% of individual net earnings)*	64.9	65.2	65.4	66.1	66.7	67.7
Gross pension wealth *(multiple of average earnings)*	5.3	7.9	10.6	15.9	21.2	26.5
Net pension wealth *(multiple of average net earnings)*	10.6	10.6	10.6	10.6	10.6	10.6

India

Qualifying Conditions

For employees in the organized sector (defined as firms employing 20 or more workers in 181 designated industries) the schemes offered by the Employees' Provident Fund Organization (EPFO) provides retirement income security. The three EPFO schemes include Employee Provident Fund-EPF, Employees' Pension Scheme-EPS, and Employees' Deposit Linked Insurance Scheme-EDLI

Other non-statutory options for the private sector include Occupational Pension Schemes or Superannuation Schemes. All private (and public) sector employees as well as self-employed can participate in voluntary retirement plans that are offered via the government owned Life Insurance Corporation of India (LIC). In addition to this, for the unorganized sector, life time poor are provided assistance via the Special Assistance Scheme (SAS), both at the Centre and State level. Majority of the workers in the unorganized sector are protected through the efforts of the welfare bodies and NGO's.

The New Pensions Scheme, currently mandatory for all central government employees and state civil services, recruited after 1.1.2004, shall be made voluntary to private sector employees in due course.

Public Provident Fund is a tax advantaged scheme to enable individuals to save for retirement on a voluntary basis. Payment of Gratuity Act, 1972 provides for the payment of gratuity to employees with 5 years continuous service working in factories, mines, oilfields, plantations, and other establishments including piece-rate and seasonal workers where there are 10 or more employees.

In addition to the above, there is a provision for Exempt Funds. Employers who are covered under the EPFO, but who want to set up their own trusts and provide benefits to their employees seek an administrative exemption from the EPFO. Such employers are required to set up separate trusts, invest employee contributions as per EPFO investment guidelines (as notified by the ministry of finance) and credit at least the rate that the EPFO gives to its members. Incase the exempt fund is unable to meet the mandated interest rate; the employer is required to meet the gap from his balance sheet.

Benefit Formula

First Tier Schemes

National Social Assistance Programme (NSAP) has 3 components. National Old Age Pension Scheme provides assistance, to the amount of INR 200, to individuals (male/female) who are 65 years or more and have no regular means of subsistence. Generally the states would pay between INR 100-500, supplementary to the NSAP amount, with eligibility criteria varying considerably across the states.

National Family Benefit Scheme provides assistance, for households below the poverty line, on the death of the primary breadwinner in the bereaved family, to the amount of INR 10,000. The primary breadwinner could be either male or female and should have been more than 18years and less than 65 years of age at the time of death.

National Maternity Benefits Scheme provides lump sum cash assistance to pregnant women of households below the poverty line for up to the first two live births provided they are of 19 years of age and above. The ceiling on the amount of the benefit for purposes of claiming Central assistance is INR500. The states are permitted to have their own schemes for old age assistance. Most states do have such schemes but the coverage and the assistance provided are quite limited.

Second Tier Schemes

India has four major pension schemes; Employees' Pension Scheme, Employees' Provident Fund, Employees' Deposit Linked Insurance Scheme-EDLI, Occupational Pension or Superannuation Schemes. Under the EPS, there's a INR 6,500 ceiling on the 'pensionable salary'—that is, the salary that determines how much pension a member will get, irrespective of how much he/she earns beyond that threshold value. In other words, the employer will pay INR 541 (that is, 8.33 per cent of INR 6,500) towards the EPS. If full contribution to EPS has been made on a salary greater than INR 6500 per month, throughout life, then pensionable salary is based on such contributions. While this is generally the case, exceptions might exist.

Retirement pension under the EPS is payable on fulfilling minimum 10 years eligible service. For full pension benefits, 20 years of service is required. The formula for calculating monthly pension is

(Pensionable salary X Pensionable service) / 70 months.

The EPS scheme has a maximum replacement rate of 50 percent, but there is no automatic inflation indexation. On a periodic basis, ad hoc adjustments to benefits have been made in the past. All employees, with salary equal to or greater than INR 6500 contribute 12% of the basic pay DA, cash value of food concession, and retaining allowance if any, subject to a maximum of INR 6500 per month. Voluntary higher contributions are acceptable at the joint request of the member and the employer. The employer matches the 12% contribution of the employee with 8.33% of the basic salary (plus dearness allowance, is applicable) towards the EPS and the remaining 3.67% towards EPF. Another 1.16% is also contributed by the government towards the EPS. Occupational Pension Schemes or Superannuation Schemes - Employers and employees can make up to 24% of salary contribution.

Personal income taxes and social security contributions

Personal income tax for workers

Table Ⅱ.21. Income tax schedule of India

Taxable income slab* (INR)	**Rate**
Up to 1,00,000 Up to 1,35,000 (for women) Up to 1,85,000 (for resident individual of 65 years or above)	NIL
1,00,000-1,50,000 1,35,000-1,50,000 (women)	10% of the amount of income exceeding INR 1,00,000 (men)/INR1,35,000 (women)
1,50,000-2,50,000 1,85,000-2,50,000 (over 65 years)	20% of the amount of income exceeding 1,50,000 + INR 5000 (men)/INR 1500 (women) Over 65 years: 20% of the amount of income exceeding INR1,85,000
2,50,000 upwards	30% of the amount of income exceeding INR 2,50,000 + INR 25,000(men) / INR 21,500 (women) / INR 13,000 (over 65 years)

Deduction for work related expenses

Any special allowance or benefit granted to an employee to meet the expenses incurred in the performance of his duties, subject to certain rules of the Income Tax Act, are exempt from Income Tax. Tax deduction is also allowed in respect of any allowance in the nature of entertainment allowance specifically granted by the employer, subject to a maximum limit of one fifth of his salary of INR00, whichever is less.

Deductibility of pension and other social security contributions

An annual contribution up to INR 10,000 towards Life Insurance Premium, Contribution to Provident Fund, etc. is exempted from Income Tax.

Personal income tax for pensioners

Additional standard relief for older people

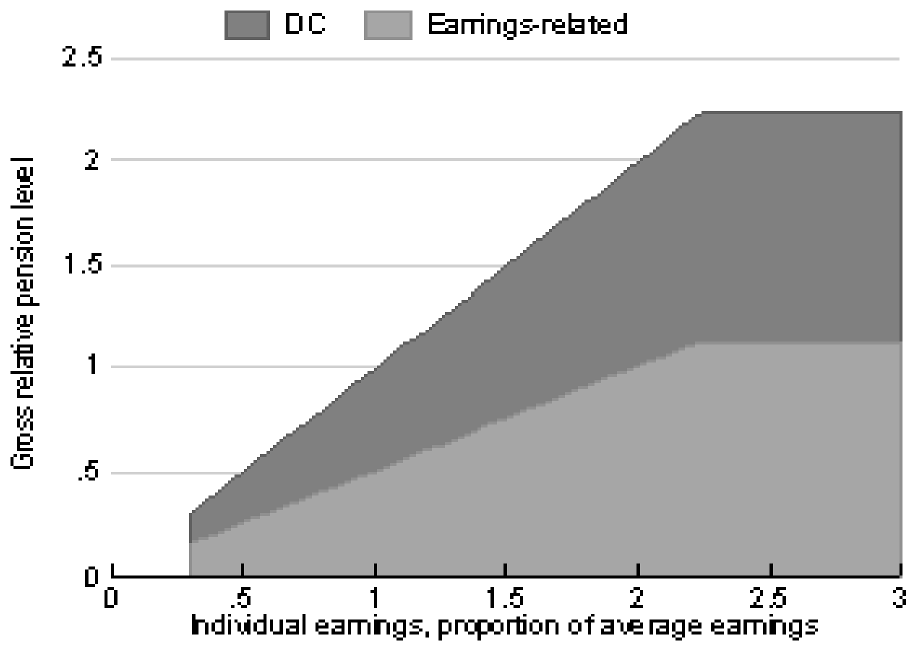
Income up to INR,85,000 per annum for a resident individual over the age of 65, is exempt from income tax. A lady resident in India, aged below 65 years, is allowed a maximum rebate on the tax payable of INR 5,000.

Tax on public and private pension income

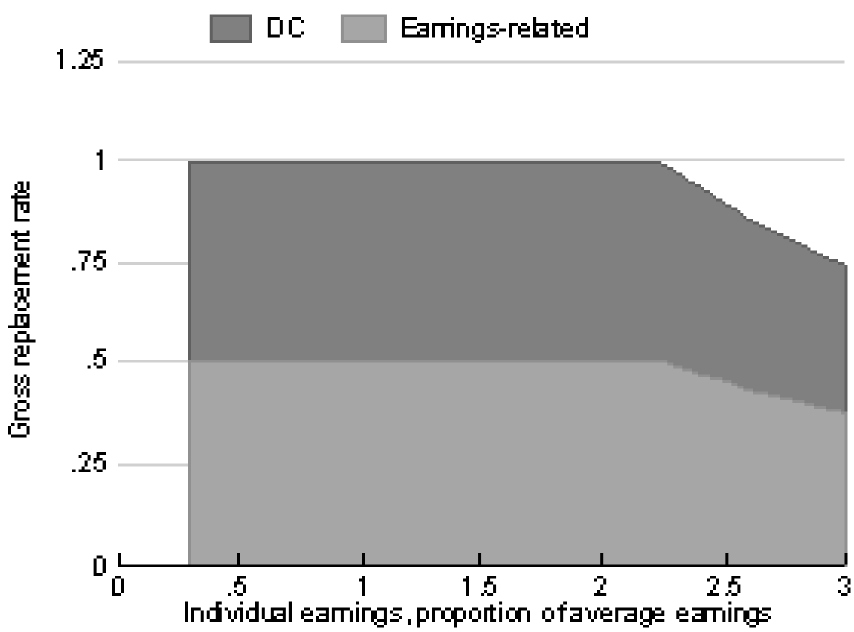
Pension accruing is taxable in India only if it is earned in India. The paying branch is responsible for deduction of Income Tax at source from pension payments in accordance with the rates prescribed from time to time. Retirement/death gratuity, the lump sum amount received on account of commutation of pension, withdrawals against the Public Provident Fund and benefits received under the Employees Pension Fund are not taxable under Income Tax Act. Any payment in commutation of pension received under the Civil Pension(Commutation) Rules of the Central Govt. is tax exempt.

Pension benefits received under the Employees Pension Fund are exempt from Income Tax while pension benefits or annuities received under Employees Pension Scheme are taxable.

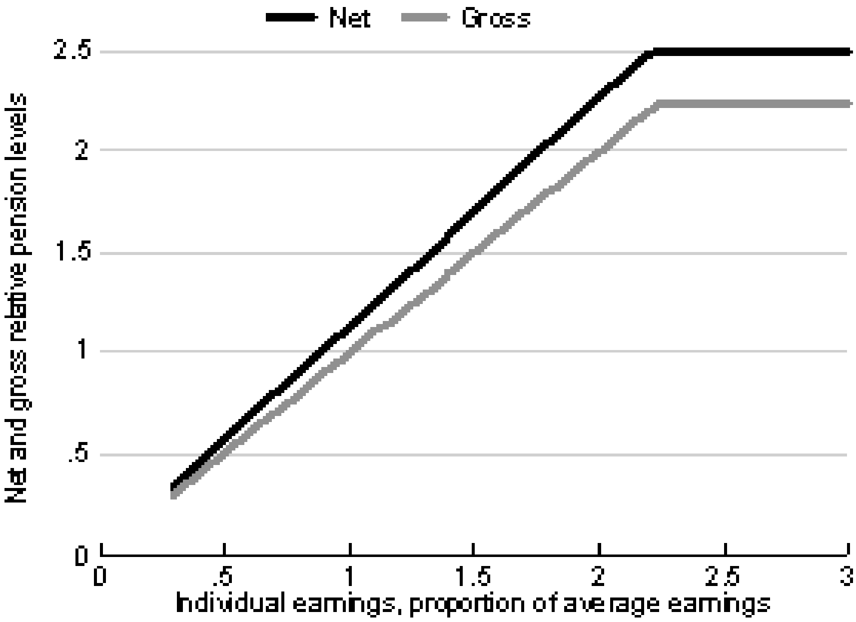
Gross relative pension level



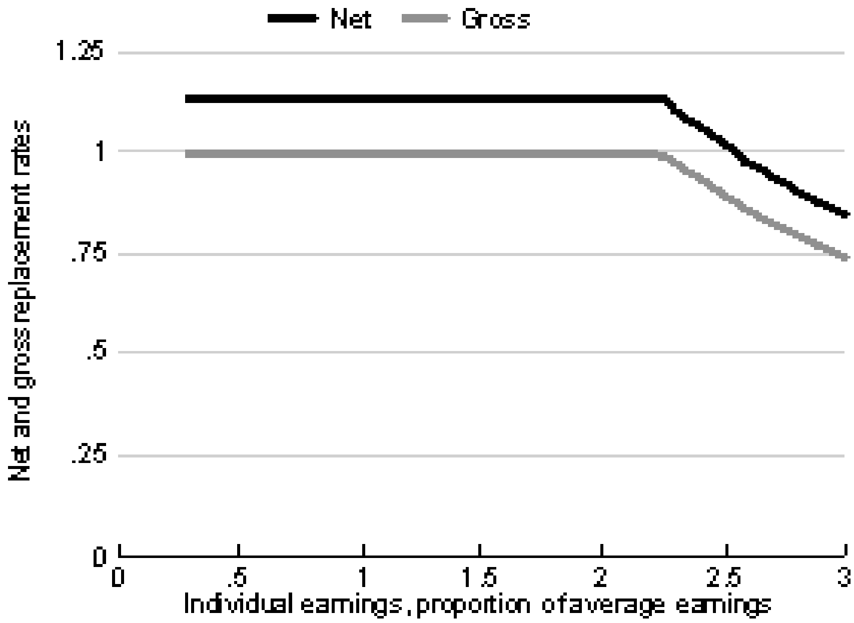
Gross replacement rate



Net and gross relative pension levels



Net and gross replacement rate



Taxes paid by pensioners and workers

Sources of net replacement rate

Table Ⅱ.22. Pension modeling results: INDIA

	Individual earnings, multiple of average					
Men	0.5	0.75	1	1.5	2	2.5
Gross pension level	49.7	74.5	99.3	149.0	198.7	222.8
(% of average earnings)						
Net pension level	56.4	84.7	112.9	169.3	25.7	253.2
(% of average net earnings)						
Gross replacement rate	99.3	99.3	99.3	99.3	99.3	89.1
(% of individual earnings)						
Net replacement rate	112.9	112.9	112.9	112.9	112.9	101.3
(% of individual net earnings)						
Gross pension wealth	7.7	11.6	15.4	23.1	30.8	34.6
(multiple of average earnings)						
Net pension wealth	15.4	15.4	15.4	15.4	15.4	13.8
(multiple of average net earnings)						

Pakistan

Qualifying Conditions

In the private sector, Pakistan has the following Pension and Occupational Savings Schemes (OSS), Employees Old Age Benefits Institution (EOBI)- Private sector employees scheme managed by the federal government-, Voluntary Pension System - Self contributory pension scheme, and Employer sponsored schemes include superannuation funds (Pension) and Gratuity Fund(OSS) which is Provident Fund. Voluntary Pension Scheme and Provident Fund are DC plans, and Gratuity Fund is DB plan. Provident Fund and Gratuity Fund require voluntary contributions and are voluntary pension schemes, but EOBI is mandatory for firms employing more than 10 workers and voluntary for firms with fewer than 10 workers. Pensions increase with an increase in minimum wage on an ad hoc basis. The increase in minimum wages is expected to be in line with the official Consumer Price Index

Benefit Formula

First Tier

Targeted schemes / social assistance

Pakistan Bait-ul-Maal (PBM) is a cash transfer and food subsidy scheme for the households. The latter two are incorporated the Individual Financial Assistance (IFA) scheme and the Food Subsidy Scheme (FSS). IFA covers financial assistance for education, medical and general assistance and rehabilitation. The Child Support Program (CSP) is an add-on to the FSS where the poor are paid a cash incentive for sending their children to school. The objective of these programs is to assist in improving the welfare of the widows, orphans, disabled, needy and poor persons.

Second Tier Schemes

EOBI provides old age pension, survivor's pension, invalidity pension and old age grants. Subject to a minimum contribution of 15 years, EOBI pension commences at the age of 60 years. Pension is calculated according to the following formula.

(Avg. monthly wages X No of yrs of insurable employment) / 50

The maximum pension allowed under the EOBI is calculated as

(Avg. monthly wages X No of yrs of insurable employment) / 50

The minimum pension under EOBI is PKR 1500. Under the EOBI, the employers contribute 6% of minimum wages while 1% of the minimum wage per month is contributed by the Insured person. In addition to this, the federal government may make a contribution to the institution as it may determine from time to time.

Early and Late Retirement

Early retirement is possible. The full old-age pension is reduced by 0.5% for each month that the pension is taken before age 60 (men) or age 55 (women). The minimum pension is reduced similarly. Early retirement ages under the EOBI for men are 55-59 years while for women are 50-54 years.

Under the Voluntary Retirement Scheme, members can select their retirement age between 60 and 70 years. They are also allowed to cash out anytime before retirement by paying tax. The retirees can join/rejoin the private sector or become self employed. Therefore, it is possible to combine pensions receipt with contribution to work.

Personal income taxes and social security contributions

Personal income tax for workers

Table Ⅱ.23. Personal income tax schedule for Pakistan

Taxable income slab* (Rs.)	Rate (%)
Up to 1,50,000 Up to 2,00,000 (for women)	NIL
1,50,001-2,00,000	0.25
2,00,001-2,50,000	0.50
2,50,001-3,00,000	0.75
3,00,001-3,50,000	1.50
3,50,001-4,00,000	2.50
4,00,001-5,00,000	3.50
5,00,001-6,00,000	4.50
6,00,001-7,00,000	6.00
7,00,001-8,50,000	7.50
8,50,001-9,50,000	9.00
9,50,001-1,050,000	10.00
1,050,001-1,200,000	11.0
1,200,001-1,500,000	12.50
1,500,001-1,700,000	14.0
1,700,001-2,000,000	15.0
2,000,001-3,150,000	16.0
3,150,001-3,700,000	17.50
3,700,001-4,450,000	18.5
4,450,001-8,400,000	19.0
8,400,000 upwards	20%

Standard income tax relief(allowances, credits)

A salaried individual is entitled to a tax credit in respect of contribution or premium paid during the year to an approved pension fund under the Voluntary Pension System (VPS) Rules (2005)

The amount of tax credit is calculated as follows (A/B) X C

A = is the amount of tax assessed to the person for the tax year, before allowance of any tax credit under this Part

B = is the person's taxable income for the tax year

C = is the lesser of the total contribution or premium paid by the person in the year or 20% of the taxable income in the relevant tax year.

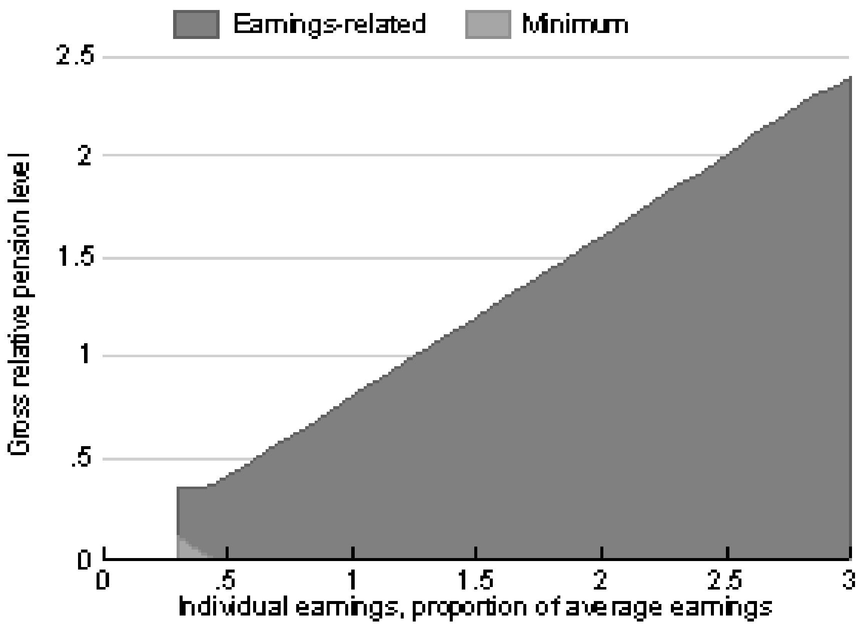
Where the person joins the pension fund at the age of forty-one years or above, during the first ten years of the notification of the Voluntary Pension System Rules, 2005, he is allowed an additional contribution of 2% per annum for each year of age exceeding forty years. However, the total contribution allowed is restricted to 50% of the taxable income of the preceding year or PKR 500,000.

Under the VPS, a tax-free cash withdrawal of up to 25 percent of the account balance is allowed, with the remainder of the account balance used to purchase an annuity from a VPS-approved life insurance company. Under the VPS, a tax-free cash withdrawal of up to 25 percent of the account balance, a withdrawal of the remaining account balance in planned monthly installments until age 75, and, after age 75, the VPS is based on EET tax regime under which contributions and investments incomes are tax free while the benefits are taxable.

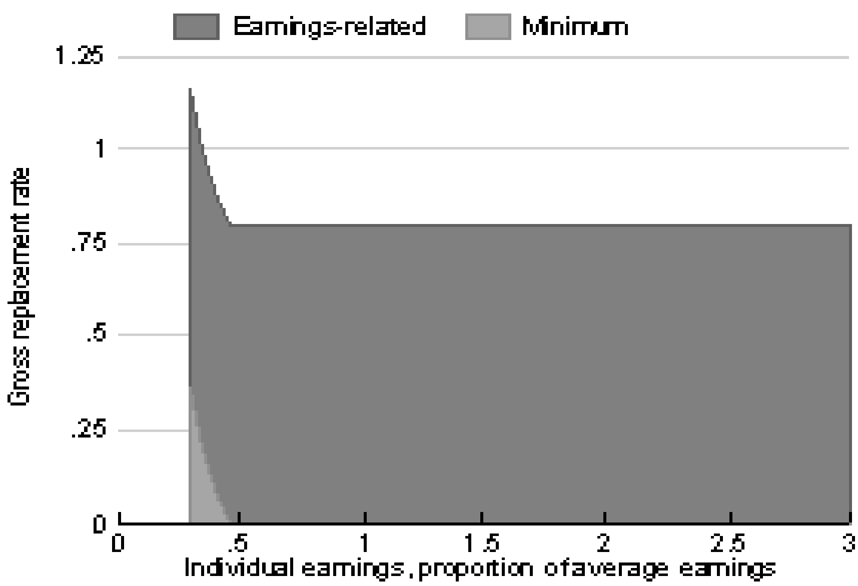
Additional standard relief for older people

For senior citizens (60 years and above), income up to PKR 400,000 is tax exempt. Tax penalties are applied to VPS participant withdrawals before age 60. By age 75, participants must annuitize any remaining VPS account balance.

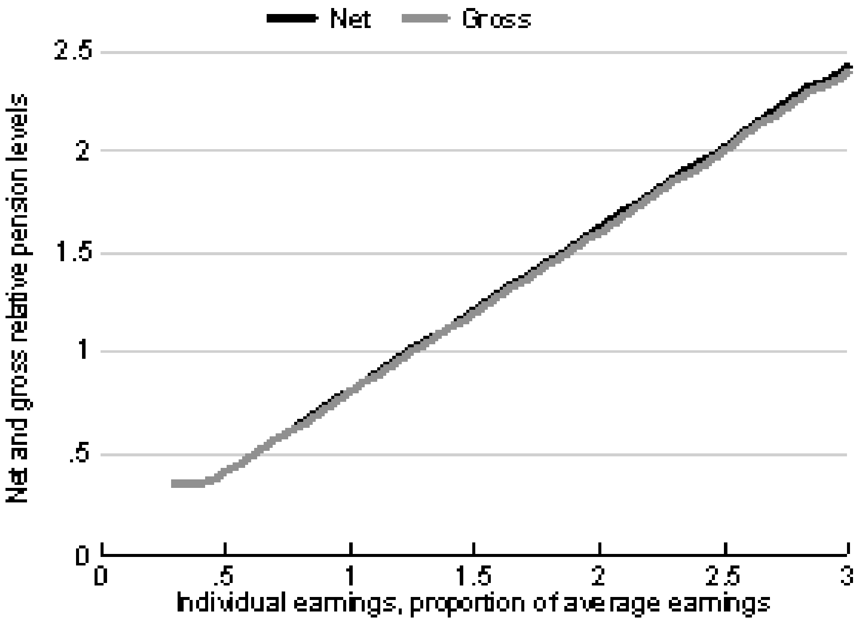
Gross relative pension level



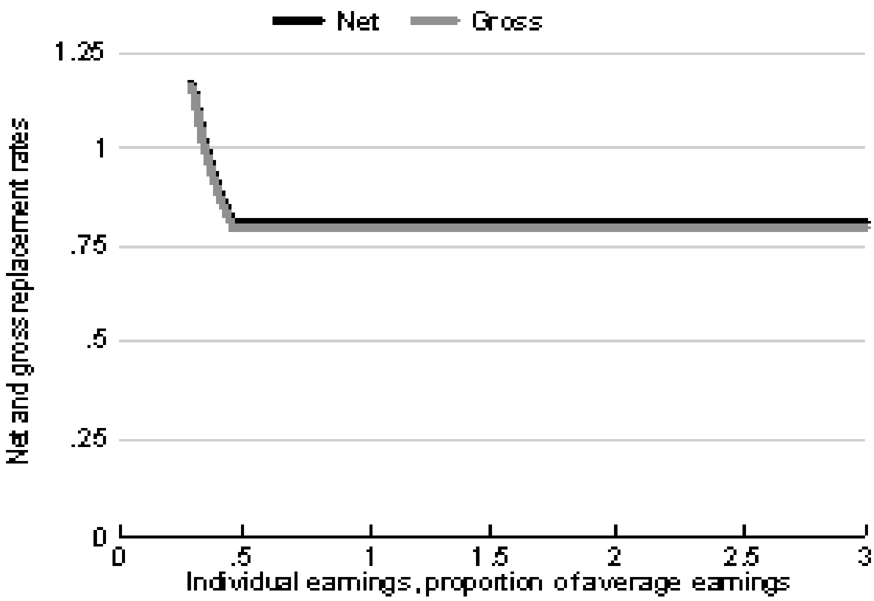
Gross replacement rate



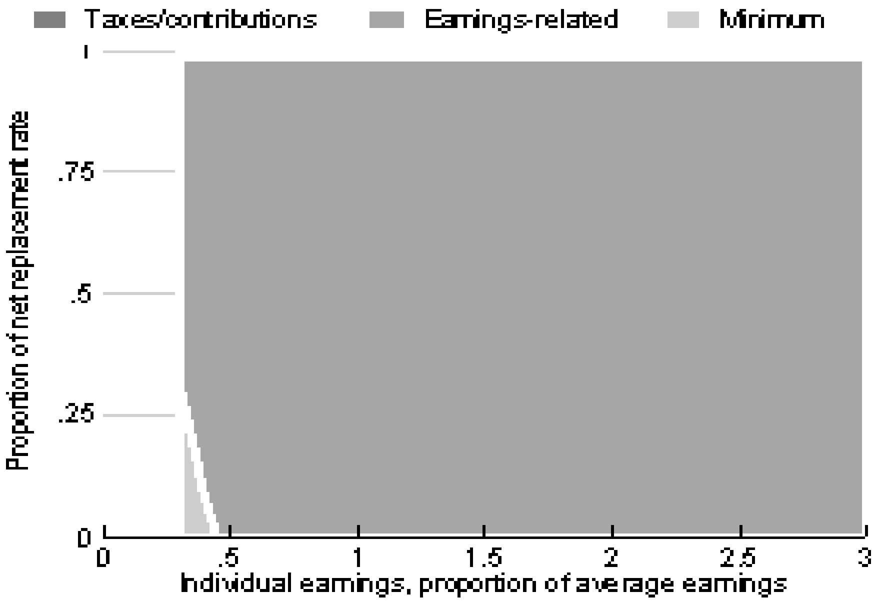
Net and gross relative pension levels



Net and gross replacement rate



Taxes paid by pensioners and workers



Sources of net replacement rate

Table Ⅱ. 24. Pension modeling results: Pakistan

	Individual earnings, multiple of average					
Men	0.5	0.75	1	1.5	2	2.5
Gross pension level *(% of average earnings)*	40.0	60.0	80.0	120.0	160.0	200.0
Net pension level *(% of average net earnings)*	40.4	60.6	80.8	121.2	161.6	202.0
Gross replacement rate *(% of individual earnings)*	80.0	80.0	80.0	80.0	80.0	80.0
Net replacement rate *(% of individual net earnings)*	80.8	80.8	80.8	80.8	80.8	80.8
Gross pension wealth *(multiple of average earnings)*	5.7	8.5	11.4	17.0	22.7	28.4
Net pension wealth *(multiple of average net earnings)*	11.4	11.4	11.4	11.4	11.4	11.4

Vietnam

Vietnam Social Security manages the nation-wide compulsory social and health insurance schemes with six type of benefits: sickness, maternity, work injury and occupational diseases, survivor's benefit, old age benefits and medical benefits (Health Insurance) Some groups, consisting of the urban informal sector workers, have under the guidance of the government established pension plans for their workers. One such program under the Farmers' Union requires farmers to make an annual contribution of 80 kilos of rice, entitling them to approx 6kilos per month when they are eligible to retire.

Compulsory social insurance covers sickness, maternity, labor accident/occupational disease, retirement and survivorship allowance for public servants, government employees, employees having labor contracts of 3 months onwards in enterprises employing more than one worker.

Voluntary social insurance covers retirement and survivorship allowance. All members under the mandatory social insurance are covered under the mandatory health insurance. Voluntary social insurance covers for self employed workers & farmers. Voluntary health insurance covers for school children and students as well as people uncovered by compulsory health insurance. The social insurance covers private-public sector employees with employment contract of at least 3 months, including domestic workers; employees in agriculture, fishing and salt production; civil servants; and officers of the armed forces. Self employed persons are excluded.

According to the Law on Social Insurance, passed on June 29, 2006 (Section 4, Article 53) retirement pensions shall be adjusted on the basis of the rise in cost of living index and economic growth. The specific adjustment levels shall be stipulated by the Government

Benefit Formula

First Tier Schemes

Vietnam does not have a basic (universal) pension. Eligibility to pension is dependant upon contribution to VSS. As stipulated by the Law on Social Insurance (Section 4, Article 53), the lowest monthly retirement pension is equivalent to the common minimum salary. The government provides free access to health benefits to elderly people over 65, the poor children under the age of 6.

Benefit Formula

Second Tier Schemes

According to the Law on Social Insurance, (Section 4, Article 52), the monthly retirement pension of qualified laborers (*as defined in Article 50*), is equivalent to 45% of the average monthly salary on which social insurance premiums are based (*as specified in Article 58, Article 59 or Article 60)* corresponding to 15 years of paying social insurance premiums. This shall be further added with 2% for men or 3% for women for each additional year of paying social insurance premiums. The maximum rate is equivalent to 75%. There is no floor or ceilings on pensionable earnings. Maximum pension rate is 75%of the insured's average earnings in the last 5 years before taking the pension. Valorization is not applicable to the Social Insurance Scheme.

According to the Social Insurance Law, beginning 2007, the compulsory contributions of employees and employers for both social and health insurance are given in the table below.

Table Ⅱ.25 Compulsory Social Security Contribution split

Contributions	Retirement and Survivorship fund	Work injury – Occupational diseases fund	Sickness and Maternity fund	Health Insurance fund
From 1 January 2007 to 31 December 2009				
Employer	11%	1%	3%	2%
Employee	5%	-	-	1%
From 1 January 2010 to 31 December 2011				
Employer	12%	1%	3%	2%
Employee	6%	-	-	1%
From 1 January 2012 to 31 December 2013				
Employer	13%	1%	3%	2%
Employee	7%	-	-	1%
From 1 January 2014 onward				
Employer	14%	1%	3%	2%
Employee	8%	-	-	1%

Source: ASEAN Social Security Association

Early and Late Retirement

Early retirement possible under the old-age benefits scheme subject to the following conditions: 55 yrs (men) or 50 yrs (women) with 30 years of contributions

55yrs (men) or age 50 (women) with 20 years of contribution including at least 15 years of employment in hazardous or arduous working conditions;

or 15 years in certain regions; or with 10 years of work in South Vietnam or Laos before April 30, 1975, or Cambodia before August 31, 1989.

50 yrs (men) or 45 yrs (women) with 20 years of contributions and an assessed degree of disability of at least 61%.

Regardless of age with 20 years of contributions, including 15 years in extremely hazardous or arduous working conditions and an assessed degree of disability of at least 61%. Any other case, the pension is reduced by 1% of the insured's average earnings in the last 5 years before taking the pension, for each year the pension is taken before the insured's normal pensionable age.

Deferring the pension claim through incremental of benefit is not possible for late retirement. Many retires might continue work as self-employed person while receiving pension benefit. And there is no earnings test applied to people who claim pension and continue to work.

Personal income taxes and social security contributions

Personal income tax for workers

For Vietnamese citizens at home and other individuals permanently residing in Vietnam and those who do not have citizenship but stay in Vietnam indefinitely

Table Ⅱ. 26. Personal Income Tax Schedule of Vietnam

Taxable income slab (VND)	Rate (%)
Up to 5,000,000	NIL
Over 5,000,000 – 15,000,000	10
Over 15,000,000 – 25,000,000	20
Over 25,000,000 – 40,000,000	30
Over 40,000,000	40

Standard income tax relief (allowances, credits)

Certain type of allowances are treated as non-taxable such as specific hardship and fixed meal allowance.

Deduction for work related expenses

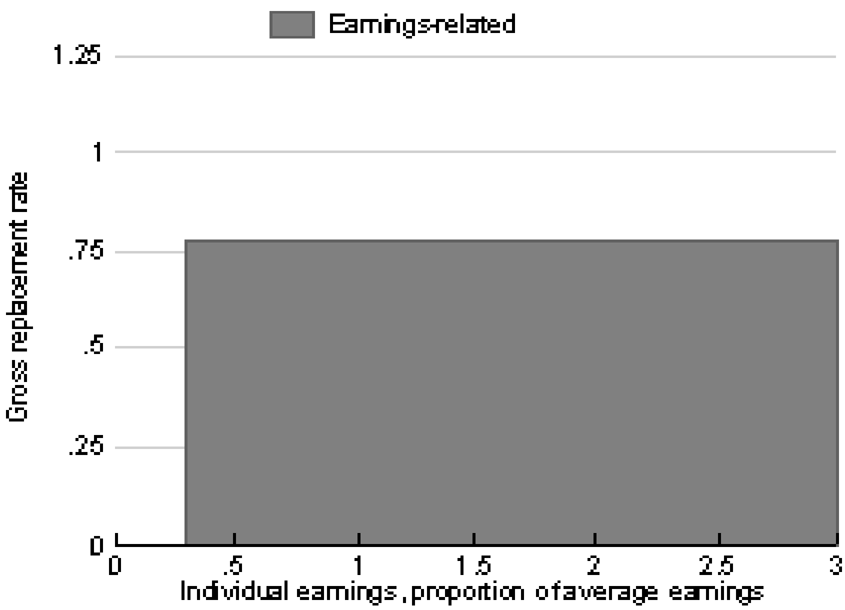
Singers, actors, actresses, footballers, professional athletes, certified by specialized State management bodies, are entitled to a deduction of 25% from their income for determination of taxable income.

Personal income tax for pensioners

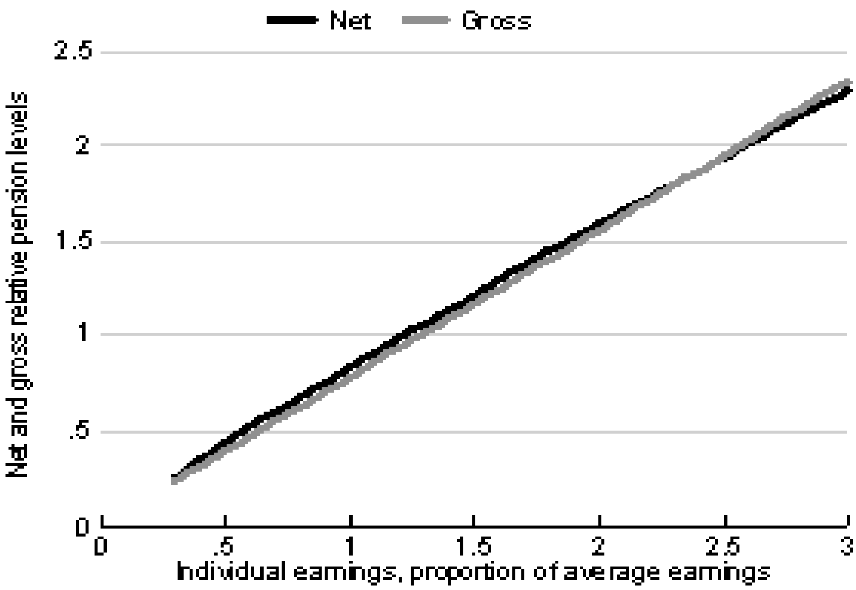
There is no additional standard relief for older people, however public and private pension incomes are not subject to personal income tax.

Gross relative pension level

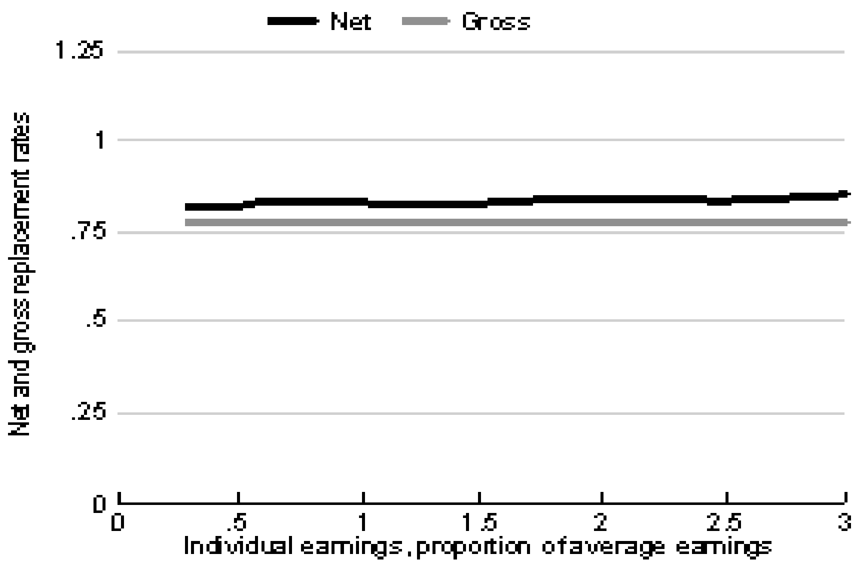
Gross replacement rate



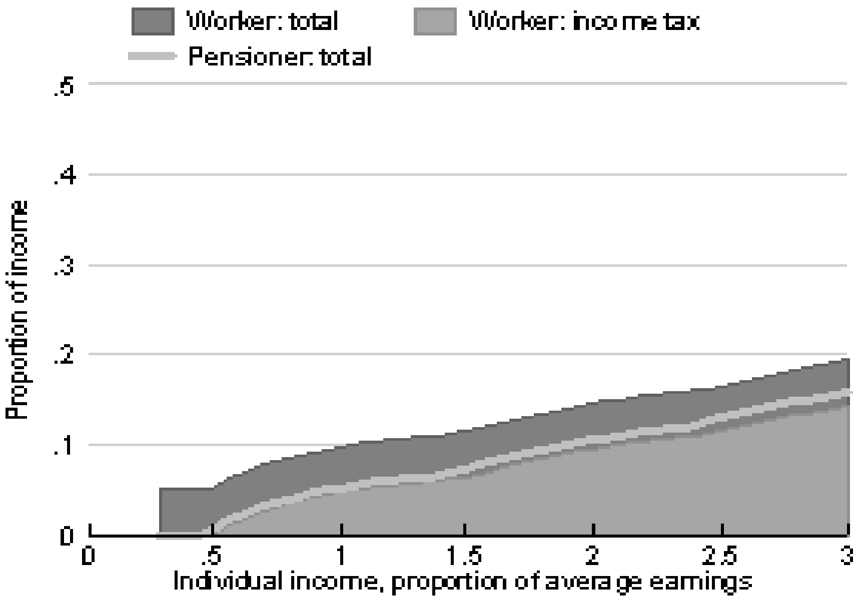
Net and gross relative pension level



Net and gross replacement rate



Taxes paid by pensioners and workers



Sources of net replacement rate

Table Ⅱ.27. Pension modeling results: Vietnam

	Individual earnings, multiple of average					
Men	0.5	0.75	1	1.5	2	2.5
Gross pension level *(% of average earnings)*	38.9	58.3	77.8	116.7	155.6	194.5
Net pension level *(% of average net earnings)*	43.1	63.4	82.8	121.6	159.0	193.4
Gross replacement rate *(% of individual earnings)*	77.8	77.8	77.8	77.8	77.8	77.8
Net replacement rate *(% of individual net earnings)*	81.9	83.1	82.8	82.6	83.9	83.6
Gross pension wealth *(multiple of average earnings)*	6.4	9.5	12.7	19.1	25.5	31.8
Net pension wealth *(multiple of average net earnings)*	12.7	12.5	12.2	12.0	11.7	11.4

Sri-Lanka

Qualifying conditions

Sri-Lanka has two major pension schemes, Employees Provident Fund – PF(DC) Employees Trust Fund – ETF(DC). Under the EPF Act, the Commissioner of Labor has the power to approve private provident funds for specific firms to cover its own employees. Contributions to the Approved Private Provident Funds (APPFs) should be as high as those of the EPF, but are often higher. Besides two major schemes, there are Farmer's Pension Scheme, Fisherman's Pension Scheme and Pension Schemes for Self Employed Workers. The Samurdhi Social Security Trust Fund provides a source of coverage for the informal sector employees.

According to the Payment of Gratuity Act (no 12 of 1983), Gratuity or severance pay is mandated at half month's base salary per year of service subject to a qualifying service period of 5 years. Some companies contribute up to 1 month salary.

Contributions to the EPF & ETF are mandatory for private sector employees although compliance rate is quite low.

Voluntary contributions hold for the Pension Schemes for Self Employed Workers, Farmer's Pension Scheme and Fisherman's Pension Scheme. The Farmer's Pension Scheme, Fisherman's Pension Scheme and Pension Schemes for Self Employed Workers provide coverage to the self employed category. The EPF and ETF cover employees in the private sector. Current adjustments of pension benefits are ad-hoc via the cabinet.

Benefit Formula

First Tier Schemes

Targeted schemes / social assistance

The Samurdhi income transfer to the poor: The income transfer is not indexed to inflation and a fixed amount is received as commodities and encashment stamps. The Samurdhi Social Security Trust Fund offers nominal insurance to poor households. Under this scheme, households receiving LKR 1000, LKR 500 and LKR 250 (USD 9, 4.5, 2.2 respectively) as income transfers, contribute LKR 25 (USD 0.22) each month to the insurance fund. Insurance can then be claimed in the event of a death in the family, marriage of one child, birth of first child and sickness. Maximum ceilings apply to each such claim

There are other social assistance programs such as Income support for disabled soldiers and families of service personnel who died in the conflict, Assistance for persons displaced by the conflict and, Emergency assistance to people affected by natural disasters run by the Ministry of Women's Empowerment and Social Welfare. The Ministry of Education also provides free textbooks and school uniforms to children from poor families

In addition to the above, Provincial Councils provide assistance for indigent elders and families with disabled persons and people with incapacitating illness who are unable to work

Second Tier Schemes

EPF is a defined contribution scheme paying lump-sum benefits. Pensions for the self employed are, on the other hand, based on the age at enrollment. Valorization is not applicable. Workers in the formal private sector are covered for death and permanent disability through lump sum payments of the Employee Trust Fund. Aside from death and disability, ETF contribution cover five additional benefits including 3 health benefits as well as an education and housing benefit.

EPF: 8% of the total monthly earnings to be deducted from the employee's salary and an amount equivalent to 12% of the total monthly income of the employee to be paid totally by the employer

ETF: The scheme receives a compulsory employer contribution of 3% of the wages of all employees in the formal sector

There are also Farmer's Pension Scheme, Fisherman's Pension Scheme and Pension Schemes for Self Employed Workers. The Farmer's Pension Scheme, Fisherman's Pension Scheme and Pension Schemes for Self Employed Workers provide fixed payments according to contribution.

Early and Late Retirement

There are no such provisions as early retirement and late retirement with incremental benefit change. However, it is possible to combine pension receipt and continuing work. Retirees may choose to join/rejoin public sector or become self-employed.

Personal income taxes and social security contributions

Personal income tax for workers

Table Ⅱ. 28. Income tax schedule- Sri-Lanka

Taxable Income (LKR)	Rate
1st 300,000	5
Next 200,000	10
Next 200,000	15
Next 200,000	20
Next 200,000	25
Next 500,000	30
Balance	35

Standard income tax relief (allowances, credits)

Compensation paid under a uniform scheme of voluntary retirement approved by tax authorities or under a scheme of retrenchment approved by the labour authority is exempt from tax.

Deductibility of pension and other social security contributions

With respect to the relief available for individuals with regard to contributions for the approved provident/pension fund etc, donations made to approved charities and life and medical insurance premium. The maximum deduction allowed for all three categories is LKR 75000. Any excess contribution to provident/pension over 12% of emoluments will not qualify for any relief. Pension benefits through the purchased annuities of retirees are tax exempt.

Personal income tax for pensioners

There is no additional standard relief for older people.

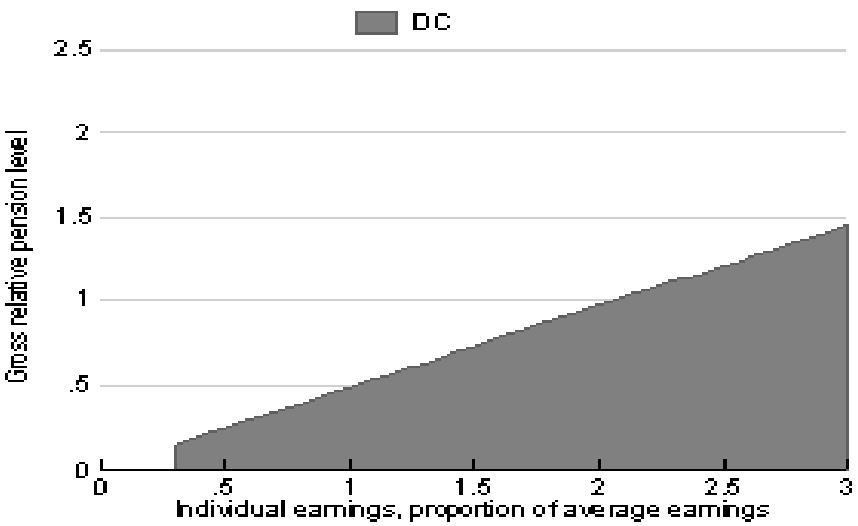
Table Ⅱ.29. Tax schedule for pensioners of more than 20 years contribution

Taxable income slab* (LKR.)	Rate (%)
Up to 5,000,000	Nil
Next 1,000,000	5
On the balance	10

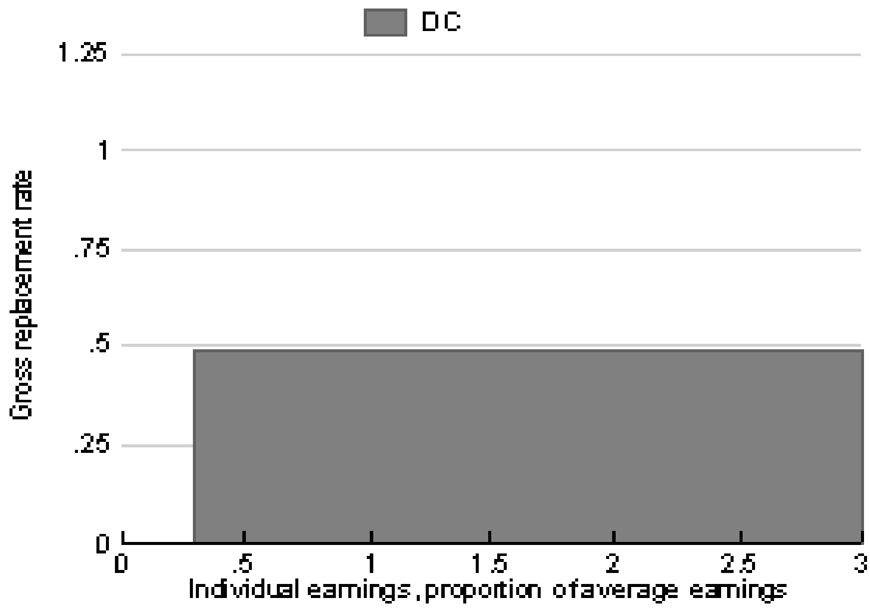
Table Ⅱ.30. Tax schedule for pensioners of less than 20 years contribution

Taxable income slab* (LKR.)	Rate (%)
Up to 2,000,000	Nil
Next 1,000,000	5
On the balance	10

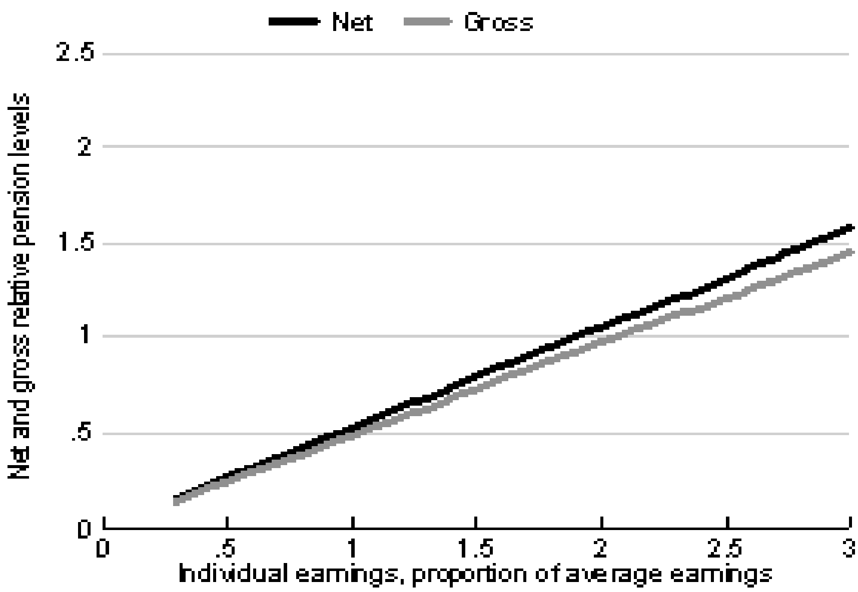
Gross relative pension level



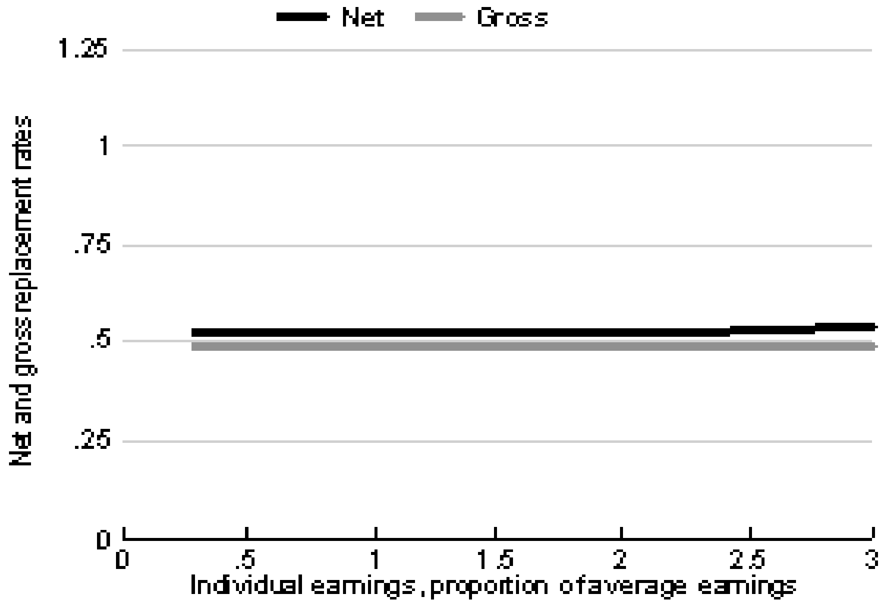
Gross replacement rate



Net and gross relative pension levels



Net and gross replacement rate



Taxes paid by pensioners and workers

Sources of net replacement rate

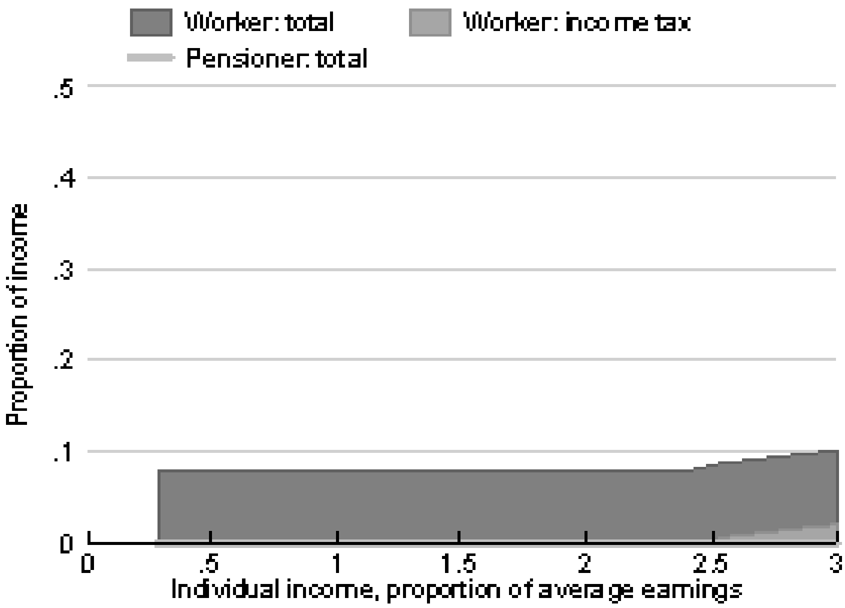


Table Ⅱ.31. Modeling results: Sri-Lanka

	Individual earnings, multiple of average					
Men	0.5	0.75	1	1.5	2	2.5
Gross pension level *(% of average earnings)*	24.1	36.2	48.3	72.4	96.5	120.6
Net pension level *(% of average net earnings)*	26.2	39.3	52.5	78.7	104.9	131.1
Gross replacement rate *(% of individual earnings)*	48.3	48.3	48.3	48.3	48.3	48.3
Net replacement rate *(% of individual net earnings)*	52.5	52.5	52.5	52.5	52.5	52.7
Gross pension wealth *(multiple of average earnings)*	4.6	6.9	9.2	13.8	18.4	23.0
Net pension wealth *(multiple of average net earnings)*	9.2	9.2	9.2	9.2	9.2	9.2

Australia

Australia's pension system has two components: a means-tested age pension plus the superannuation guarantee, a compulsory contribution to a private pension plan. These plans are mainly defined contribution.

Qualifying conditions

The age pension is paid from age 65 for men. Women's pensionable age-currently 62 1/2 will increase gradually to become 65 from 2013. The minimum age for withdrawing superannuation guarantee benefits is currently 55, but this will increase gradually to 60 by 2005.

Benefit formula

Defined contribution

The superannuation guarantee was introduced in 1992. It consists of a mandatory employer contribution to a private pension plan, which can be an industry-wide fund or a scheme operated by financial-services companies on the employer's behalf. The mandatory contribution rate has been 9% since the 2002-03 tax year.

Employers need not contribute for workers earning less than AUD in a month (equivalent to AUD 5400 a year or about 12% of average earnings). But they can choose to contribute for these workers. (Note that this floor has not been up-rated in the past.) There is also a limit to the earnings covered by the superannuation guarantee: employers need not contribute for employees' pay above this threshold. For calendar 2002, this limit was AUD 113,460 (calculated from a quarterly limit of AUD 27,510 for 2001-02 and AUD 29,220 for 2002-03). This limit-worth around 2 1/2 times average earnings- is indexed to earnings.

The withdrawal stage of the superannuation guarantee complicates the calculations. Although there are some defined-benefit occupational plans, most employees are members of defined-contribution plans. Members can take out the accumulated capital as a lump sum or some sort of income stream. Currently, most benefits are taken as a lump sum and phased withdrawals are the most popular from form of income stream. For comparison with other countries (where defined-benefit plans predominate), the capital from the superannuation guarantee is converted to a price-indexed annuity. The annuity calculation is based on mortality data for Australia. Finally, the calculation is complicated by the tax treatment, described below.

Targeted

The value of the age pension is adjusted biannually. The age pension is paid fortnightly: from September 2001, the single rate of pension was AUD 411, increasing to AUD 422 in March 2002 and AUD 429 in September 2002. (All values have been rounded to the nearest dollar.) This gives an average for the calendar year of an annual benefit of AUD 10,984, equivalent to around a quarter of average earnings.

The age pension is withdrawn once annual income from other sources exceeds a threshold known as the "free area". This is adjusted annually in July. The values for 2002 were AUD 112 in the first half and AUD 116 in the second half of the year (again calculated fortnightly). The calendar year figure for 2002 was therefore AUD 2,964, or around 7% of average earnings. The withdrawal rate is 40%. There is also an assets test. However, over 90% of pensioners affected have their benefits reduced by the income rather than the assets test (and so it has been assumed in the modeling that the income test is binding). Around a third of pensioners have their benefit reduced by the means test, with the other two-thirds on the full age pension.

The age pension's value is increased in line with prices, but where necessary a special further increase is made to ensure that it does not fall below 25% of pre-tax male total average weekly earnings on the national definition (which is slightly different from the average production worker's earnings used for all countries in OECD analysis).

Personal income tax and social security contributions

Taxation of pensioners

Older Australians are entitled to two personal tax concessions in addition to the standard reliefs. A credit (the senior Australians tax offset) is available for those of pensionable age who also satisfy a residency test. This is AUD 2,230 for singles in 2002 with income up to an income threshold of AUD 20,000 and is withdrawn at a rate of 12.5% for income in excess of the threshold. The credit is therefore fully withdrawn for incomes of AUD 37,840 and above.

There is a credit for pensioners in receipt of certain pension income (the pensioner tax offset) which has different eligibility criteria from the senior Australians tax offset. It is not possible to claim both of these offsets and the former is more generous for those eligible for both.

The effect of the credit is that all those receiving the full rate of the government pension will have no net income tax liability, and most of those who receive a part pension will have a reduced liability. The credit is non-refundable; it cannot create a negative tax liability.

Taxpayers eligible for the senior Australians tax offset benefit from a higher value of the low-income Medicare levy threshold (AUD 20,500). This means that pensioners receiving the full amount of the offset will pay no Medicare levy. The normal rate of the levy is 1.5% of income.

Taxation of private pensions

The superannuation guarantee has a complex tax treatment, with some tax extracted at all three possible stages: when contributions are made, when investment returns are earned and when benefits are withdrawn.

A 15% tax is levied on employer contributions to the fund. A superannuation surcharge is also applied to contributions for higher-income workers. The rate of the surcharge is determined by the degree to which earnings exceed a threshold. For 2002, the annual average of this threshold was an adjusted taxable income of AUD(85,242 in the first half and AUD 90,527 in the second). For each of a set amount that earnings are above this threshold, the surcharge rate increases by one percentage point. The 2002 average of this amount, known as the "divisor" was AUD 1,257 (AUD 1,219, AUD 1,259 in each half f the year). The maximum surcharge is 15%. The threshold where the superannuation surcharge first applies is worth around 1.9 times average earnings and the full 15% rate applies once earnings reach 2.3 times the average. The superannuation surcharge (for defined-contribution schemes) is imposed on contributions to the superannuation account (and certain transfers into the fund). Although formally paid by the provider, the modeling assumes that this reduces the amount going into the individual pension account.

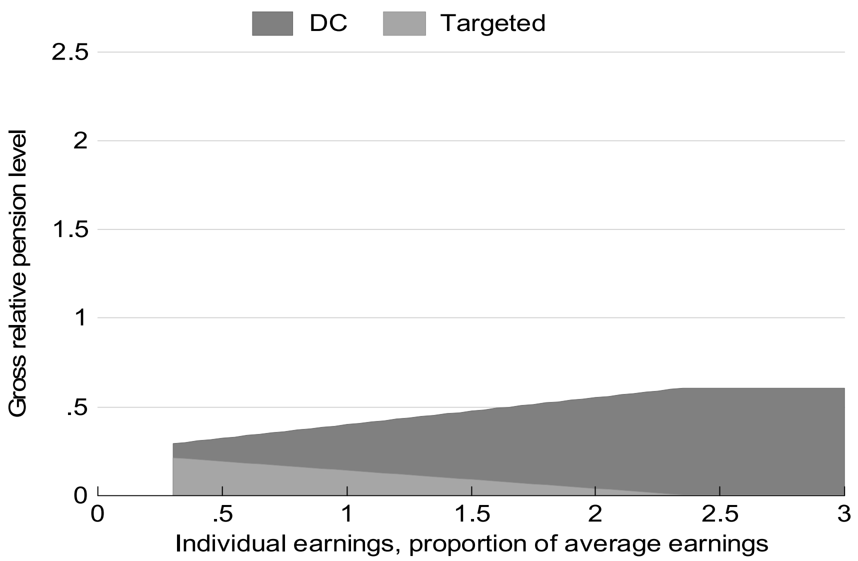
Investment earnings of the superannuation fund are taxed, again at 15%. (However, the effective tax rate may be lower through imputation credits and the capital-gains-tax discount.) Benefits are taxable at normal rates on withdrawal, but subject to a 15% rebate. (However, the first AUD 1,000 does not attract a rebate.) The rebate is also subject to a “reasonable benefit limit”. For 2003, this lifetime limit was generally AUD 562,195. There is a higher limit for people withdrawing at least half of benefits as an annuity that meets certain conditions. This higher limit is around twice the level of the first: AUD 1,124,384 in 2003. These ceilings are indexed to earnings. The proportion of the pension attracting the rebate is the proportion of the total within the reasonable benefit limit.

The reasonable benefit limit has not been modeled. The modeling gives the accumulated balance in the superannuation fund as around AUD 630,000 at the time of retirement for people earning the maximum amount on which employers must contribute. The assumption that benefits are withdrawn as a price-indexed annuity means that this is below the reasonable benefit threshold.

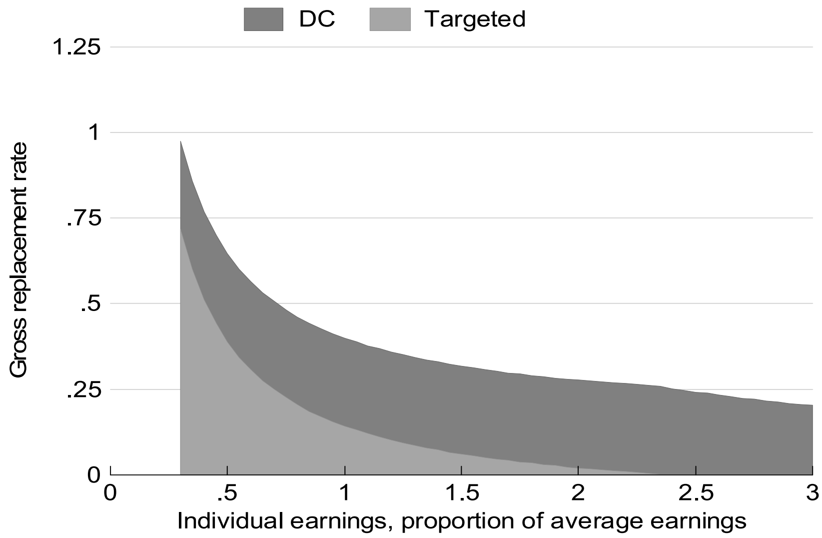
Social security contributions paid by pensioners

There are no social security contributions in Australia. The age pension and other benefits are financed from general revenues.

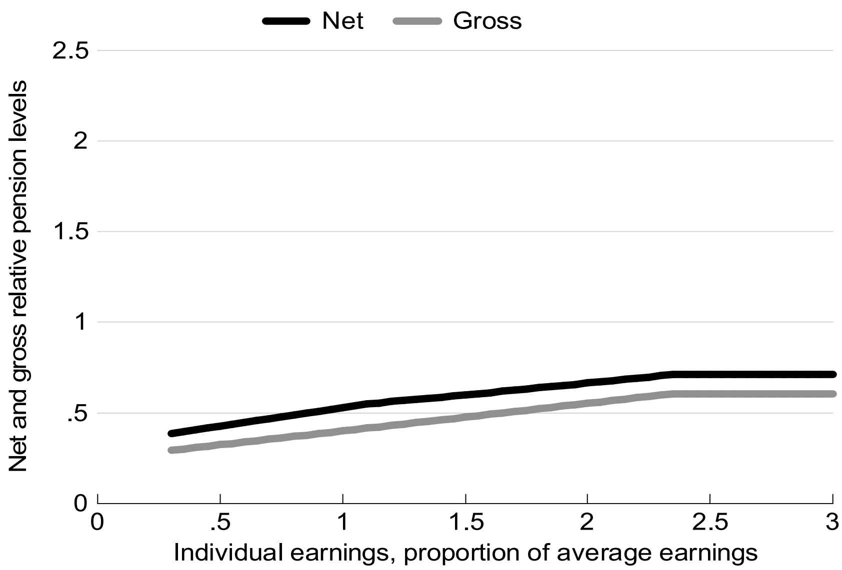
Gross relative pension level



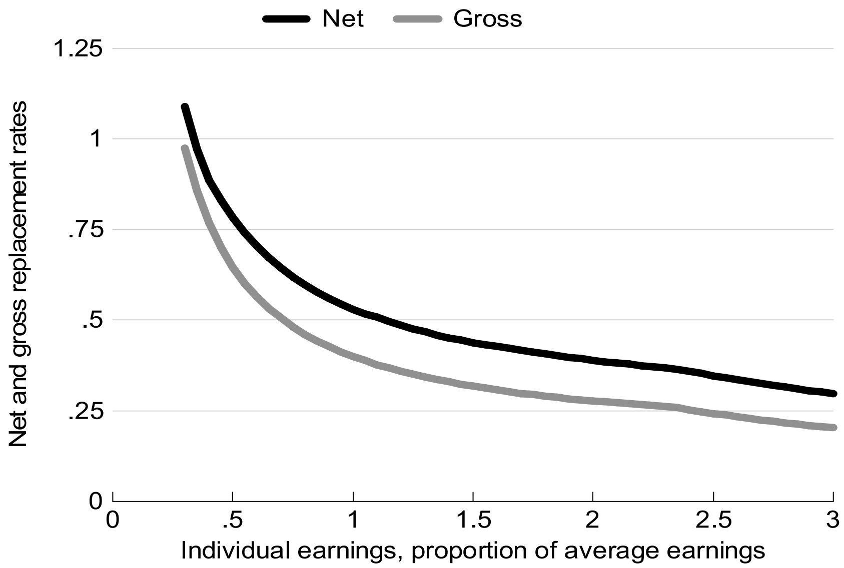
Gross replacement rate



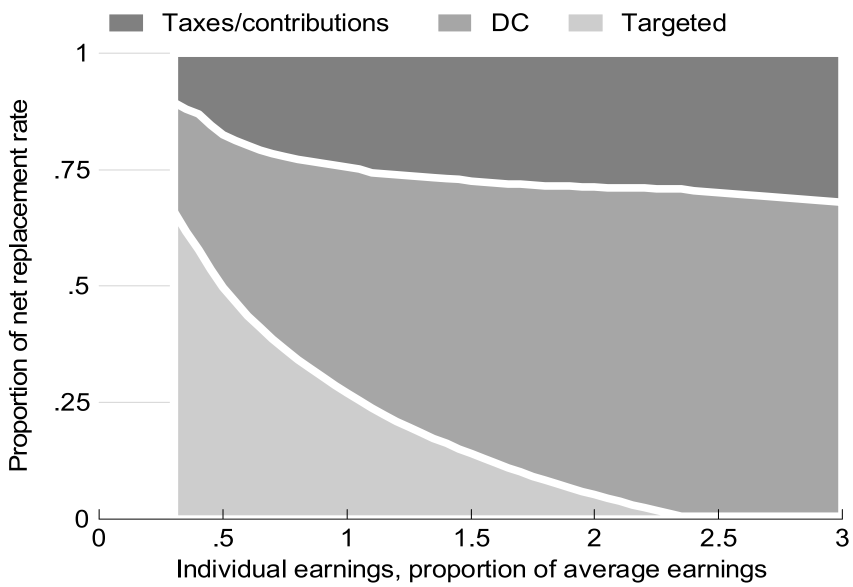
Net and gross relative pension levels



Net and gross replacement rate



Taxes paid by pensioners and workers



Sources of net replacement rate

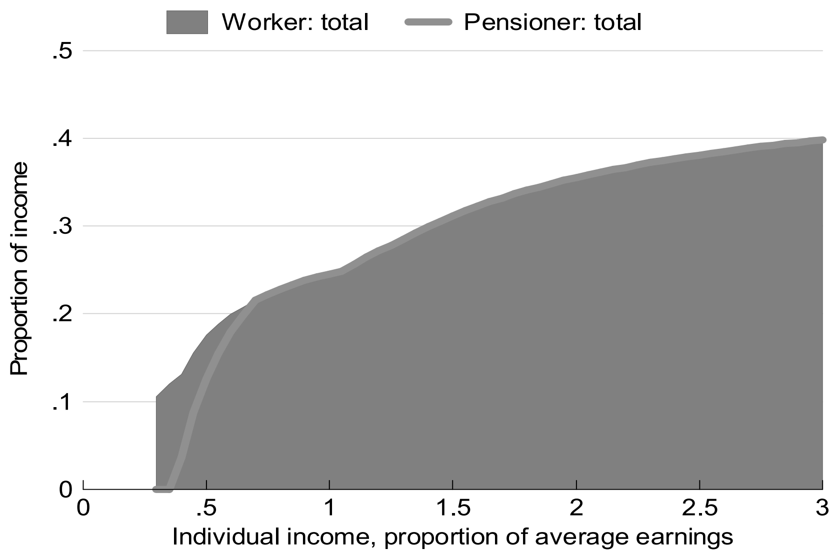


Table Ⅱ.32. Pension modeling results: Australia

	Individual earnings, multiple of average					
Men	0.5	0.75	1	1.5	2	2.5
Gross pension level *(% of average earnings)*	32.3	36.1	40.0	47.7	55.4	60.6
Net pension level *(% of average net earnings)*	42.8	47.9	53.0	60.0	66.5	71.0
Gross replacement rate *(% of individual earnings)*	64.6	48.2	40.0	31.8	27.7	24.3
Net replacement rate *(% of individual net earnings)*	78.3	61.9	53.0	43.8	38.9	34.6
Gross pension wealth *(multiple of average earnings)*	5.7	6.2	6.7	7.7	8.7	9.4
Net pension wealth *(multiple of average net earnings)*	11.3	8.2	6.7	4.9	3.9	3.3

Japan

The Japanese public pension system has two tiers: a basic, flat-rate scheme and an earnings-related plan.

Qualifying conditions

The old-age, basic pension is paid from age 65 with a minimum of 25 years' contributions. However, reduced benefits can be received from age 60. The earnings-related pension is paid in addition to the basic pension, with a minimum of one month contribution, provided a pensioner is entitled to the basic pension. The pension age under this programme is gradually being increased from 60 years to reach 65 years for men in 2025 and for women in 2030.

Benefit calculation

Basic

The full basic pension for 2002 was JPY 804200 per year, corresponding to 19% of average earnings. Average receipt of the basic pension is around JPY 620,000 per year. The value of the basic pension is price indexed.

Earnings-related

The employees' pension scheme has a flat-rate earnings-related component. The most important part is the earnings-related pension. The accrual rate was 0.75% of lifetime average earnings, gradually falling to 0.7125%. Past earnings are valorized in line with earnings. There is a ceiling on earnings applied to calculate contributions; it is set at JPY 620,000 a month equivalent to 175% of average earnings.

The flat-rate benefit amounts to JPY 1,676 per month of contributions. This is paid only to pensioners between 60 and 64 years. As the model assumes retirement at 65, this component is not included. The employees' pension in payment is price indexed.

Personal income tax and social security contributions

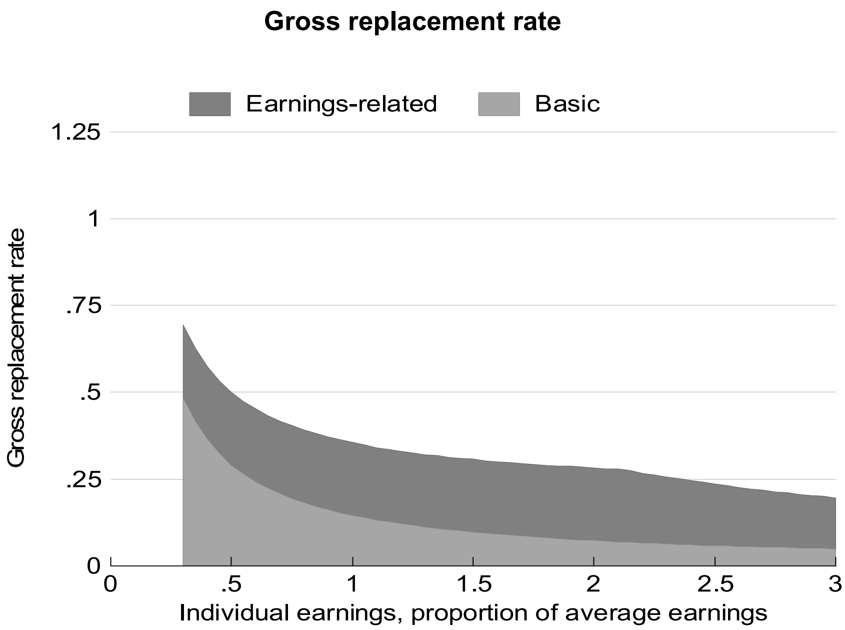
Taxation of pensioners

There is an additional JPY 500,000 deduction for over 65s if their income is less than JPY 10 million in total. There is a schedule of deductions for over 65s, beginning with 100% of the first JPY 1 million of income from the public pension scheme (or from a particular type of private pension scheme: a tax-qualified retirement plan). Next, 25% of income up to JPY 3.6 million is deductible, followed by 15% of income up to JPY 7.2million and 5% thereafter. Finally, the deduction is subject to a minimum of JPY 1.4 million. The 40% deduction applied to the first JPY 1.8million of earnings for people with earnings, while the minimum deduction is JPY 650,000.

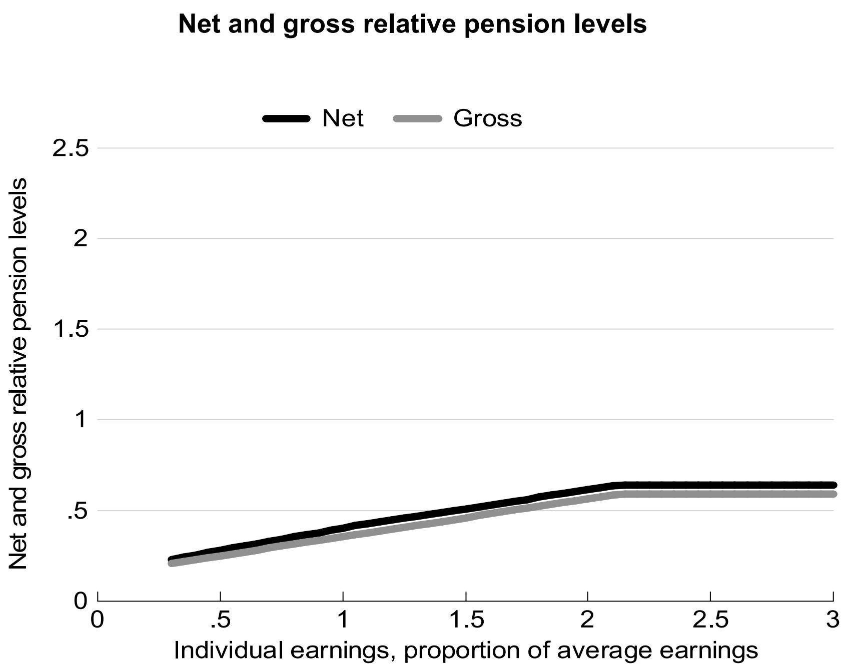
Taxation of pension income

There are no special rules for the taxation of pension income. Social security contributions is payable by pensioners, contributions to health insurance and elderly care insurance are levied on pension income.

Gross relative pension level

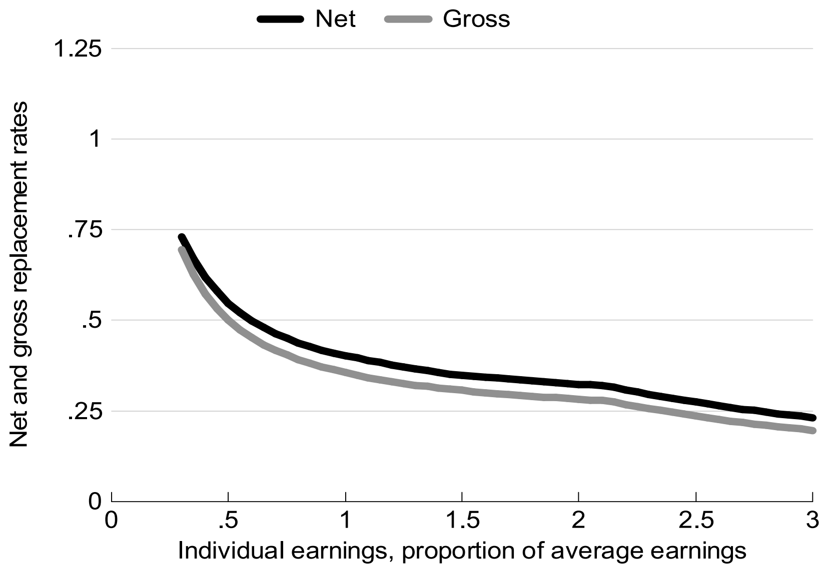


Gross replacement rate
Earnings-related
Basic
1.25
1
.75
.5
.25
0
Gross replacement rate
0
.5
1
1.5
2
2.5
3
Individual earnings, proportion of average earnings

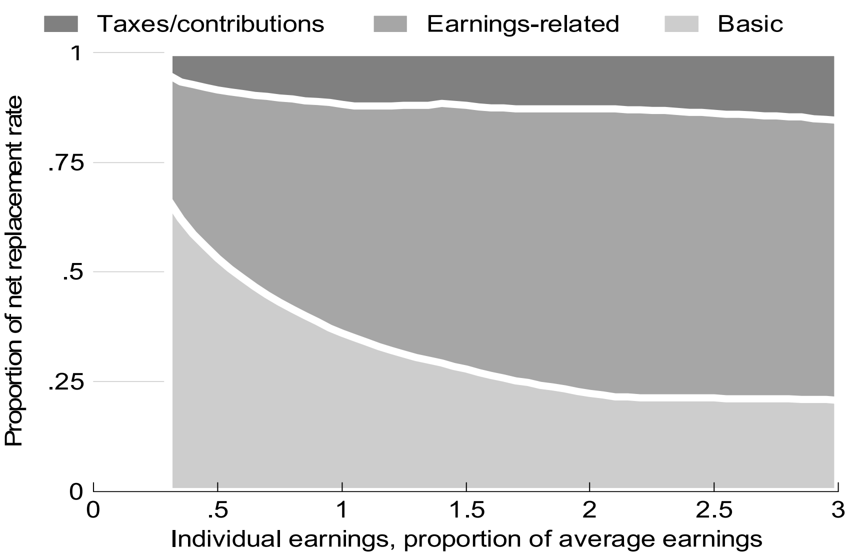


Net and gross relative pension levels
Net
Gross
2.5
2
1.5
1
.5
0
Net and gross relative pension levels
0
.5
1
1.5
2
2.5
3
Individual earnings, proportion of average earnings

Net and gross replacement rate



Taxes paid by pensioners and workers



Sources of net replacement rate

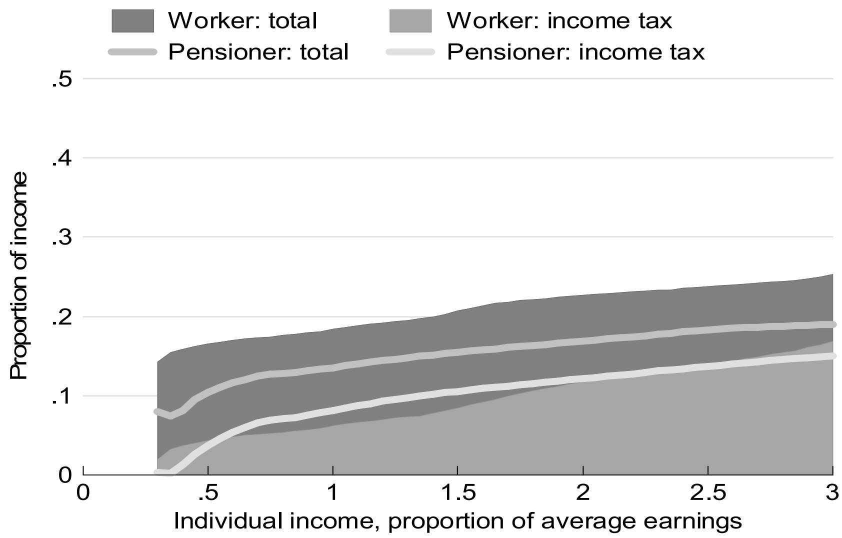


Table Ⅱ.33. Pension modeling results: Japan

	Individual earnings, multiple of average					
Men	0.5	0.75	1	1.5	2	2.5
Gross pension level *(% of average earnings)*	25.0	30.2	35.5	46.0	56.4	58.9
Net pension level *(% of average net earnings)*	28.0	34.1	40.3	50.9	61.4	63.9
Gross replacement rate *(% of individual earnings)*	50.0	40.3	35.3	30.6	28.2	23.5
Net replacement rate *(% of individual net earnings)*	54.7	45.0	40.3	34.9	32.4	27.4
Gross pension wealth *(multiple of average earnings)*	4.1	5.0	5.9	7.6	9.4	9.8
Net pension wealth *(multiple of average net earnings)*	7.6	6.2	5.4	4.6	4.2	3.5

Korea

The Korean public pension scheme was introduced relatively recently. It is an earnings-related scheme with a progressive formula, since benefits are based on both individual earnings and the economy-wide average of earnings.

Qualifying conditions

The pension is available from age 60 provided the individual has contributed for ten years or more. An actuarially reduced early pension can be drawn from 55.
The normal pension age is gradually being increased and will reach 65 from 2033. The modeling assumes the long-term pension age of 65 and that the early pension age will also be raised from 55 to 60.

Benefit calculation

First tier

Korean government introduced Basic Age Pension from 2008. The target population is 60% of the age 65 and older. The benefit is a flat rate of 5% of the average earnings of the insured of the national pension every year. The benefit is reduced in phases according to income and assets of the aged.

Earnings-related

The scheme is earnings-related. Benefits accrue at the rate of 1.5% of earnings per year of membership up to a maximum replacement rate of 100% to 2007. And the earnings replacement rate of the pension for 40 years of contributions for average pension income earners is 60% of the earnings to 2007. It will be reduced to 50% in 2008 and then will be reduced 0.5pt every year until making 40% from 2009 to 2028. The model assumes a value of 1.25% for every year; it implies that replacement rate of 50%, which will be applied beginning of 2009, will be maintained up until retirement. Earlier years' earnings are valorized in line with prices. The earnings measure used in the formula is the average of individual lifetime average earnings and economy-wide average pay (measured over the previous three years). The component of pension based on individual earnings and the part based on average earnings are shown separately in the charts. There is a ceiling to pensionable pay of KRW 3.6 million per month, which is equivalent to 2.2 times average earnings of the insured in whole in 2006.

Early retirement

When the normal pension age is increased from 60 to 65 starting from 2013, it is assumed that the early pension age will increase from 55 to 60. At 60, the early old-age pension will then be 70% of the normal old age pension. The benefit is increased by 6% every year, for example, a person who retires at age 64 will be entitled to 94% of the full old age pension.

Late retirement

People can earn extra pension for delaying retirement later than normal retirement age. The benefit is increased by 6% every year and the maximum of deferral is 5 years to age 70.

Personal income tax and social security contributions

Pensioners receive an additional allowance of KRW 1.5 million on top of the standard allowance.

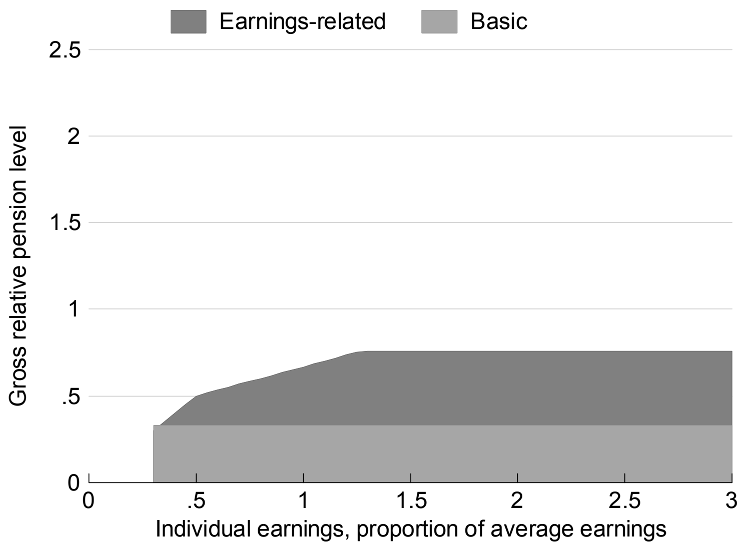
Taxation of pension income

Pension income is taxable. There is a pension income deduction the thresholds of which are half of those that apply to workers. Below KRW 3.5million, all income is deductible. Above that level, the marginal rate of deduction falls to 40%, 20%, and finally, to 10%. The maximum deduction is KRW 9 million per year.

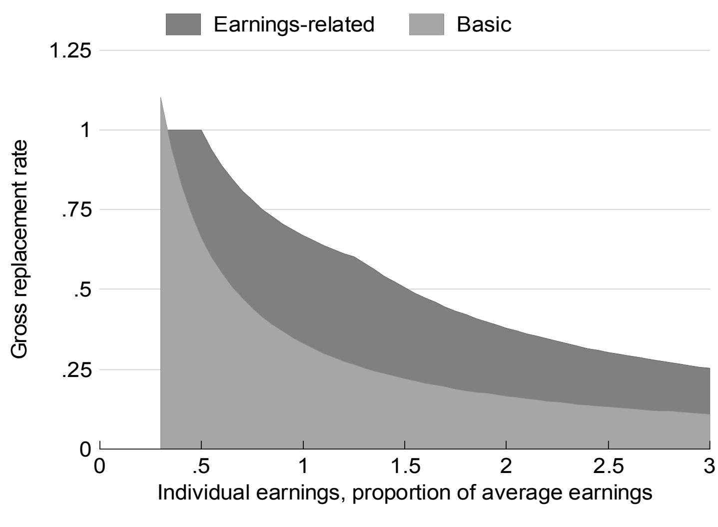
Social security contributions paid by pensioners

Pensioners do not pay social security contributions.

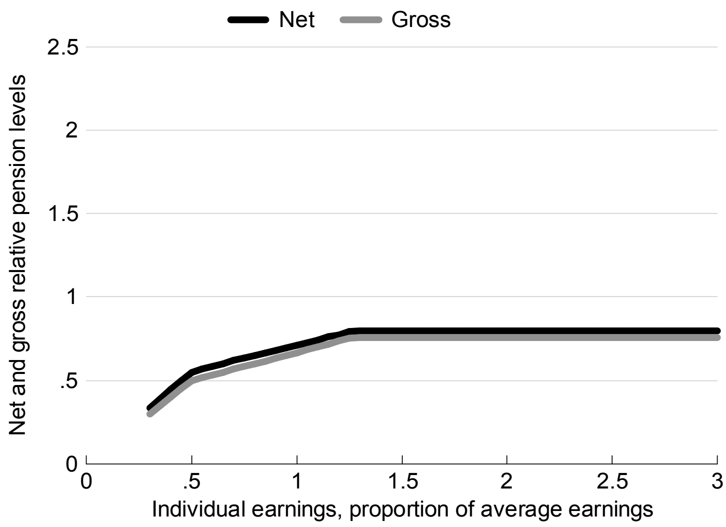
Gross relative pension level



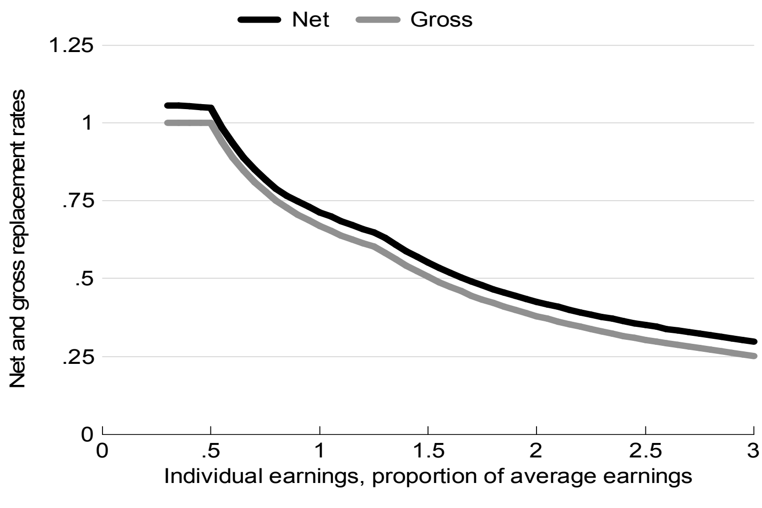
Gross replacement rate



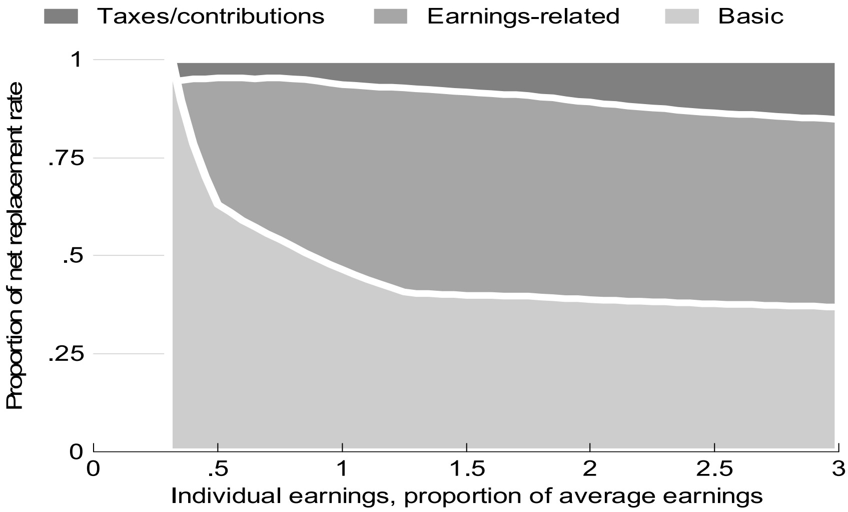
Net and gross relative pension levels



Net and gross replacement rate



Taxes paid by pensioners and workers



Sources of net replacement rate

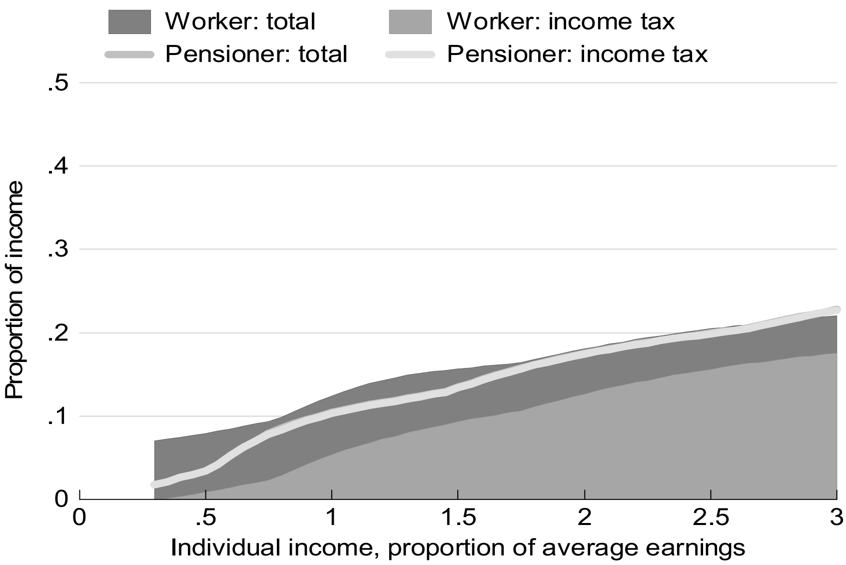


Table Ⅱ.34. Pension modeling results: Korea

	Individual earnings, multiple of average					
Men	0.5	0.75	1	1.5	2	2.5
Gross pension level *(% of average earnings)*	41.6	48.7	55.7	63.2	63.2	63.2
Net pension level *(% of average net earnings)*	46.2	53.8	60.9	67.9	67.9	67.9
Gross replacement rate *(% of individual earnings)*	83.3	64.9	55.7	42.1	31.6	25.3
Net replacement rate *(% of individual net earnings)*	88.0	69.2	60.9	47.0	36.3	29.9
Gross pension wealth *(multiple of average earnings)*	5.8	6.8	7.8	8.8	8.8	8.8
Net pension wealth *(multiple of average net earnings)*	11.3	8.7	7.4	5.5	4.1	3.3

New Zealand

The public pension is flat rate based on a residency test. Occupational schemes are also common.

Qualifying conditions

Ten years' residency since the age of 20 (including five years after age 50) entitles people to the public pension at 65 years of age.

Benefit Calculation

Basic

The pension in 2002 for a single person living alone was NZD 288 gross per week, which is around 38% of average earnings. The value is a little lower for people sharing accommodation. It is NZD 437 gross per week for married pensioner couples, equivalent to 58% of average earnings.

The rates of public pension are linked by law to average earnings, with the net couple rate being set between 65% and 72.5% of the net average wage, depending on movements in prices. The rates for single people are set at 65% (living alone) and 60 % (sharing) of the couple rate.

Personal income tax and social security contributions

Taxation of pensioners

New Zealand does not provide any tax concessions specifically for older people.

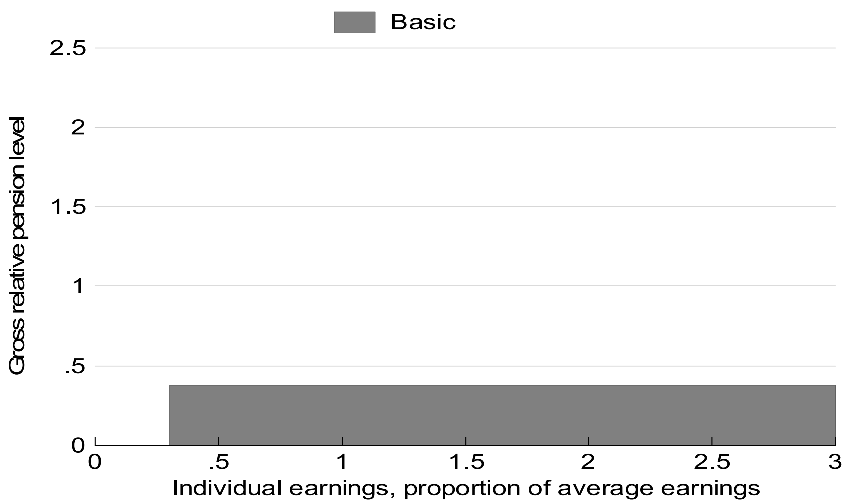
Taxation of pension income

The public pension is subject to personal income tax (in the same manner as any other personal income). Note that the calculations for the worker tax differ slightly from those reported in the OECD's Taxing Wages. For workers, these include the 1.2% ACC levy, which is not paid by pensioners. Thus, people of working age pay a very slightly higher average effective tax rate than do pensioners.

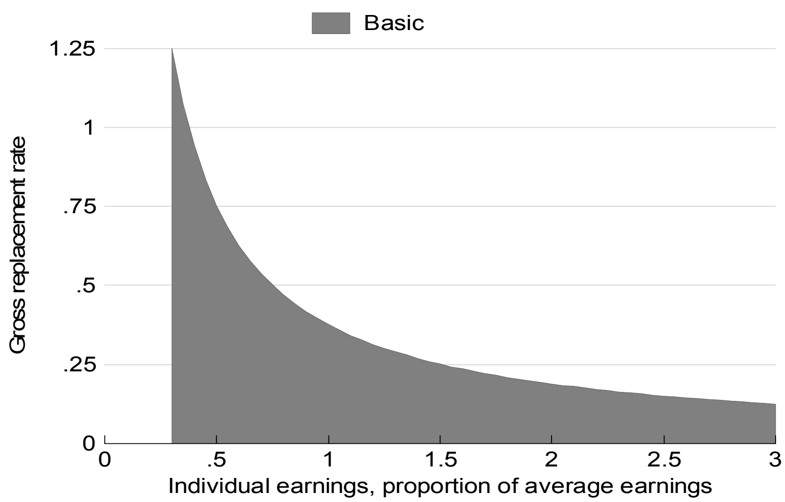
Social security contributions paid by pensioners

The New Zealand system is funded through general taxation and not specific social security contributions.

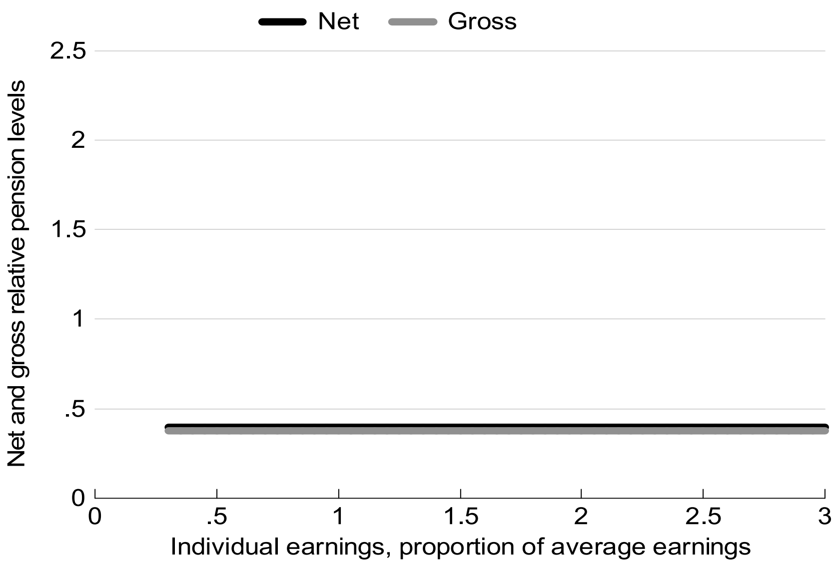
Gross relative pension level



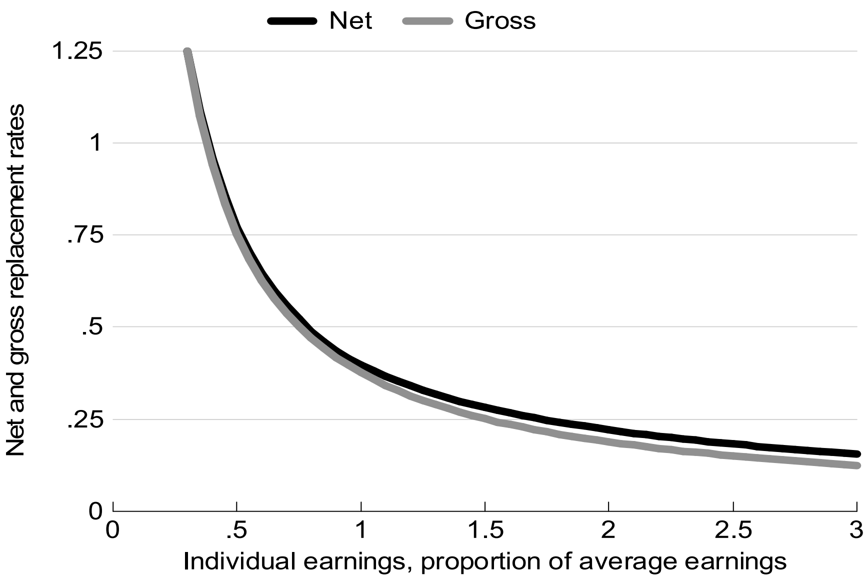
Gross replacement rate



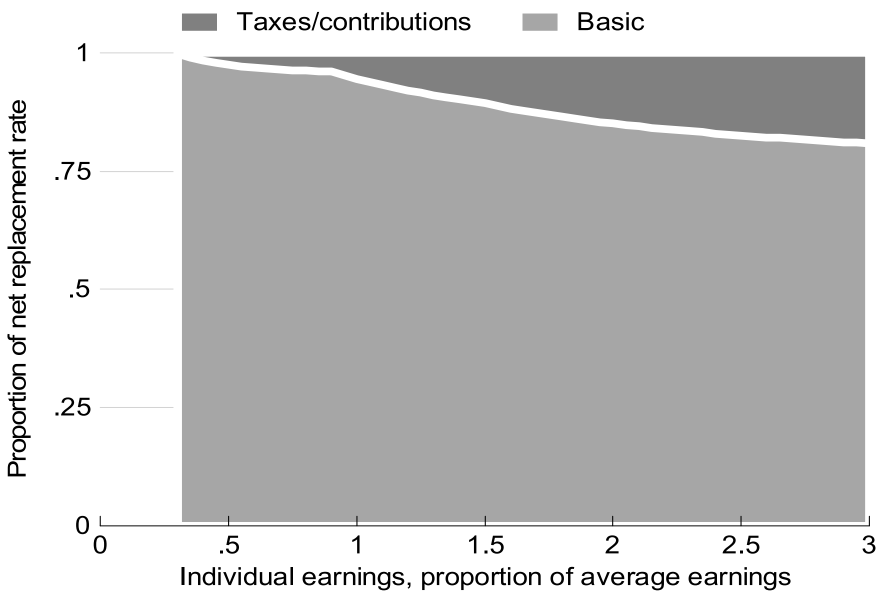
Net and gross relative replacement rate



Net and gross replacement rate



Sources of net replacement rate



Taxes paid by pensioners and workers

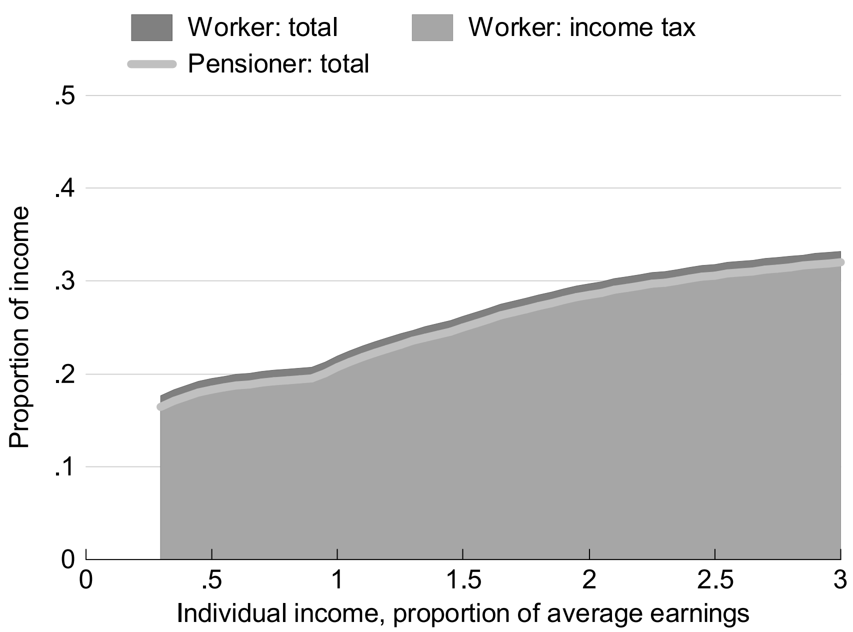


Table Ⅱ.35. Pension modeling results: New Zealand

	Individual earnings, multiple of average					
Men	0.5	0.75	1	1.5	2	2.5
Gross pension level *(% of average earnings)*	37.6	37.6	37.6	37.6	37.6	37.6
Net pension level *(% of average net earnings)*	39.8	39.8	39.8	39.8	39.8	39.8
Gross replacement rate *(% of individual earnings)*	75.2	50.1	37.6	25.1	18.8	15.0
Net replacement rate *(% of individual net earnings)*	77.2	52.0	39.8	28.1	22.1	18.2
Gross pension wealth *(multiple of average earnings)*	7.0	7.0	7.0	7.0	7.0	7.0
Net pension wealth *(multiple of average net earnings)*	11.0	7.7	5.7	3.8	2.9	2.3