



# Asian Provident Funds

Meeting Tomorrow's Challenges

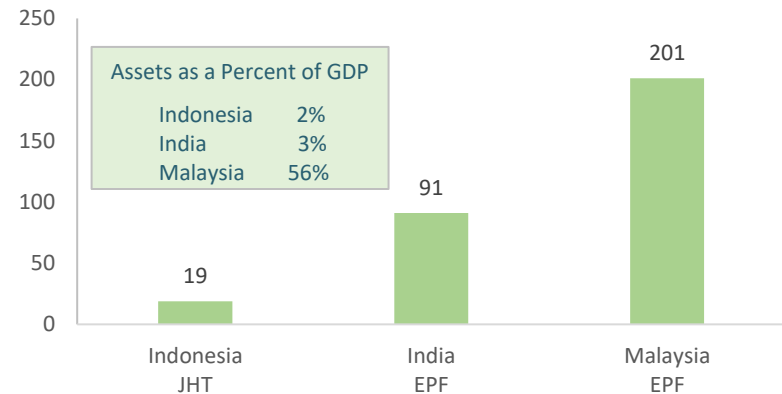
Presentation by the  
**Global Aging Institute**

**World Bank Group Webinar**  
Kuala Lumpur  
April 28, 2021

# The Provident Fund Model

- ❑ The report focuses on India's EPF, Indonesia's JHT, and Malaysia's EPF.
- ❑ The provident fund model has two key features that make it an attractive choice for emerging markets:
  - Provident fund savings can be harnessed to advance national development objectives.
  - Provident funds can serve a wide range of savings needs beyond the need to save for retirement.
- ❑ To be successful, provident funds must strike the right balance between their competing goals. What the right balance is, moreover, will necessarily shift over time as countries develop and their populations age.

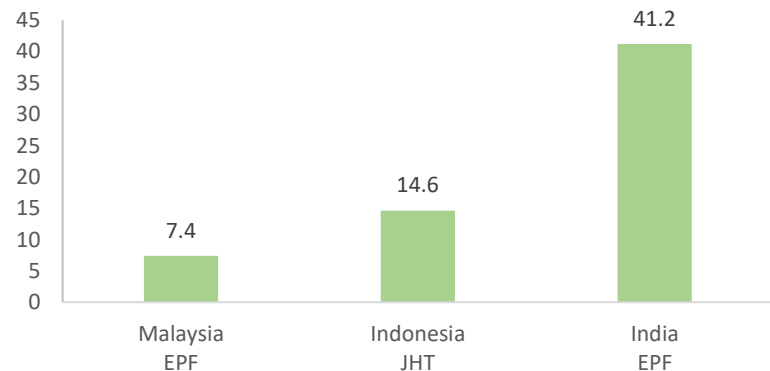
Assets in Billions of U.S. Dollars at the End of 2018 or Most Recent Year Available



**Note:** The figure for India is an estimate for the end of March 2018.

**Source:** EPFO, BPJS, EPF, and GAI calculations

Active Members in Millions at the End of 2018 or Most Recent Year Available



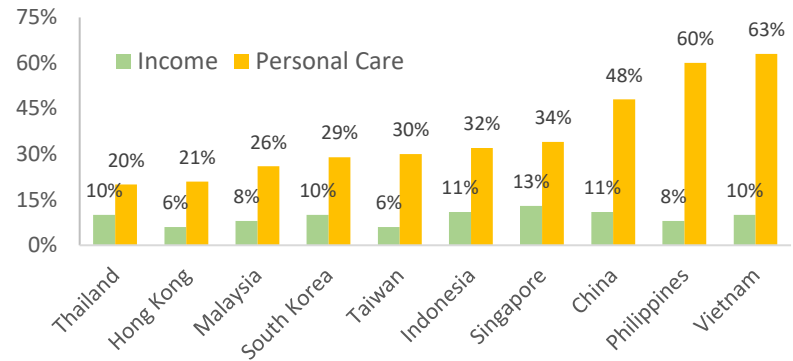
**Note:** Data for Indonesia are for the end of 2017; data for India are an average for 2016-17.

**Source:** EPFO, BPJS, and EPF

# Asia at a Crossroads

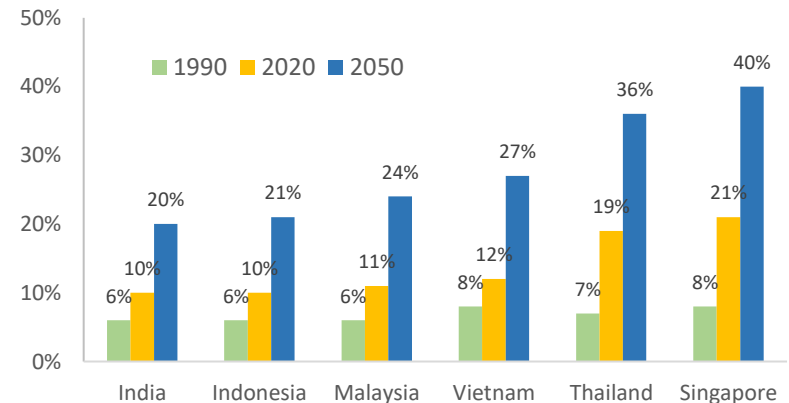
- Until recently, governments throughout Asia could assume that those workers who reached old age without a pension or personal savings would be supported by their extended families.
- As Asian countries develop and modernize, traditional family support networks for the elderly are coming under increasing stress. Yet in most countries, government and market substitutes are not yet fully developed. The result is growing retirement insecurity.
- The large age waves due to sweep over the region make the need to build more inclusive and more adequate retirement systems all the more urgent.

Share of Respondents Saying the Family Should, Ideally, Be Mostly Responsible for Providing Income and Personal Care to Retirees



Source: Richard Jackson and Tobias Peter, *From Challenge to Opportunity: Wave 2 of the East Asia Retirement Survey* (Alexandria, VA: GAI, 2015).

Elderly (Aged 60 & Over), as a Percent of the Population, 1990-2050



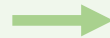
Source: UN Population Division (2019)

# Investment & Governance

# The Dual Objectives of Provident Funds

## Economic Development

- ❑ Support government lending
- ❑ Supply funds for social capital investments
- ❑ Facilitate the growth of private-sector capital markets

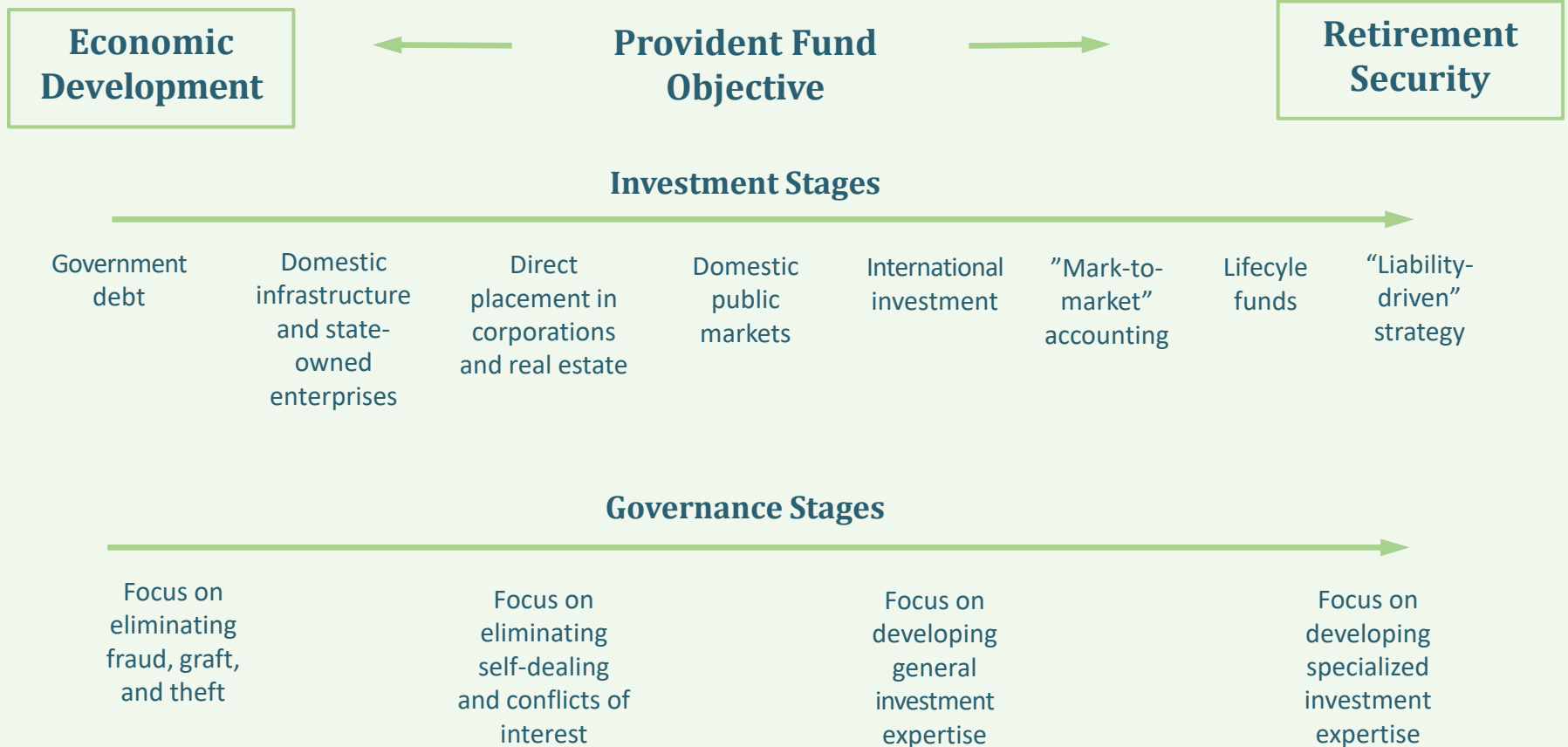


Balance  
should shift  
over time

## Retirement Security

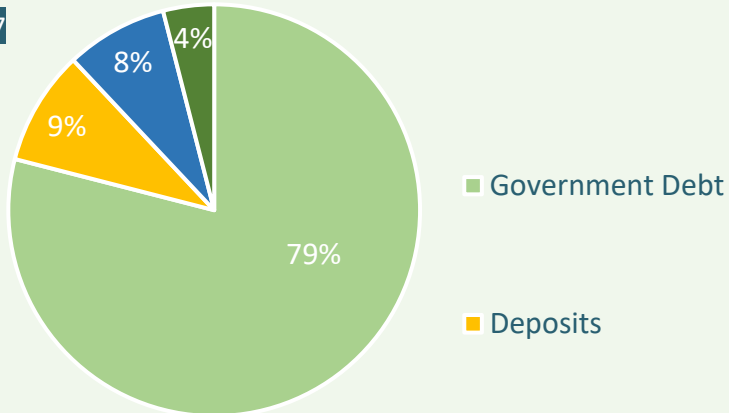
- ❑ Reduce old-age poverty
- ❑ Provide adequate income replacement in retirement
- ❑ Maintain economic growth by minimizing the impact of retirement on consumption

# Evolution of Investment & Governance

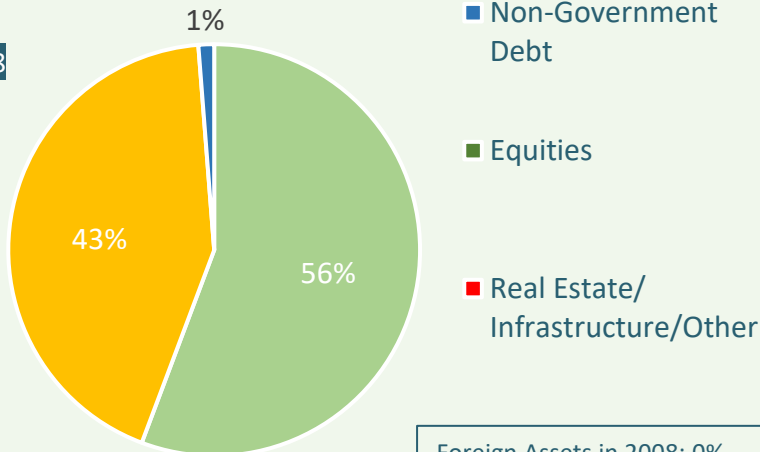


# India's EPF: Investment Summary

2017

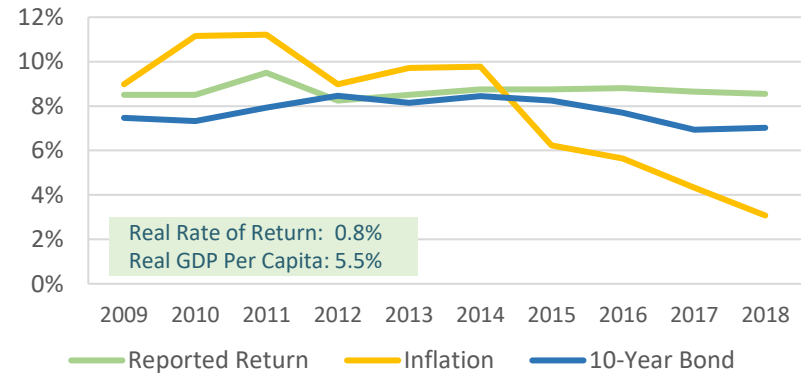


2008

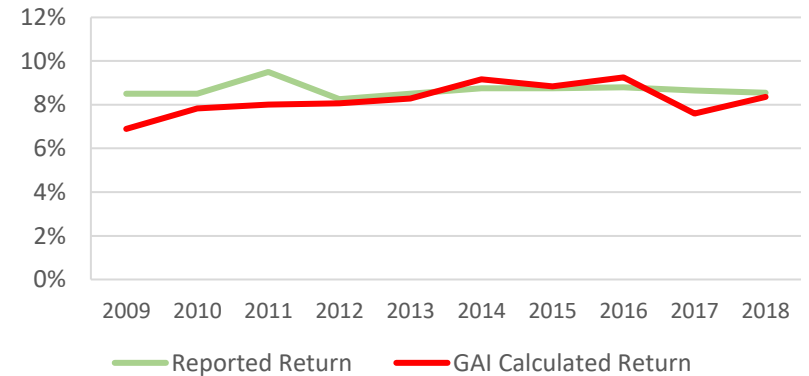


Foreign Assets in 2008: 0%  
Foreign Assets in 2017: 0%

Reported Return vs. Inflation and 10-Year Bond Yield



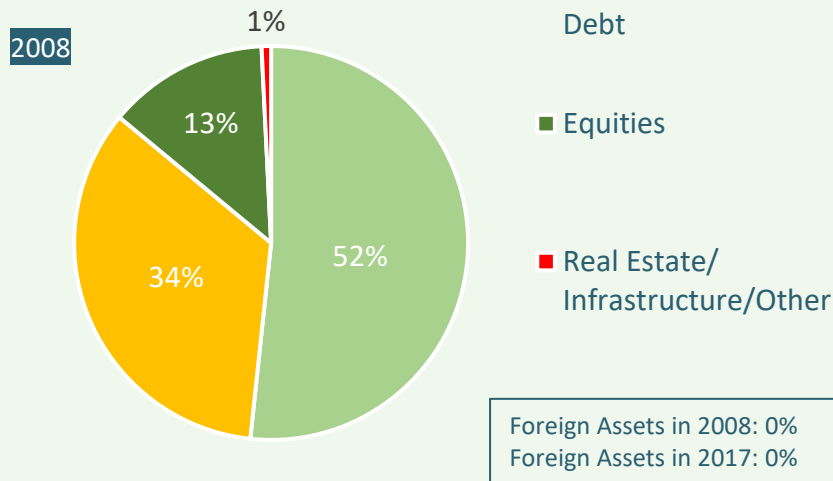
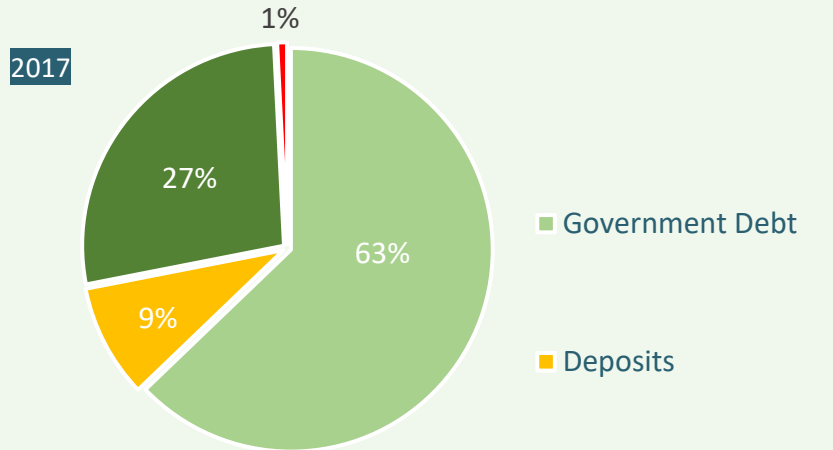
Reported Return vs. GAI Calculated Return



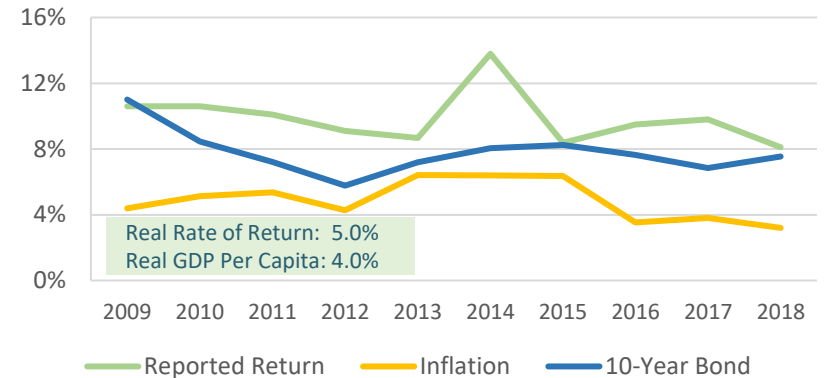
**Note:** Asset allocation is as of 5/31/2008 and 12/31/2017; returns are for fiscal years ending 3/31.

**Source:** EPFO and GAI calculations

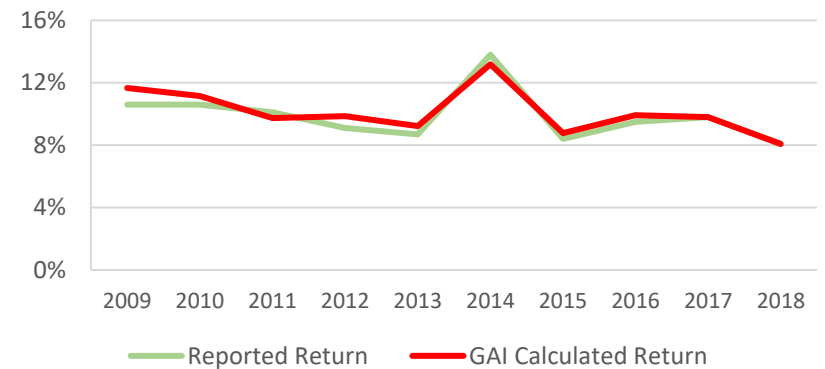
# Indonesia's JHT: Investment Summary



Reported Return vs. Inflation and 10-Year Bond Yield



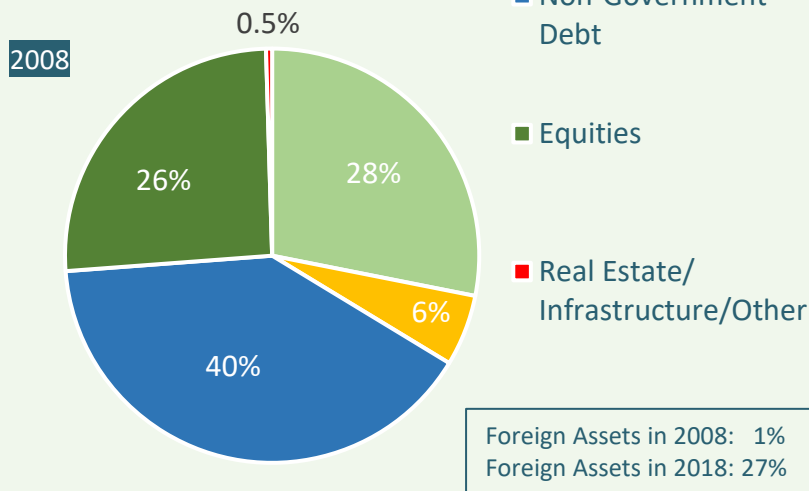
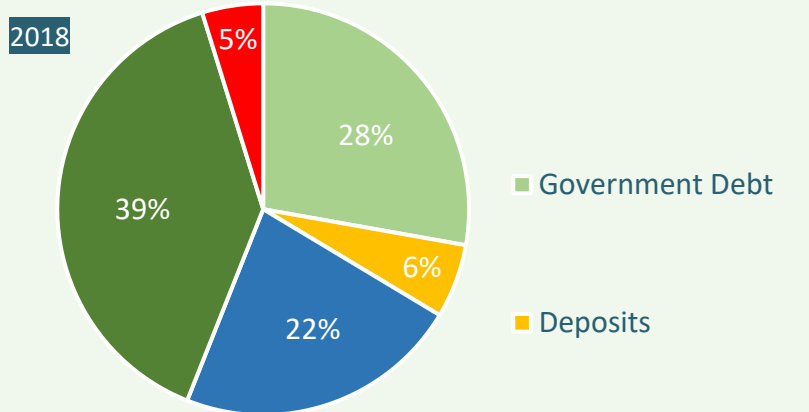
Reported Return vs. GAI Calculated Return



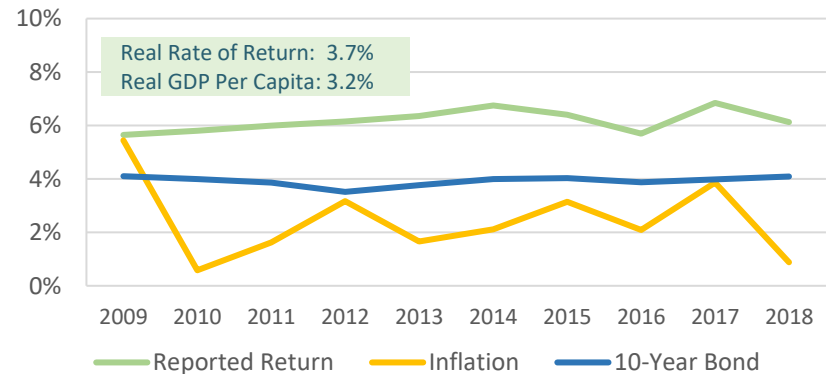
**Note:** Asset allocation is as of 12/31/2008 and 12/31/2017; government debt includes non-government debt; the Reported Return for 2017 is estimated from return amount and cash flow.  
**Source:** BPJS and GAI calculations



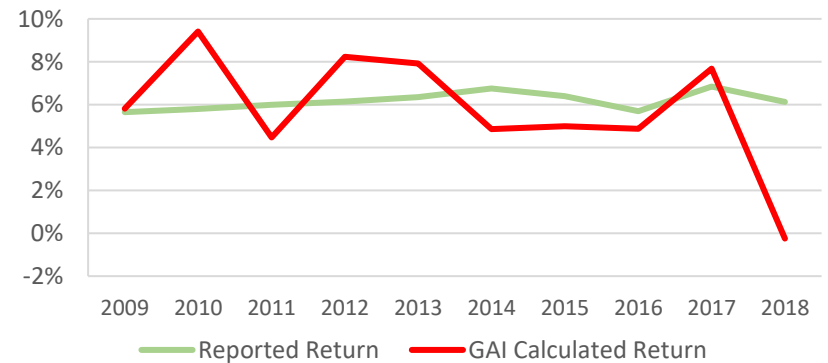
# Malaysia's EPF: Investment Summary



Reported Return vs. Inflation and 10-Year Bond Yield



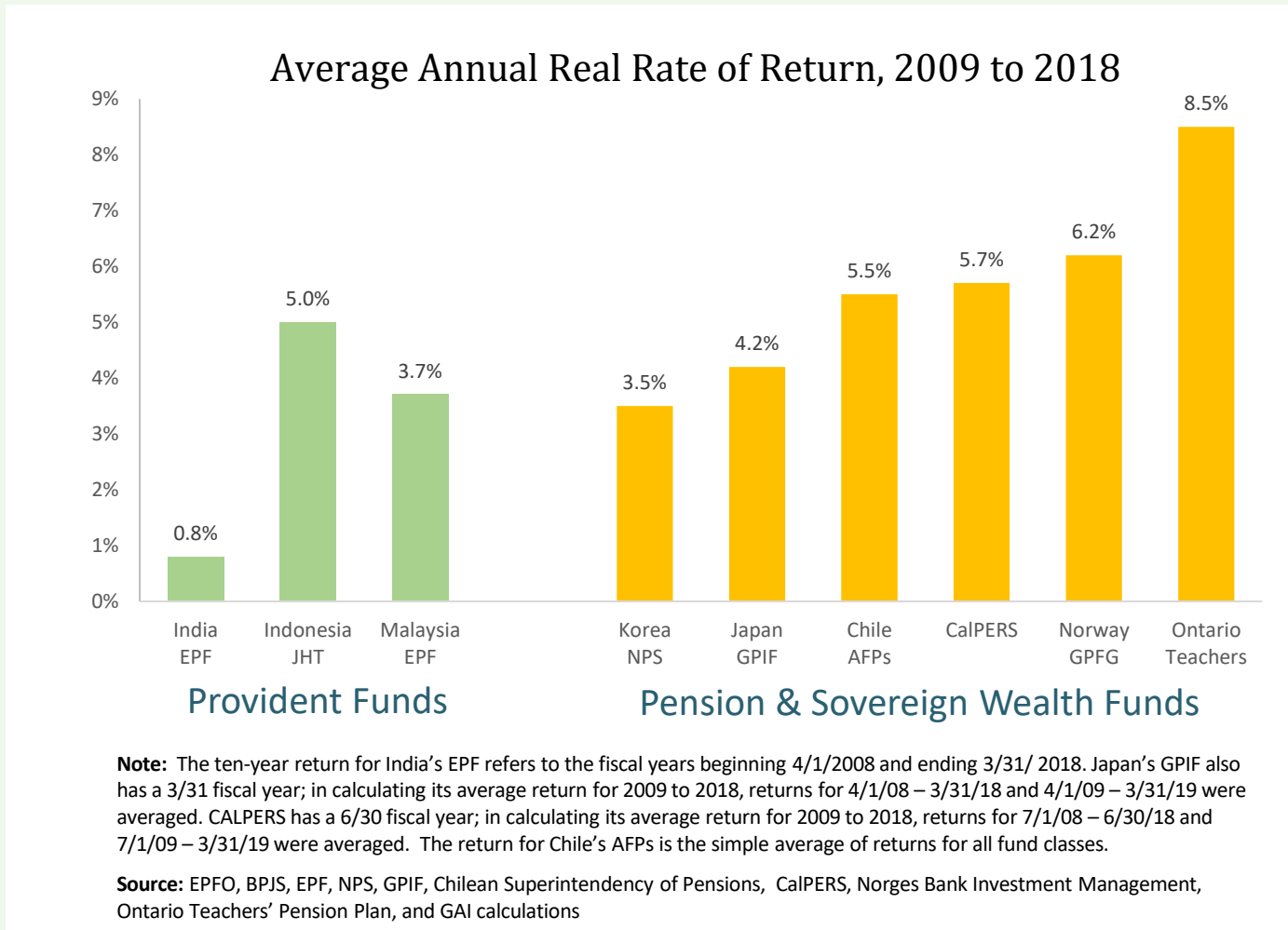
Reported Return vs. GAI Calculated Return



**Note:** Asset allocation is as of 12/31/2008 and 12/31/2018; the GAI Calculated Return includes unrealized gains/losses on equity investments.

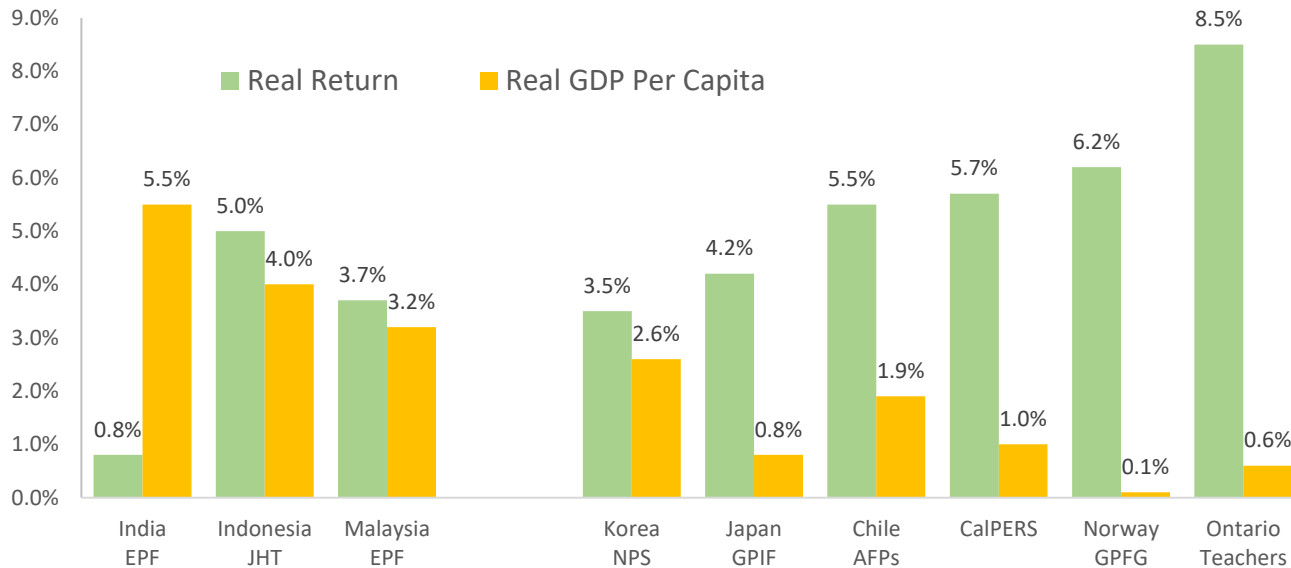
**Source:** EPF and GAI calculations

# Performance Relative to Other Investment Funds



# Performance Relative to Economic Growth

Real Rate of Return vs. Growth Rate in Real GDP Per Capita, 2009 to 2018



## Provident Funds

## Pension & Sovereign Wealth Funds

### Return above GDP Per Capita

India's EPF	-4.7%	Korea's NPS	1.0%	CalPERS	4.7%
Indonesia's JHT	0.9%	Japan's GPIF	3.4%	Norway's GPFG	6.1%
Malaysia's EPF	0.5%	Chile's AFPs	3.6%	Ontario Teachers	7.9%

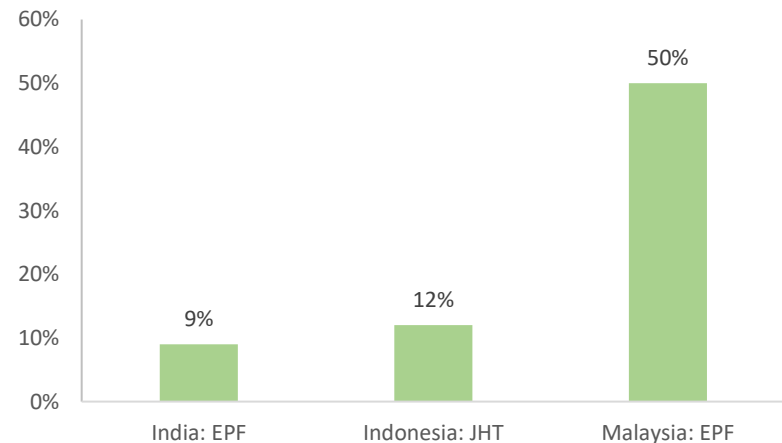
Note & Source: See slide 10

# Benefit Design & Adequacy

# The Two Dimensions of Adequacy

- ❑ There are two basic dimensions to the adequacy of government retirement systems: their breadth, as measured by the share of the workforce that participates, and their depth, as measured by the share of preretirement income they replace.
- ❑ Although low coverage constitutes an enormous policy challenge in emerging markets, it is no more of a challenge for provident funds than for other types of contributory retirement systems.
- ❑ The report focuses on the second dimension of benefit adequacy, where the outcomes are more closely related to the design of provident funds themselves.
- ❑ The analysis suggests there is cause for concern about the adequacy of benefits in all three countries covered in the report.

Effective Coverage Rate at the End of 2018 or Most Recent Year Available



**Note:** : The effective coverage rate equals active members as a share of employment, where active members are defined as members whose employers make regular contributions on their behalf (India) or members who have made a contribution within the past year (Indonesia and Malaysia). Data for Indonesia are for the end of 2017; data for India are an average for 2016-17.

**Source:** EPFO, BPJS, EPF, and GAI calculations

# Factors Undermining Benefit Adequacy

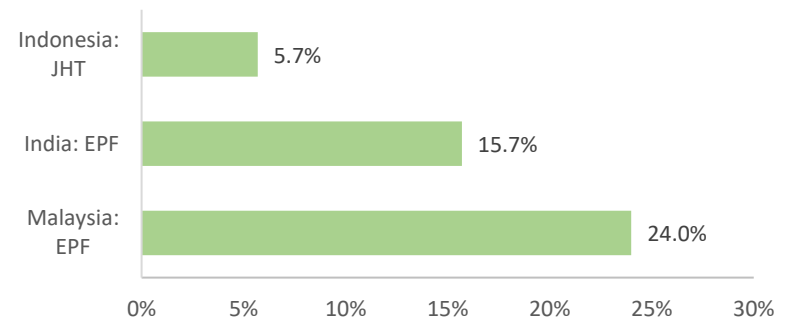
## ACCUMULATION PHASE

- **Low Contribution Rate**  
– *Indonesia*
- **Nonretirement Withdrawals**  
– *India, Indonesia & (to lesser extent) Malaysia*
- **Low Contribution Density**  
– *India, Indonesia & Malaysia*
- **Rapid Wage Growth**  
– *India, Indonesia & (to lesser extent) Malaysia*

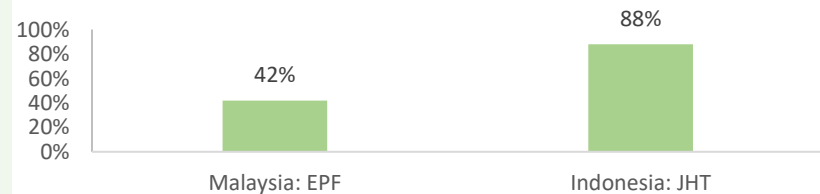
## PAYOUT PHASE

- **Early Retirement Ages**  
– *India, Indonesia & Malaysia*
- **Lack of Provision for Lifetime Income**  
– *India, Indonesia & Malaysia*

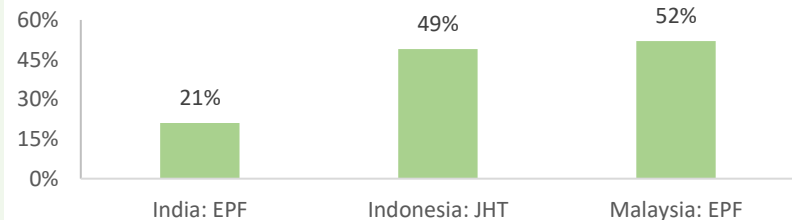
Standard Contribution Rate



Preretirement Withdrawals as a Percent of Total Withdrawals in 2018 or Most Recent Year Available



Active Members as a Percent of Total Members in 2018 or Most Recent Year Available

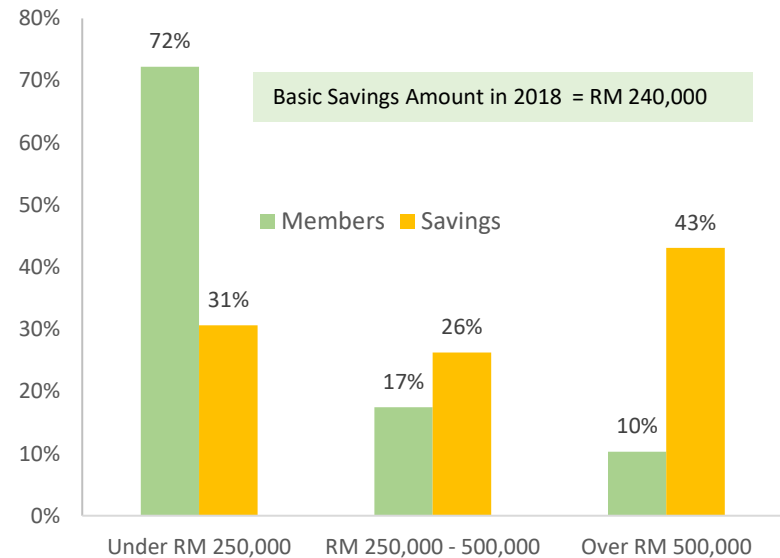


**Note:** Data for Indonesia are for the end of 2017; data for India are an average for 2016-17. In Indonesia, active members refer to JHT members; total members refer to BPJS members, excluding Jakon workers

# Adequacy Today

- ❑ **MALAYSIA:** Nearly three-quarters of EPF members nearing retirement age have saved less than the Basic Savings Amount, a sum intended to finance a poverty-level benefit equal to about two-fifths of the median wage.
- ❑ **INDONESIA:** The average JHT lump sum retirement payout is equal to just one and-one half times the average annual wage, which is not enough to finance an inflation-adjusted annuity equal to 10 percent of preretirement wages.
- ❑ **INDIA:** GAI estimates that the average EPF balance at retirement is equal to just one-half of the average annual wage, which is not enough to finance an inflation-adjusted annuity equal to 5 percent of preretirement wages.

Malaysia's EPF: Percent Distribution of Members and Savings at Age 54 at the End of 2018, by Size of Account Balance

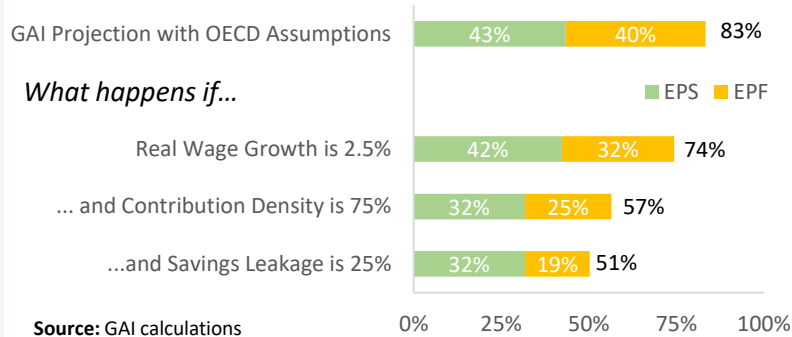


Source: EPF and GAI calculations

# Adequacy Tomorrow

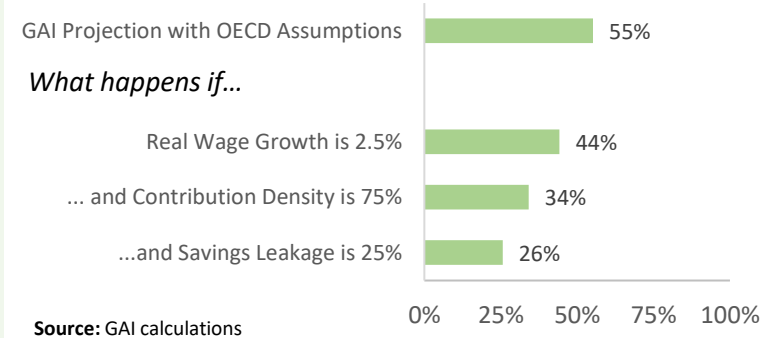
## INDIA

### Gross Replacement Rates for EPF Members Entering the Workforce in 2020



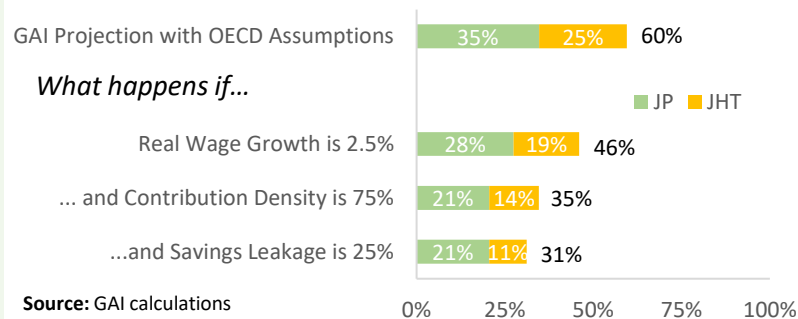
## MALAYSIA

### Gross Replacement Rates for EPF Members Entering the Workforce in 2020



## INDONESIA

### Gross Replacement Rates for JHT Members Entering the Workforce in 2020



**Note:** Projections refer to workers who enter the workforce at age 20 in 2020 and retire at the standard retirement age in each country. Account balances are converted into inflation-adjusted annuities using unisex life tables. All scenarios assume a 3.0% real rate of return and a 2.0% real discount rate. The GAI Projection with OECD Assumptions assumes 1.25% real wage growth, 100% contribution density, and 100% savings preservation.



# Directions for Reform

# Investment & Governance

- Develop explicit guidelines for balancing national economic development and retirement security objectives.
- Continue to diversify investment portfolios.
- Consider moving toward market-linked returns.
- Consider moving toward individual customization of the asset portfolio.
- Enhance the clarity and transparency of financial reporting.
- Better educate members about the importance of retirement savings.

# Benefit Design & Adequacy

- Increase savings dedicated to retirement.
- Raise standard retirement ages.
- Institute provisions for lifetime income.
- Explore ways to increase coverage and contribution density.
- Strengthen the old-age safety net.

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