

Aging Population in Asia: Experience of Japan, Thailand and China

Seminar Report on the Parallel Session
at the 8th Annual Global Development Conference
January 17, 2007, Beijing, China



Aging Population in Asia: Experience of Japan, Thailand and China New Perspectives for Assistance and Cooperation



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Introduction

Koji Yamada

This is a report of the Parallel Session 4.1 “Aging Population in Asia: Toward a Sustainable Welfare Society,” in the 8th Annual Global Development Conference, which took place on January 14-17, 2007, in Beijing, China. The session was organized by the Japan International Cooperation Agency (JICA). The report consists of the papers and slides provided by the presenters as well as the minutes of the session.

JICA published a Japanese study report called *Facing up to the Problem of Population Aging in Developing Countries: New Perspectives for Cooperation*, in July 2006. The English version of the report is available in March 2007. This report addresses the issue of rapidly aging population in East Asia, and warns that the countries in the region should be ready for the time they use up the benefit of *demographic dividends*. The latest World Development Report 2007 describes it as the closure of the ‘windows of opportunity.’ Although it doesn’t refer to the measures to prepare for the time of closure, the time will come even to China and Thailand by 2015. The other East Asian countries are expected to face the population aging, too, at a speed faster than Japan (see Table 1). This means that they are entering into the aging society before they become rich enough to be ready for the phase.

Several countries in the region are experiencing declining birth and death rates. The increasing number of elderly people in these societies will, within the next few decades, result in shifting socio-economic structures with a significant impact on labor markets, economic growth rates, fiscal balance of the governments. These issues were discussed in the session in the context of the design of social security systems and concurrent costs. Speakers started with a critical review of the new JICA report and tried to contribute new perspectives. They discussed sustainable social security frameworks with reference to Thailand and China, which is followed by a presentation on Japan’s experience with a multi-pillar social welfare system.

Natsumi Aratame is one of the co-writers of the new JICA report, and wrote a chapter focusing on Japan’s experience in addressing the aging issues at the community level. In rapidly aging Japan, policy measures to address aging problems have been implemented centering on the keyword of “community-oriented welfare.” Now that a legal basis is firmly established, Japan’s community-oriented welfare is no

**Table1 Speed of Population Aging in East Asia
(based on medium variant estimate)**

	Elderly ratio 7%	Elderly ratio 14%	Number of Years to Double the ratio
Japan	1970	1994	24
Republic of Korea	1999	2017	18
Hong Kong	1983	2014	31
Singapore	2000	2016	16
Thailand	2005	2027	22
Malaysia	2019	2044	25
Indonesia	2019	2041	22
Philippines	2026	2049	23
China	2001	2026	25

Source: United Nations (UN) ,*The World Population Prospects*

longer at the conceptual stage. Planning and implementation are in progress at all government levels and available throughout the country. In his paper, he first describes the social background that gave rise to the need for community-based welfare in Japan. Next, he summarizes the development of welfare system for the elderly in general and community-oriented welfare for the elderly in particular. Thirdly, the unique nature of community-oriented welfare in Japan is illustrated more concretely, where both for-profit and non-profit organizations, modern and traditional institutions are shown to be working actively to help the elderly. Lastly, the Japanese social welfare model for the elderly is discussed in terms of the welfare state theory, together with its implications for Asian developing countries.

Medhi Krongkaew is a researcher who conducted a joint study with Prof. Shigeyuki Abe of Doshisha University, Japan, and submitted the final report, “The Current Development of Social Welfare System in Thailand (with Special Emphasis on Old Age Security): How Can Thailand Learn from the Experiences of Japan?” in April 2006. Based upon his past observation on Japan's old age security, he points out that it is a story of a resource-rich country like Japan but even so it faces a lot of pressures on the fiscal position of the government. He argues that the elderly people in Japan are too much taken care of by the government. Looking at the situation of Thailand, he says that the 13 million out of the total 64 million Thai people are covered by the formal insurance schemes which promote savings for retirement. But this small coverage has led the Thai government to introduce the National Pension Fund which covers the additional 30 million or more workers, and the program has been supplemented by legal arrangements such as free medical services and half prices on public transport for the elderly. In conclusion, he is of the view that the old age security is quite sustainable in Thailand.

Yinhua Sha highlights the aging situation and policy challenges of China. He divides the Chinese population into three groups: rural residents, urban residents and internal migrants from rural to urban sectors. There are 450 million population in the urban areas and 800 million in the rural areas. But this 800 million population includes 240 million internal migrants, who leave their residential register in their home villages but make a living in the cities. Having said this, Sha argues that the current pension schemes do not cover the rural population and internal migrants, and that we should come up with different policies toward the different target groups. He emphasizes the reconstruction and formation of the pension schemes for the sake of the rural people and internal migrants respectively. He also highlights the role of community in both urban and rural areas, saying that there are a lot to learn from Japan's experience in coping with the aging of the local community at the community level.

Takeo Ogawa argues that the developing countries could learn a lot more from the earlier stage of aging in Japan than the promotion of the community-based welfare linked to the long-term elderly care insurance scheme. It is the earlier phase of population aging in Japan which was similar to the current situation in Thailand, and he says that there were a lot of programs for enforcing the social relationships with community as well as family. He also emphasizes that the elderly people are not only a beneficiary but also a provider of social services, and the population aging does not cause the cost but offers opportunities to the society. He is of the view that the community-based welfare is synonymous with community development which mobilizes the local resources, and that the senior people are a part of local human resources that provide good products and services for the community. Included herewith in this report is the abstract he submitted to the parallel session, “Aging Society and Active Aging” at the Fukuoka Symposium hosted by Kyushu University Asia Center on February 1-2, 2007, in Fukuoka, Japan. It highlights the aging

population as a regional identity among Republic of Korea, China and Japan. Ogawa kindly agreed to let us include his abstract in this report.

The World Bank report¹ provides a good framework to understand the old age security. Its multipillar pension taxonomy consists of five pillars. Krongkaew focuses on the Pillar 1 to 3 and then says that the Thai government extends the coverage to the Pillar 0 and 4. Although Sha's argument does not reach the Pillar 4, the on-going discussions on the old age support in China rely on the role of family support and self-protection.² Aratame and Ogawa seem to have gone beyond the above five pillars, focusing on the capacity of the community, which is not well spelled out in the World Bank report. While Aratame is highlighting the role of local governments in promoting the long-term elderly care insurance schemes, Ogawa is highlighting the initiatives taken by the people in the community, including the elderly people who actively participate in the initiatives. Both are the elements of successful and sustainable community-based welfare in Japan.

Table 2 The World Bank's "Multipillar Pension Taxonomy"

Pillar	Target group			Main criteria		
	Lifetime poor	Informal sector	Formal sector	Characteristics	Participation	Finding or collateral
0	X	X	x	"Basic" or "Social pension" at least social assistance	Universal or residual	Budget or general revenues
1			X	Public pension plan, publicly managed (defined benefit or notional defined contribution)	Mandated	Contributions, perhaps with some
2			X	Occupational or personal pension plans (fully funded defined benefit or fully funded)	Mandated	Financial assets
3	x	X	X	Occupational or personal pension plans (partially or fully funded defined benefit or funded defined contribution)	Voluntary	Financial assets
4	X	X	X	Access to informal support (family), other formal social programs (health care), and other individual financial and nonfinancial assets (homeownership)	Voluntary	Financial and nonfinancial assets

Note: The size and appearance of x reflect the importance of each pillar for each target group in the following increasing order of importance: x, X, **X**

Source: Holzman and Hinz (2005) p.10

¹ Holzman and Hinz (2005)

² Gongcheng Zheng (2006) "Multi-pillar and multi-level pension system: the strategy of old age support system to address the challenges of aging population in China," a presentation at the Seminar "Is Asia Prepared to Address the Fiscal Challenges of an Aging Population?" on the occasion of the World Bank - IMF Annual Meetings in Singapore, on September 16, 2006. In his presentation, Zheng described the Chinese old age support in the following three pillars: 1) family support and self-protection; 2) Pension insurance and retirement system; and 3) Social relief and social welfare for the elderly. Then he concluded that the elderly Chinese mainly relied on their families for old-age support, but warned that the change of family structure and the extended life expectancy might result in growing risk of old-age support.

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Part 1: Preliminary Reading

Chapter 1

Japan's Community-Oriented Welfare for the Elderly: Its Implications to Asian Developing Countries

Natsumi Aratame

1. Introduction

The Japanese population is aging very rapidly at a rate never observed before. It was in 1970 that the proportion of the elderly over 65 years exceeded 7%, taking part in the league of the “ageing society”; it reached 14% in 1995, joining the “aged society.” In 2000, it became 17.3%, ranking the most aged country in the world only next to Italy. This proportion is expected to rise to 30% by 2030, overtaking Italy by 2010 in this process (Table 1-1). In terms of types of households, 21% of all households had at least one member aged 65 years and over in 1975. This percentage has gone up to 33% by the year 2000. The arrival of the aged society of this magnitude calls for a new policy for the elderly so that they can live with peace of mind with physical, mental and financial security. The response to this problem in Japan is the community-oriented social welfare approach.

In this paper, I will first describe the social background that gave rise to the need for community-based welfare in Japan. Next, I will summarize the development of welfare system for the elderly in general and community-oriented welfare for the elderly in particular. Thirdly, the unique nature of community-oriented welfare in Japan is illustrated more concretely, where both for-profit and non-profit organizations, modern and traditional institutions are shown to be working actively to help the elderly. Lastly, the Japanese social welfare model for the elderly is discussed in terms of the welfare state theory, together with its implications for Asian developing countries.

2. The Rising Interest in the Welfare Functions of the Community

The aging process of Japan not only increased the ratio of the elderly in the population as pointed above but accompanied a fundamental change in family and community that provided support to the

Table 1-1 Proportion of the Elderly 65 Years and Over (%)

year	Japan	U.S.	England	Germany	France	Italy	Sweden
1950	4.9	8.3	10.7	9.7	11.4	8.3	10.3
1960	5.7	9.2	11.7	11.5	11.6	9.3	12.0
1970	7.1	9.8	12.9	13.7	12.9	10.9	13.7
1980	9.1	11.2	15.1	15.6	14.0	13.1	16.3
1990	12.0	12.2	15.9	15.0	14.0	15.3	17.8
2000	17.3	12.3	15.9	16.4	16.3	18.2	17.3
2010	22.5	12.8	16.5	20.4	16.9	21.1	18.6
2020	27.8	15.8	18.8	22.1	20.8	24.5	21.4
2030	29.6	19.2	21.4	26.6	24.2	29.1	23.1
2040	33.2	20.2	23.1	29.0	26.4	34.6	24.8
2050	35.7	20.6	23.2	28.4	27.1	35.5	24.7

Source: National Institute of Population and Social Security Research (2006) and United Nations (2004).

Table 1-2 Type of Households with Persons Aged 65 and Over (%)

	One-person households (1)	Couple only households (2)	Elderly households (1) + (2)	Living with children
1980	8.5	19.6	28.1	69.0
1990	11.2	25.7	36.9	59.6
2000	14.1	33.1	47.2	49.1
2004	14.7	36.0	50.7	45.5

Source: National Institute of Population and Social Security Research (2006)

elderly. The household size has become smaller from approximately 5 persons in 1950 to 2.7 persons by 2000. The proportion of households consisting of a single elderly person or an elderly couple (both aged 65 and above) has risen from 28% to 47%; the proportion of elderly people living together with their child or children has fallen from 69% to 46% (Table 1-2). These changes all suggest a decline in the number of caregivers and, more fundamentally, a departure from the traditional pattern of elderly care through family members living together.³

Local communities that have supported the daily life of the elderly have also undergone a significant change. The postwar process of rapid industrialization and urbanization resulted in a mass migration from rural to urban areas; between 1950 and 1970, rural population decreased by 23 million while the urban population increased by 43 million. A shift of population at this rates resulted in the overcrowding of cities and depopulation of the countryside, causing a breakdown in traditional community ties. Neighborly relationships and mutual assistance prerequisites for living in the traditional society have become weaker and weaker with the advance of industrialization and urbanization. According to the survey on personal relationships in communities, 53% of the respondents answered that they “have close relations with the neighbors” in 1975, but this percentage declined to as low as 22% in 2004. This tendency is particularly noticeable in bigger cities.⁴

Now that informal support networks are waning, it is not only difficult but dangerous for the elderly to live alone in depopulated rural areas without the help of formal community health care and welfare services. In urban areas, it is also difficult for elder persons and their families to maintain their lives without community-oriented welfare services, since the elderly are often left alone at home during the daytime while the family members work outside. The rising interest in the welfare services for the elderly provided in the vicinity of the elderly stems from such situations.⁵

3. Evolution of Community-Oriented Welfare in Japan

The development of the welfare policies for the elderly can be roughly classified into three phases: (i) the period after the war in which the basic social welfare related laws were enacted (~ 1960s), (ii) the period in which experiments were conducted to introduce community-oriented welfare (1960s ~ 1990), and (iii) take-off period in which the new orientation was put into practice (1990 ~ present).

³ For the demographic profile of Japan, see National Institute of Population and Social Security Research (2006). The view that children should take care of their parents has retreated considerably in recent years. Taking care of elderly parents is becoming more of an unavoidable obligation than a social norm (Ishikawa (1998)).

⁴ See Nihon no Choki Tokie Keiretsu by Statistics Bureau & Statistical Research and Training Institute for changes in the urban and rural populations of Japan. See Naikakufu Seifu Kohoshitsu (1975) and Naikakufu Daijin Kanbo Seifu Kohoshitsu (2004) for changes in neighborly relationships.

⁵ This paper describes the interest in local communities from the viewpoint of “community-oriented welfare.” The issue of community revival has been raised from various other perspectives as well. See Kurasawa and Kobayashi (2002) for more details.

3-1 Phase 1: Beginning of Social Welfare (1945-1960s)

The initial focus of Japan's public social welfare after the war was placed on the support for the poor and needy, war orphans and disabled veterans. To respond to these needs, a series of laws were enacted including the Daily Life Security Law in 1946, the Child Welfare Law in 1947 and the Law for the Welfare of People with Physical Disabilities in 1949. With a restoration of stability in the 1950s, the scope of welfare policies was enlarged. The new policies addressed issues related to health and hygiene as well as poverty, namely, those issues related to the quality of life of residents in local communities, rather than providing welfare services to the poor through accommodation into welfare facilities.

The basic structure of Japan's social welfare system was completed in the 1960s with the addition of the Law for the Welfare of People with Mental Retardation in 1960, the Welfare Law for the Elderly in 1963 and the Maternal and Child Welfare Law in 1964. These six welfare-related laws have constituted the core of public welfare services in Japan until the third phase. Of these six laws, the 1963 Welfare Law for the Elderly is particularly noteworthy in that it singled out the elderly welfare from the rest of the welfare services. Till then, welfare services for the elderly were provided to the low-income elderly household and/or households comprising only the elderly as part of the Daily life Security Law.

It should be noted that welfare services in this phase were provided by the national government through public administrative agencies, and the recipient of the welfare services had no choices with regard to the types and quality of services they received. The service providers under this scheme were confined to municipal governments and the Social Welfare Corporation which is a non-profit private organization stipulated by the Social Welfare Service Law.

3-2 Phase 2: Experimental Period (1960s-1990)

The second phase is characterized by the rapid progress of aging of the population. The population aged 65 years and above exceeded 7% of the total population in 1970. With rising levels of income, the emphasis of social welfare policies shifted from providing services to the poor to preventing the poverty to take place. In the field of elderly care, how to provide elderly care services became a serious social issue with the weakening of support functions of family and community as mentioned earlier. For example, it was in 1972 that "The Twilight Years" (*Kokotsu no Hito*) by novelist Sawako Ariyoshi became a best-seller and brought the realities of elderly care into light. Interest in elderly welfare by the general public was heightened around this period. In response, various attempts started at the national and municipal government levels as well as by non-profit organizations.

In view of a shortage of a long-term care institution for the elderly, the "Five Year Urgent Plan for Building Social Welfare Facilities" started in 1971. The year 1973 was called "the New Year on Welfare" when free medical services for the elderly and the index-linked pension were introduced. In 1973, the Central Social Welfare Council came up with the recommendation entitled "Formation of Community and Social Welfare," pointing out the need for community-oriented welfare in particular. It was in 1976 that The Tokyo Metropolitan Government initiated a visiting nurse service program for the bed-ridden elderly so that they can maintain their living at home. The Ministry of Health and Welfare also started a pilot project for the bed-ridden elderly so that they could utilize the welfare service facilities for respite care. In 1980, families with the elderly with dementia in Kyoto formed a non-profit organization, which later developed into the Alzheimer's Association Japan. Also in 1980, the job placement service center for the elderly was established in many cities in 1980.

The late 1980s saw the above-mentioned trend accelerate. The report "On the Future Directions of Social Welfare" prepared in March 1989 by the Joint Planning Working Group of Three Welfare-Related

Councils proposed greater emphasis on the role of the municipal governments, community care services, promotion of private-sector services, coordination and integration of welfare and health/medical services, an increase in the number of care-givers, and the dissemination of information on welfare. The report was indeed instrumental in the enactment of the “Law Partially Amending the Welfare Law for the Elderly and Other Related Laws (the Eight Welfare-related Laws)” and the amendment of the Social Welfare Services Law in 1990.

3-3 Phase 3: The Era of Community-Oriented Welfare (1990 to present)

The 1990 amendment of the eight welfare-related laws⁶ and of the Social Welfare Services Law was the turning-point. It articulated the spirit of community-oriented welfare for the first time. The term “community care services” was officially introduced where home help, day services and short stays were clearly spelled out as a primary means to provide care services to the elderly in their vicinity. Administration of welfare system had also changed. For example, elderly welfare services had been the responsibility of the national government, and it had been centrally planned and administrated through municipal governments and Social Welfare Corporations. The amendment delegated the authority to municipal governments to take administrative action such as a decision with regard to the placement of the people in need of welfare services in appropriate institutionalizations. The amendment also stipulated that every municipal and prefectural government prepare the Elderly Health and Welfare Plan on their own beginning in 1993.

It is during this period that concrete measures were planned and introduced systematically to improve the quantity and quality of elderly services. A case in point was the “Ten-year Strategy to Promote Health Care and Welfare for the Elderly” in 1989 also known as the “Gold Plan,” succeeded later by the “New Ten-year Strategy to Promote Health Care and Welfare for the Elderly” (the “New Gold Plan”) in 1994, and the “Direction for Health Care and Welfare Measures for the Elderly in the Next Five Years” in 1999 or “Gold Plan 21.” Certification systems were also introduced for the purpose of developing a large pool of elderly care professionals and for facilitating the entry of private-sector care service providers. The Law on Certified Social Workers and Certified Care Workers was enacted in 1987, followed by the enactment of the Law on Certified Mental Health Welfare Workers.

These attempts finally came to the conclusion by the enactment of the Public Long Term Care Insurance Law in 1997⁷, which came into force in 2000, and the revision of the Social Welfare Services Law in 2000. The Social Welfare Services Law was revised under the new name of the Social Welfare Law and become the backbone of the social welfare policies sine then.

3-4 Social Welfare Law and Public Long-Term Care Insurance (PLTCI)

The Social Welfare Law revised in 2000 was more than changing the name; it has completely overhauled the objectives and procedures to achieve them. According to the Law, the objective of welfare services is to promote social welfare in the community, where the services are to be provided to realize individual dignity and a self-reliant daily life commensurate with his/her abilities. To put this philosophy

⁶ The eight welfare-related laws include the Social Welfare Services Law, Law for the Welfare of People with Physical Disabilities, Law for the Welfare of Mentally Retarded People, the Child Welfare Law, the Social Worker Law, Law for Retirement Allowances and Mutual Aid of the Employees of Social Welfare Facilities and the Like, and Partial revisions of the Livelihood Protection Law as well as abolishment of the Public Pawnshop Law.

⁷ The official title of the Social Welfare Law is “The Law for the Partial Amendment of the Social Welfare Services Law and Certain Other Laws for the Promotion of Social Welfare.”

into practice, the Law calls for cooperation of all members of a community, those who are engaged in social welfare-related enterprises, and those who carry out social welfare-related activities (such as volunteers). The Law also stipulates that opportunities be provided to people in need of welfare services to participate in social, economic, cultural and all other types of activities.

To implement these objective and philosophy, the Law officially identified the municipal Social Welfare Council as the main promoter of community-based welfare, and required that Community Welfare Support Plans be formulated both at the prefectural and municipal levels. It also required explicitly that community residents and those who are engaged in social welfare services be consulted in formulating the plan.

Public Long Term Care Insurance implemented in 2000 provided a basic and concrete framework for the implementation of elderly welfare in the community.⁸ While earlier laws limited the beneficiary to low income and/or households comprising only the elderly, PLTCI is a universal insurance scheme that significantly expands the number of recipients. It enables an elderly individual, regardless of financial and family status, to have access to elderly care services by means of a social insurance scheme so that they can continue to live a self-reliant life in a community.

Under this system, those who want to use care services apply to the local government for the assessment of their needs for care and/or domiciliary services. Assessment is carried out in terms of physical needs rather than their financial and/or family status. Those who are determined needing services are classified into “requiring support” and “requiring care” class 1 to 5, class 5 being the most serious state in this care needs scale. Upon approval of their applications, the care plan is made in accordance with the approved degree of care needs, normally in consultation with a licensed care-manager. Two types of care services are available through PLTCI depending on the degree of care needs: community care services and institutional care services. The elderly themselves decide from which service providers to purchase care services, with a small co-payment.⁹

PLTCI makes a clear departure from earlier systems in that it promotes the community care services such as home help, day services and short stays as a primary means for elderly care. The scheme intends to enable the elderly residents of the community to lead self-reliant lives at home as long as possible. While not denying access to more conventional institutional care services, PLTCI thus shifted the emphasis in elderly care from the institutional to the community.

PLTCI redefined the qualification of service providers; it now allows for-profit as well as non-profit private organization enter into care services, thereby realizing the pluralism in service providers. In earlier system, service providers were limited to the local government and registered Social Welfare Corporations supervised by the government. A lack of competition did not give rise to motivation to improve quality as a result. The pluralism in PLTCI aims at improving the quality of care services by introducing a market mechanism while responding to the demand of an increasing number of PLTCI users with a variety of service needs.

PLTCI not only redefined the qualification of service providers but also changed the relationship between service providers and recipients of the services. As mentioned earlier, the national government used to determine the need of users and provided services deemed appropriate for them; Care givers and

⁸ PLTCI integrated the services provided separately under the Welfare Law for the Elderly in 1963 and the Health Law for the Elderly enacted in 1982. Previously, community care services were provided by the Welfare Law for the Elderly, and medical and health services as they relate to elderly care were covered by the Health Law for the Elderly.

⁹ 10% in the case of community care services, and the cost of meals plus to 10% co-payment when institutional care services are utilized. The amount of co-payment is reduced when the income level of users are below certain level.

care receivers are not on equal terms under this system. PLTCI changed the relationship to one that was equal, and the users under the new scheme are now able to decide their own needs and choose the type and amount of welfare services they want. Finally, it should be noted that PLTCI is a regional insurance, and the business plans are made and revised in response to the needs in each municipality, albeit in line with the national guidelines.

PLTCI that started in 2000 is not without problems. Aiming at reaching a growing number of elderly under universalism, an increase of the total cost of PLTCI is almost unavoidable. In addition, in general, as the physical condition of the elderly deteriorates, the total cost provided through PLTCI increases. Thus, to make the program sustainable, a revision was made in 2005 and implemented in 2006 to emphasize the element of care prevention in PLTCI, although the emphasis on community care remains unchanged. The revision intends that the frail elderly who may need care in the near future and the elderly with minor disabilities are prevented from developing more serious health conditions. The long-term prevention care plan is prepared for the elderly who are judged to belong to this category. The effect is yet to be seen, however.

3-5 PLTCI: Statistical Evidence

While the community-oriented welfare is only one of many methodologies to provide elderly care services, clearly, it has become more than a policy ideal; now that the legal foundation is laid out and procedures are clearly spelled out, the ideal has become a policy tool that guides the present welfare regime in Japan. Having a policy is one thing, and practicing it is quite another, however. How is the reality catching up with? In particular, how are the elderly and non-traditional service providers responding at a local community level?

Statistically speaking, the new policies introduced have already left an unmistakable footprint in the area of elderly care since 1990. For example, facilities for the elderly increased from 3,354 to 36,475 (the increase of 33,121), accounting for 75% of the increase of total welfare facilities (41,931 to 86,352 or the increase of 44,421) during this period (Table 1-3). The increase of the facilities for the elderly after 1990 is particularly noteworthy, clearly reflecting the impact of the policy change that took place after 1990 as described earlier.

The effect of new policy is clearly seen in the increase of the number of elderly who are entitled to use PLTCI. In 2000 when PLTCI started, the number of elderly who are designated either as requiring support or requiring care together numbered 218 million. In 2004, this number increased to 411 million (Table 1-4). What is noticeable is the increase of the number of elderly designated as requiring support or requiring care class I, whose conditions are least serious in terms of physical and mental disabilities. In the earlier system, the elderly care was primarily the responsibility of family, and the elderly with minor disabilities were not accepted by institutions, unless they were poor and without families. Thus, the increase in these categories clearly shows that PLTCI tapped the latent demands of the elderly and their families.

Diversification of service providers is taking place in a dramatic fashion. In the initial year when PLTCI took effect, the number of for-profit organizations providing services in the area of community care services ranked second, only next to that of Social Welfare Corporation (43% vs. 30%). This number reversed by 2003. As of 2004, 48% of the community care service providers were for-profit organizations, followed by Social Welfare Corporations (31%), Medical Corporation (9%) and non-profit organizations (5%). It should be noted that during this period the proportion of the Social Welfare Corporation has declined steadily while the contribution of non-profit organizations has increased, although still small in proportion (Table 1-5).

Table 1-3 Number of Facilities for the Elderly

	1980	1985	1990	1995	2000	2003
Total welfare facilities	41,931	47,943	51,006	58,786	75,875	86,352
Facilities for the elderly: Total	3,354	4,610	6,506	12,904	28,643	36,475
Nursing home	1,031	1,619	2,260	3,201	4,463	5,084
Care house			3	261	1,160	1,566
Day service			977	3,948	8,037	12,498
Short stay				15	4,515	5,439
Elderly care support center				2,028	6,964	8,388
Others	2,323	2,991	3,266	3,451	3,504	3,500

Source: Kosei Tokei Kyokai (2005)

Table 1-4 Number of Elderly who are Entitled to Receive Care or Assistance through Public Long-Term Care Insurance

	2000	2001	2002	2003	2004
Assistance	291	320	398	505	674
Care class 1	551	709	891	1070	1332
Care class 2	394	490	571	641	614
Care class 3	317	358	394	431	527
Care class 4	339	365	394	424	497
Care class 5	290	341	381	414	465
Total	2182	2583	3029	3485	4109

Source: Kosei Tokei Kyokai (2005)

3-6 Community-Oriented Welfare: Justification

As described above, the Japanese welfare system for the elderly has made a great stride forward since 1960 in general and since 1990 in particular. It was a complete change in approach. However, such an important change in approach did not occur independent of extensive reforms taking place in other areas of government administration; it was closely linked to decentralization efforts and market-oriented reforms in the government administration in Japan. The theoretical development in social welfare research also took place alongside as to the nature of community-oriented welfare. These changes in theories and practices since 1960s have justified the direction towards community-oriented welfare for the elderly.

This revision in the legal framework for local self-governance has played a particularly important role in the promotion of community-based welfare since the year 2000. It began with “Law on Local Self-governance” enacted in 1969 that required local governments to prepare a local-level basic vision (comprehensive plan). Following its revision in 1998, it constitutes a part of the institutional basis for the present-day debate on government decentralization. The various plans related to the elderly health and welfare mentioned above are in most cases prepared as part of this municipal basic vision.

The momentum for local self-governance and decentralization was given further impetus by the 1999 “Comprehensive Law for Local Decentralization.” By abolishing or reducing the administrative functions the national government previously imposed upon local governments, the Law clearly signaled a departure from the centralized administrative system in favor of local self-governance. Thus, the ground has been laid for individual local governments to promote their own community-based welfare not just as a philosophy, but in substance. The orientation towards decentralization of course has a lot to do with the fiscal crisis brought about by the oil crisis in 1973. The oil crisis coupled with an ever-increasing expenditure on social

Table 1-5 Number of Agencies Providing Community Care Services by Type of Agency

Year	Local government	Social welfare corporation	Social welfare corporation (%)	Medical corporation	Specified non-profit organization	Specified non-profit organization (%)	Co-operative	For-profit organization	For-profit organization (%)	Others	Total
2000	652	4,250	(43.2)	1,023	208	(2.1)	452	2,975	(30.3)	273	9,833
2001	228	4,894	(42.0)	1,245	362	(3.1)	584	3,959	(34.0)	372	11,644
2002	259	4,847	(39.3)	1,250	487	(3.9)	595	4,463	(36.1)	445	12,346
2003	232	5,175	(33.0)	1,413	734	(4.7)	665	7,034	(44.8)	448	15,701
2004	207	5,320	(30.8)	1,468	829	(4.8)	691	8,326	(48.3)	432	17,274
Rate of increase 2000-2004	0.3	1.3		1.4	4.0		1.5	2.8		1.6	1.8

Source: Kosei Rodosho Daijirin Kanbo Tokei Johobu (various years)

welfare led to the reform plans for Japan's administration and economic structure. PLTCI is considered as part of an attempt to improve the budget balance in this respect.

However, it should also be noted that the policy change was not only an administrative response by the government to meet an increasing demand for welfare services in post-war Japan; theoretical development in social welfare research took place alongside that directed and accelerated the shift towards community-oriented welfare. The theoretical debates about community-oriented welfare centered around three positions: one that ascribes a lack of welfare in a community to a lack of proper public policies, emphasizing the responsibility of the government; one that stresses the importance of community which consists of people willing to take initiative, cooperate and participate to solve welfare problems in a community; and finally the one that points out the necessity of developing welfare resources that are accessible by the elderly residents in the community.

The first position pioneered by Kikue Uda argued that welfare problems in a community must be understood in relation to failures in public policies and the problems should thus be addressed accordingly in such a way to preserve and enhance individual dignity.¹⁰ Until then, "community welfare" was vaguely understood as charity or an act of good will carried out in a community for the needy. The second position was proposed by Shigeo Okamura who argued that "community" of residents in general and of residents sharing a common interest is needed as a precondition of realizing welfare in a community.¹¹ He pointed out that government services would not be effective, were it not for the community ready to exploit the opportunities. He also pointed out that the existence of such a community is effective not only to solve welfare problems but to prevent welfare problems to take place in a community. Finally, Mikio Nagata pointed out that welfare resources need to be developed and organized in a community in an accessible fashion so that an individual and a family can achieve a self-reliant life in a community.¹² He specifically noted the importance of community care services as well as the improvement of physical and institutional infrastructure with respect to elderly care.¹³

As is clear from this brief review, the theoretical debates as to the nature of community-oriented welfare are reflected in the spirit and approach expressed in the Social Welfare Law. The methodological orientation is embodied in community care services pursued in PLTCI. The greater involvement of non-governmental organizations, particularly of the Social Welfare Council, is a natural outcome in this process as it actively participated in this debates themselves. What remains to be settled in the academic debates seems to be the role of the market in the welfare administration in Japan; the recent development is so fast, especially after 2000, that an increasing impact of for-profit organizations has gone more than anticipated by most theorists.

4. Community Oriented Elderly Welfare- the Japanese Reality

The statistical evidence above gives an impression that Japan's elderly care is now moving towards market-based elderly welfare through PLTCI. However, elderly welfare is more than care services provided through PLTCI; there are many areas that cannot be addressed effectively by PLTCI. In general, PLTCI is a scheme that answers to the very specific problems in elderly welfare, namely, to provide care and

¹⁰ Uda (1973)

¹¹ Okamura (1974)

¹² Nagata (1981)

¹³ Nagata was a former secretary general of the SWC of Japan. Okamura's theory deeply influenced the direction of the SWC. For detail, see Nagata (2003).

domiciliary services to the elderly whose physical conditions require care or assistance. When welfare needs of the elderly are more than or less than the care services defined by PLTCI, when the kind of service expected is unprofitable for service providers, or when service needs are not so much physical as social and cultural, the elderly care through PLTCI is not appropriate.

Currently, many important activities are already in existence or under development outside the PLTCI scheme to enhance the well-being of the elderly at a community level. Some are being provided by the formal organization such as the local government and semi-governmental organizations; and some are provided by informal organizations and private individuals in the community including NGOs, neighborhood organizations, Senior Citizen's Clubs, families, and the elderly themselves. Activities provided by these organizations are social, cultural and educational to a large extent but also include such elements as a light exercise and a seminar on old-age diet. Preparation and delivery of meals is occasionally carried out by them.

While PLTCI is an innovation, a combination of care services provided through PLTCI and many other activities has come to comprise the Japanese social welfare model for the elderly. Among agents providing services to the elderly outside PLTCI, the contribution of the following is particularly noteworthy: volunteers and NGOs, the Social Welfare Council and a Commissioned Welfare Volunteer.

4-1 Volunteers and Non-Profit Organizations

An interest in citizen participation has been growing since 1970s. It is difficult to ascribe the reason to a single cause, but growing concerns on environmental problems caused by industrialization and welfare problems such as elderly care due to rapid aging were certainly instrumental. The Social Welfare Council (SWC) played an active and leading role in this process by promoting citizen participation through its Volunteer Center. First established in 1973, the Volunteer Center (or a section responsible for the same function) are located in 3,109 SWCs as of 2001, practically in all cities and municipalities in Japan. The "Mid to Long-Term Promotion Strategy of Volunteer Activities" released in 1993 by the Central Social Welfare Council guided their orientation since then. The Ministry of Health and Labour also contributed to this process, partly by subsidizing volunteer activities at the SWC. It encouraged such activities by publishing "Basic Policy on Promoting People to Participate in Social Welfare Activities" in 1993. However, the turning-point came in January 17, 1995 when the great earthquake hit the Kobe area.¹⁴ It illuminated the importance of volunteers and private organizations in making a big difference in disaster relief and restoration of communities afterward. Two laws further boosted the interest in volunteer activities and laid a foundation for contribution by non-profit organization: PLTCI as mentioned above, and Nonprofit Activities Promotion Law in 1996.

PLTCI as discussed earlier opened the market to non-profit organization so that they can take part in elderly care services. The contribution of non-profit organizations remains modest, increasing from 2.1% to 4.8% between 2000 and 2004. However, an increase in number was a significant one, and in terms of the growth rates, non-profit organizations have grown most rapidly during this period; While for-profit organization increased from 2,975 to 8,326 or 2.8 times, non-profit organizations increased from 208 to 829 or 4.0 times during this period (Table 1-5).

Non-profit Activities Promotion Law in 1998 certifies a non-profit organization that works in specified civil activities (Table 1-6) and meets certain organizational criteria as a special public-interest

¹⁴ Officially called "The Great Hanshin-Awaji Earthquake," it killed 6,400 persons, injured 44,000 persons, destroyed 105,000 houses completely and made a serious damage on 150,000 houses. The government later has made January 17th the Day of Volunteers and Disaster Prevention.

corporation. This law promotes and facilitates the involvement of private non-profit organizations in activities for public interests. The increase in the number of specified non-profit organization is a dramatic one; it increased from 741 in 1999 to 28,777 in 2006 (Table 1-6). Note that incorporation is not an obligation. Also note that incorporation rather increases the amount of administrative task because they are obliged to release the financial and business reports annually. Thus, the observed trend shows a very rapid increase in the number of people who are interested in contributing their time for socially important purposes. It also shows how serious they are in participating in such activities.

It should be noted that among 28,777 organizations, 16,330 or 58% are engaged in health and welfare related activities. Since there were only 829 non-profit organization providing community care services through PLTCI (as of 2004, Table 1-5), it means a large number of specified non-profit organizations were actually providing services in the areas not covered by PLTCI. Together with many volunteers and volunteer groups engaged in elderly welfare without obtaining corporate status, these non-profit organizations supplement the PLTCI scheme in important ways by extending services to the areas not covered by PLTCI.¹⁵

Lastly, their contribution is certain to increase in the coming years. This prediction is based on two reasons. First, elderly care is not very demanding in terms of expertise compared with that of medical professions who must go through a protracted training period. For examples, there are many kinds of activities that do not require professional health and medical attention such as assistance in housework, shopping and taking a walk, and providing "companionship." Preparation and delivery of meals to the elderly is another such area. This condition makes it easier for non-professionals such as community neighbors, volunteers and the elderly themselves, to participate in, and make a contribution to elderly welfare. Secondly, the number of care workers are still in short supply despite many attempts to increase them since 1990.¹⁶

Table 1-6 Number of Non-Profit Organization by Purpose of Establishment

		1999/9/30	2006/9/30
No.	Purpose	741	28,777
1	Health and welfare	480	16,630
2	Public education	249	13,372
3	Town development	230	11,616
4	Science, culture and art	193	9,244
5	Environment	174	8,175
6	Disaster relief	87	1,909
7	Safety	63	2,752
8	Human right, peace	102	4,419
9	International cooperation	194	5,868
10	Gender	81	2,500
11	Child health and education	232	11,453

Source: Naikakufu (2006)

¹⁵ As of 2004, 57,833 groups are registered at the SWC for the purpose of volunteer activities.

¹⁶ The "Direction for Health Care and Welfare Measures for the Elderly in the Next Five Years" (the Gold Plan 21) estimated that 350,000 home helpers would be needed in fiscal 2004 (Shakai Fukushi no Doko Henshu Iinkai (2004)). The actual number of home help service providers in that year was a little over 160,000, by far short of the projected number (Kosei Rodosho Daijin Kanbo Tokei Johobu (2005)).

4-2 Social Welfare Council (SWC) and Commissioned Welfare Volunteer (CWV)

The increase in volunteers and non-profit organizations may suggest that the structure of welfare service providers is becoming fragmented. However, what characterizes the community-oriented welfare in Japan is the existence of the SWC in every city and municipality. It is a non-profit, non-governmental organization by itself which organizes and coordinates various welfare-related organizations and individuals in the local community while conducting its own social welfare activities. The members affiliating with the SWC include, but not limited to, neighborhood community associations, PTAs, Senior Citizen Clubs, NGOs, agricultural cooperatives, consumer cooperatives, and social welfare-related organizations such as welfare facility operators, commissioned welfare volunteer, business enterprises, and the local government.

The history of SWC goes back to the Central Council of Social Welfare formed in 1951 through the amalgamation of the Japan Social Welfare Services Association, the All Japan Commissioned Welfare Volunteers' League, and the Fellow Countrymen Assistance Association. Since then a SWC was organized gradually in each city, municipality and prefecture. As of 2004, there were 3,242 SWCs with a total of 21,992 full-time and 6,938 part-time staff engaged primarily in welfare promotion activities, aside from those engaged in clerical jobs.¹⁷

Though it is a “non-governmental organization,” an SWC is firmly established in the Social Welfare Law as the organization to be located in each municipality to promote community-oriented welfare. In addition, every prefectural SWC has been mandated by the Social Welfare Law to set up a committee to oversee the utilization of welfare services in such a way to protect the rights of users in need of assistance and respond to complaints from the users.¹⁸

The main activities of a municipal SWC largely encompass the following activities: encouraging volunteer activities as noted above, implementing community care services as part of PLTCI, conducting its own local welfare activities independent of PLTCI with participation of residents, and working in a liaison and coordination function for various local welfare organizations and individuals.¹⁹ Since the 1980s, in particular, “creating a welfare community” has become the basic goal of SWCs. Attempts have been made to build watch-out networks on school district levels or on neighborhood community association levels to ensure safety for the elderly, for example. Though a non-governmental organization, an SWC is thus a “semi-public organization” having a public nature to a very high degree.

Together with SWC, the role and contribution of “*Minsei-iin*” or a Commissioned Welfare Volunteer (CWV) is not to be neglected. CWVs are district social workers who give advice and assistance to residents in a local community on various problems in their daily lives. While volunteers, they are officially commissioned by the Health, Labour and Welfare Minister and work in cooperation with the local government. They receive no compensation for their services. Currently, 208,808 CWVs are commissioned and working at district levels nationwide. The number of CWVs in each district follow the standard set by the size of the locality.²⁰

The CWV system in Japan is unique and original in many respects. This is a system with a long history rooted in the Japanese social system before the war. This system originates in “*Homen-iin*” or the

¹⁷ Shakai Fukushi Kyogikai (2004)

¹⁸ For history, present situation and challenges of SWCs, see Sawada (1998) and Hirano et al. (2001).

¹⁹ Since PLTCI came into force in 2000, community care services have become a major activity and a very important revenue source for many local SWCs. It means, however, competing with other for-profit and non-profit organizations. Thus, there are debates whether or not semi-public organizations like the SWC should be in the same playing field.

²⁰ For example, a CWV for 220-440 households in cities and municipalities in Tokyo Metropolitan Area (Shakaifukushi no Doko Henshu Iinkai (2006)).

District Welfare Volunteer system started in the late 1910s and adopted nationwide in the 1920s. The current CWV system, based on Commissioned Welfare Worker Law in 1948, basically continues the spirit established in the District Welfare Volunteer system before the war.²¹ The appointments of CWVs are done by the Health, Labour and Welfare Minister on recommendation of the local government, from “persons of considerable character and insight, with knowledge in the ways of the world and enthusiasm in promoting welfare” (Article 6). To be appointed as CWV was an honor before the war; it accompanied a considerable respect and recognition. The recognition motivated them to work for the community as a volunteer even if they are unpaid for their services. It remained as an honorary post until the Commissioned Welfare Worker Law was partially revised in 2000.

CWVs have dual personalities. Officially commissioned by the Health, Labour and Welfare Minister, they work as agents of the local government to conduct part of government administration related to social welfare services. For example, a household survey necessary for the planning of welfare services are often carried out by them. However, they are also expected to work as volunteers interested in enhancing the well-being of the people in the community. While they do work in cooperation with the local government, they are expected to work on their own with their knowledge in welfare system and with their enthusiasm in enhancing local welfare. In this context, they look for problems among residents in the community, and provide advice and assistance to solve them in a flexible and creative way.

The amount of activities they perform every year is enormous. In 2003, 8,671,567 consultations were made by 224,582 CWVs, averaging 38.6 consultation per CWV. Among consultation made, 18.9% were about community care services, 5.7% were PLTCI, 9.8% were other health and welfare problems, indicating the extent of contribution CWVs make in elderly welfare.²²

4-3 Combining the Welfare Resources in Local Communities: An Initiative by the Local Government

The current trend towards local self-governance and decentralization in general and implementation of PLTCI and the Elderly Health and Welfare Plan in particular require that the local government play a more active and responsible role than ever. At the minimum, the local government is held responsible for the fiscal soundness of PLTCI and maintenance of quality of care services provided through PLTCI. On top of these responsibilities, however, many local governments are now adding services that cannot be provided by PLTCI. Often they work closely with local welfare resources as noted in the previous sections.

Since the local government in Japan has the best access to locations and conditions of the elderly in need of assistance (which cannot be disclosed to private individuals for privacy reason), and since it is in frequent touch with welfare resources in the community, the role of the local government, either as an advisory role or a more active role, is likely to increase in the future. The following is such an example from Chofu City in Tokyo Metropolis. They have constructed around-the-clock watch-out networks to ensure the safety of the elderly in cooperation with many individuals and organization, both for-profit and non-profit. Their efforts, still on-going, illustrate the kind of cooperation necessary to achieve community-oriented welfare for the elderly.

Chofu City, with population of 204,759, ranks twentieth in population size among the 50 cities and districts that comprise the Tokyo Metropolis in 2000. The elderly population ratio (65 years and above) was 14.3%, slightly lower than the Metropolitan average of 15.8%. However, it is projected to go up to 21.6% in

²¹ For the history of the Homen-iin system, see Suganuma (2005).

²² Shakaifukushi no Doko Henshu Iinkai (2006)

2015 and 24.2% by 2030.²³ Independent of PLTCI, the city has introduced around-the-clock watch-out service networks of its own called “*Mimamoto*,” which seek to ensure the security and safety of the elderly living alone, the elderly who are left alone at home during the day because family members work outside the home, and the physically disabled and the needy.²⁴

To provide community-based services, Chofu City has been planning and implementing welfare facilities in terms of four large sections (“daily life areas”) of north, south, east and west, and nine community care areas. A comprehensive community care support center is placed in each community care area to provide an advice on community cares and to help the elderly make a long-term prevention care plan. The watch-out service of Chofu City is structured in terms of this 9 community care areas.

The networks consist of individual residents and various organizations operating in respective areas. Some of the members include, but not limited to, community associations, senior citizen’s clubs, storeowners, clinics and pharmacies, convenience stores, newspaper delivery shops, utility companies such as electricity and gas, commissioned welfare volunteers, welfare facilities and PTA. The collaborators in the area who detect any irregularity concerning an elderly resident report it to the comprehensive community care support center of the area, which in turn responds to the situation in cooperation with the Welfare Section of the city government, police department, fire station and any other relevant bodies. The networks are already in operational in 5 of 9 areas and the entire city will be covered by 2007.

Behind the *Mimamoto* Network exists the concerns that the increasing number of elderly are living alone (or as an elderly couple) and that the traditional mutual assistance networks have become ineffective as a means of ensuring security for the elderly. Though not unusual in any major city, the sense of unity among community members is becoming weaker and weaker as a result of the frequent inflow and outflow of the residents. For example, according to the 2000 census, 26% of the city’s population had moved in from elsewhere during the preceding five years. When residential mobility within Chofu City is added, as much as 43% of Chofu City population changed residence some time in the five-year period.²⁵

With such a higher residential mobility in the midst of a rapidly aging population, clearly, the time has come for cities to proactively construct a well-structured system of ensuring community safety even if such system is outside the realm of PLTCI. The initiatives of Chofu City is certainly considered as a forerunner of such an attempt. This example shows that, to construct such a system, the cooperation and coordination of individual residents as well as various organizations, both for-profit and non-profit, modern and traditional, are needed.

5. Welfare for the Elderly in Japan- Its Implications to Asian Developing Countries

In rapidly aging Japan, policy measures to address aging problems have been implemented centering on the keyword of “community-oriented welfare.” With a legal basis firmly established, Japan’s community-oriented welfare is no longer at the conceptual stage; planning and implementation are in progress at all government levels and available throughout the country. It should be noted that the focus on community is

²³ Statistics Bureau, Ministry of Internal Affairs and Communications (1981 and 2001) and National Institute of Population and Social Security Research (2003).

²⁴ Chofu Shi Fukushibu Koreisha Shienshitsu (2006). The activities of Chofu City were obtained through interviews with the Elderly Assistance Section of Chofu City. The author would like to express his gratitude to the city officials who kindly shared information with him.

²⁵ Tokyo-to Somu Kyoku Tokeibu Jinko Tokeika (2003)

not an isolated phenomenon in the welfare field alone; it is taking place within the general orientation toward self-governance and decentralization in the way government administration is conducted in Japan.

Whether the Japanese welfare policies and practices for the elderly are unique and original may be debatable. It was G. Esping-Andersen who classified the welfare regime of the country to liberal, conservative and social democratic welfare regimes. Japanese model, according to Esping-Andersen, is a hybrid of the liberal and conservative regimes, with an emphasis on the latter.²⁶ This view may need a qualification, however.

The recent trend as pointed out in this paper shows that universalism as embodied in PLTCI, or a social democratic element, was brought to the forefront in the area of elderly welfare in Japan. PLTCI is simultaneously a method of supplying community care services through the market, as in the liberal welfare regime. However, the fact remains, as in the conservative model, that family plays a key role in a day-to-day management of care services received at home in most cases; while declining, the proportion of the elderly living with their families still hover around 50%. Thus, we might argue that the Japanese welfare system for the elderly is converging to the mix of the three regimes. The Japanese model is, however, more than this. This paper has shown that volunteers (including CWV) and non-profit organizations (including SWC) are providing services not available through PLTCI, thus helping to enhance the quality of life of the elderly in Japan. While typology of this kind is useful and informative when comparing with other countries in the West, it is probably the evolutionary nature in the Japanese welfare system for the elderly that appeals to Asian developing countries in particular.

The Japanese social welfare system started from the bare minimum for the poor and needy and progressed into the system that covers all the elderly. The place of care is moving from special facilities to their own homes. The services are now purchased by the elderly themselves in the market under the PLTCI scheme, rather than being provided by the government. Volunteers and non-profit organizations are helping the elderly in the areas for-profit organizations cannot help. While the "modern" non-profit organizations are increasing in numbers, the roles played by "traditional" local welfare resources such as SWC and CWV are kept intact; they are formally acknowledged and reinforced in the latest laws. These changes in approach have not taken place spontaneously; they were engineered by the national government and the local governments are following suit especially after 2000. In this process, the responsibility in planning and implementation is increasingly delegated to the local government. What lies behind this policy change is a social security reform necessitated by fiscal crisis and a rapid aging of the Japanese population. The theoretical development in social welfare research, however, justified and accelerated this process.

What are the implications of Japan's experience for the developing countries in Asia? Clearly, most Asian developing countries would not be able to adopt the social democratic welfare regime where high-quality welfare is provided universally as the responsibility of the state under a high tax burden; nor is the liberal welfare regime possible and even advisable when a large proportion of the population cannot benefit from the services available through the market. The reliance on the family and community, the important elements in the conservative regime, appears to be the way to go. However, with rapid industrialization and urbanization, as experienced in Japan and elsewhere, the welfare function of the traditional and informal resources is likely to lose its share.²⁷ In view of such a prospect in developing countries and based on its own experience of overseas assistance since the 1990s, the World Bank advocates a multi-pillar social

²⁶ In a recent statement expressed in the introduction for the Japanese translation of Esping-Andersen (1990), he is rather withholding his judgement in view of a rapid change in Japanese society and economy, including aging and a decline of welfare functions of the family and Japanese corporations (Esping-Andersen (1999)).

²⁷ This process seems already in progress in Asian developing countries. See Natsumi Aratame (2006).

security model.²⁸

The World Bank model calls for designing a social security system with due consideration to the optimum mix of social pensions, public pensions, private pensions, informal “social security” provided by the family and community, other health care services and personal assets, after carefully taking into account the history, traditions and culture of the country. This model, however, is not very clear regarding how informal support networks help the elderly when they are becoming less reliable in the tide of modernization. While not so intended, Japan’s community-oriented welfare for the elderly presents a clue to the question the World Bank model has left unanswered.

First, it points to the importance of inviting volunteers and for-profit and non-profit organizations to provide a helping hand to the elderly and to their families which can no longer take responsibility for elderly care. It should be noted that the families of the elderly need a lot of assistance. Second, it shows the importance of planning a formal system such as PLTCI that facilitates the participation of non-traditional organizations in local welfare activities in a continuous and predictable fashion. While an NGO could play an important role in elderly care, its activities are threatened when funds are running short and/or members change. The presence of an organization such as the Social Welfare Councils in Japan, which coordinates local welfare resources, may not only help promote community-oriented welfare activities but brings in a stability to the welfare services. Lastly, it shows the importance of making use of traditional social institutions such as a Commissioned Welfare Volunteer in Japan to buttress the welfare scheme at a local community level. When properly motivated, such institutions will help the elderly on an informal basis and, if and when needed, help the elderly get acquainted with more formal services available at the local government.

²⁸ Holzmann and Hinz (2005)

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Chapter 2

The Elderly and Their Social Protection in Thailand²⁹

Medhi Krongkaew³⁰

1. Introduction: The Need of Social Welfare and Social Protection

The main purpose of this paper is to address the issues concerning the elderly and their social protection in the Thai society. This requires at least two preliminary discussions, one on the concept of social justice and the welfare state, and the other on social protection and the role of state.

1-1 Social Justice and the Welfare State

The arguments on whether the state has its natural rights to intervene in the market economy to provide social justice have been long in the toolkit of economists. We often would like to divide our economic thoughts into three groups, economic libertarianism, economic liberalism, and economic collectivism.³¹ Libertarian economists are those who have total belief in the power of the market, that market when allowed to work unhindered gives human beings the greatest form of individual freedom. But even among these libertarian social scientists, they can be distinguished by their different degrees of their faith in the market. The more faithful one could be called “Natural Rights Libertarian” who believes that state intervention in the market is “morally wrong” except in strictly limited circumstances, whereas the softer libertarian could be called “Empirical Libertarian” who would say that state intervention “will reduce total welfare.”³² Among these second groups of libertarians, the names of Friedrich Hayek and Milton Friedman are often recognized as well known representatives.

The liberal economists of social scientists are probably exist in larger number than the first group simply because they have been taught that market is not always perfect, and when market fails or could not function properly, it is better for the state to intervene rather than to leave the market to correct itself as that may take too long, and the people’s suffering may be too large. A champion economist among this group was John Maynard Keynes who revolutionized the role of state as stimulator of aggregate demand, to bring the economy out of economic slowdown or recession. John Kenneth Galbraith who died recently was often classified into this group among well known and famous economists for his compassionate plea to the affluent state to help the poor and the underclass in the society.

John Rawls is another economic scholar who has managed to give a widely acceptable meaning of fairness. To him, a fair society is that which everyone in it is given equal and inviolable political rights of

²⁹ Paper presented at Parallel 4 Session; New Global Reality—Implications for Development, Subtopic 1: Aging Population in Asia—Toward Sustainable Welfare Society (JICA), Global Development Network (GDN) Annual Conference in Beijing, 16 January 2007. This paper draws from a larger study on the Current Development of Social Welfare System in Thailand (with Special Emphasis on Old-Age Security): How Can Thailand Learn from the Experiences of Japan?, research report submitted to the Japan Foundation Bangkok Office by Shigeyuki Abe and Medhi Krongkaew, July 2006.

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³¹ This classification follows the suggestion by Nicholas Barr in his textbook, *the Economics of the Welfare State*, 4th Edition, Oxford University Press, 2004.

³² Barr classifies Robert Nozick of Harvard University as an example of those belonging to this group.

free speech and political selection, plus a chance to receive the most or maximum assistance from the state if he is the most worst off person in it. This is acceptable mainly because Rawls uses the assumption of the “veil of ignorance” whereby if everyone is equal and does not know the position he or she is born into, and the same chance to be in the bottom of the society, then it is only natural that everyone would not feel that it is unfair to give the best help to that person which could mean anyone in the society. This does not mean that individual freedom is not respected, but the state has the rights to see and observe “fair” distribution of income and welfare.

At the other extreme of libertarian economists are collectivist economists who, along the teachings of such economic philosophers and scholars as Karl Marx have an opposite belief that it is the state that could correct the class exploitation in the capitalistic market system. The state is needed as a leader of the people until all forms of exploitation end, then the state may disappear and the people can live together in collective environment where everyone is equal and contributes to the society up to his capability, and receives from the society depending on what he needs. This is of course an idealized communism that we have not seen anywhere yet.

We should be practical and do not fall into a trap of having to label ourselves any of the above economic principle or philosophy. Each school has its strong points and weak points, and we should adopt the strong points of each school and discard their weak points. For example, we could say that individual freedom could be accepted as a foundation of an economic system, and on the understanding that everyone in the economy is “morally” a good man so that what a good man does to the best of his interest will also contribute to the best of the economy without having to fear that his action may have intentionally negative impact on his fellow citizens. However, the market can and does fail, which requires the third party beyond the consumer and the producer to step in to correct the failure. The general consent and social contract dictate the relationship between the people and their representative or leader, who can fail in his duty too, creating a situation (government failure) that bring about political as well as economic crisis that may be difficult or take a long time to correct. But in the end, the state and the market and the people exist together in some harmony, with check and balance that bring about overall desirable life and livelihood.

Even in the earlier time of Adam Smith when one could argue that the society that existed then is less egalitarian that what we can see in existence today, the state in laissez-faire system is required to take care of those citizens who cannot take care of themselves either through physical disability or financial disability. With relatively greater wealth and income equality today compared to the past, it is even more imperative that the society is bound to confer social assistance to the unfortunate who are left out of the growth process of the economy. We do not see much of this social assistance in less developed economies because the states lack sufficient resources to carry out this task, but with improved development and larger wealth and resources, the states could do more. It is not a surprise to see, therefore, that in most developed countries, the level of social welfare to their less well off people is much greater than that in less developed countries despite the fact that the less well off in less developed countries are really much less “well off” than their counterparts in the more developed countries.

1-2 Social Protection and the Role of State

Barr (2004) has offered an interesting analysis of the proper role of a welfare state. On an assumption that most economies in world today are of mixed systems, sharing the main characteristics of market mechanisms and appropriate state interventions, a welfare state in this general system would have the following five objectives, namely (i) to promote efficiency in the allocation of resources of the economy; (ii) to support reasonable living standards; (iii) to reduce inequality; (iv) to promote and guarantee social

inclusion; and (v) to create administrative feasibility. These objectives may be discussed in turn.

(1) On Efficiency

Three aspects of efficiency may be considered:

- Macro-efficiency. The efficient fraction of GDP should be devoted to the totality of welfare-state institutions by avoiding distortions that can lead to cost explosions.
- Micro-efficiency. Policy should ensure the efficient division of total welfare-state resources among different types of social spending.
- Incentives. Where institutions are publicly funded, their finance and the structure of benefits should minimize adverse effects on labour supply, employment, and saving.

(2) On Supporting Living Standards

There are at least three components in this second strategic aim.

- Poverty relief. No one should be allowed to fall below a minimum standard of living defined under a national poverty line.
- Insurance. No one should face an unexpected and unacceptably large drop in his or her living standard, and this can be corrected through unemployment and health insurance.
- Consumption smoothing. State should enable individuals to reallocate consumption over their lifetime, to prevent violent change in the people's life.

(3) On the Reduction of Inequality

In addition to absolute poverty, there is a problem of relative poverty or inequality problem.

- Vertical equity. The state (or system) should redistribute towards individuals of families with lower incomes.
- Horizontal equity. Differences in benefits should take account of age, family size, and so on, but not irrelevant factors like ethnic background.

(4) On Social Inclusion

These broader goals go beyond the conventional economic rationale.

- Dignity. Cash benefits and health care should be delivered so as to preserve individual dignity and without unnecessary stigma. Quoting Lord Beveridge, the father of the British social security system, the desirable character is a social security system that is through paying contribution, people will feel that they are getting security not as a charity but as a right.
- Social Solidarity. Cash benefits and health care should foster social solidarity, that is to say, to enable the people to live peacefully and harmoniously together.

(5) On Administrative Feasibility

Two more aspects on this strategic aim

- Intelligibility. The system should be simple, easy to understand, and as cheap to administer as possible.
- Absence of Abuse. Benefits should be as little open to abuse as possible.

Based on the above objectives of a welfare state, it could be summarised that the role of welfare state is to provide social protection to its people and citizens. Among actual activities that the state has conducted

are health and employment insurance, health care and educational supports, poverty relief, consumption smoothing through old age pensions, and direct income support.

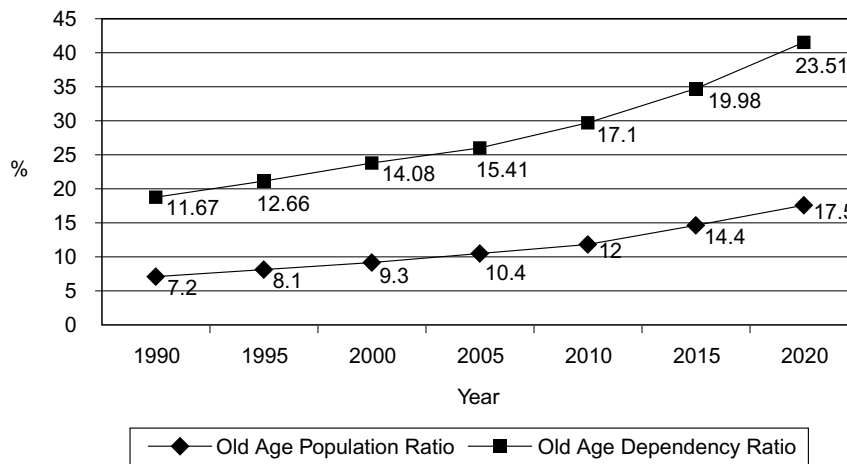
We have already discussed the basic principles of social welfare or social assistance in a mixed economy. What is left is for us to look at how the state in each country manages to provide social protection to its citizens in actual practice, which of course may differ from one country to another. Ortiz³³ in her edited volume on Social Protection in Asia and the Pacific defines social protection as the set of policies and programs designed to reduce poverty and vulnerability by promoting efficient labour markets, diminishing people's exposure to risks, and enhancing their capacity to protect themselves against hazards and interruptions/loss of income. In more specific details, she includes as social protection the following five major elements: (i) labour markets, (ii) social insurance, (iii) social assistance, (iv) micro and area-based schemes to protect communities, and (v) child protection. This is a good list, but a different list can be made.

It seems, however, that the state can look at the opportunities to provide social protection at the different life cycle of its citizens. As children, they should receive necessary education to equip themselves with adequate knowledge to live and earn a living when they grow up. Protection can also include the protection against child labour when these children are forced to work before their proper ages. As young adults they can be given a further choice to start working or continue their further education if there are capable intellectually (and financially themselves or in term of their sponsors) to doing so. As working adults, they should have opportunities to work in their areas of preference and expertise, with sufficient compensation or remuneration to live and set up family if they want to. Finally, as they grow old, they should have enough income security to live by themselves without having to depend too much on their offspring, or others in the society who are themselves in the process of building up their own lives and families.

This leads us exactly to point where we want to focus our main attention to in this study: the welfare and security of older people. On this issue, no one or no agency is more well known than the World Bank in trying to promote some kind of universal acceptance or agreement on how to take care of older people economically in any society. Various professional staff of the World Bank (for example, Holzmann for World Bank, 1994, Holzmann and Stiglitz, 2002, and Holzmann and Hinz, 2005) have managed to publish many studies that have become guidelines to policy makers, scholars, and practitioners of old age pension systems throughout the world. What have become known as the World Bank Three Pillars Principles of Old Age Pension System consist of the following three levels or three tiers of old age security systems that are commonly understood in today's literature. They are:

- (1) The First Pillar: Public mandated, publicly managed, defined benefit system. In the words of the World Bank author, this public pillar would have the limited objective of alleviating old age poverty and coinsuring against a multitude of risks. Backed by the government power of taxation, this pillar has the unique ability to pay benefits to people growing old shortly after the plan is introduced, to redistribute income toward the poor, and to coinsure against long spells of low investment returns, recession, inflation, and private market failures.
- (2) The Second Pillar: Public mandated, privately managed, defined contribution system. This pillar is a mandatory pillar which is fully funded and privately managed. It would link benefits actuarially to costs and carry out the income-smoothing or saving function for all income groups within the population. The World Bank further asserts that full funding should boost capital accumulation and

³³ Ortiz (2001) p. 599

Figure 2-1 Trends in Old Age Population Ratio and Dependency of Old Age Population in Thailand

Source: Data from Jiraporn (2003) citing the National Economic and Social Development Board.

financial market development. The economic growth this induces should make it easier to finance the public pillar, but not to encourage more demand on the first pillar.

- (3) The Third Pillar: Privately managed, voluntary savings, defined contribution system. This voluntary occupational or personal saving plans would provide additional protection for people who want more income and insurance in their old age.

In a recent publication by Holzmann and Hinz for the World Bank³⁴, these two authors have expanded the above 3-pillar concept of old age security to a 5-pillar concept whereby the original three pillars are left in tact, but two more pillars are added. Pillar Zero is a non-contributory pillar that provides a minimal level of protection to the target elderly group. This may have taken out some of the functions of the original Pillar One functions. And Pillar Four is informal intra-family or inter-generational sources of both financial and non-financial support to the elderly, including access to health care and housing. They argue that for a variety of reasons, a system that incorporates as many of these elements as possible, depending on the preferences of individual countries as well as the level and incidence of transaction costs, can, through diversification, deliver retirement income more effectively and efficiently.³⁵

2. Social Protection in Thailand

As an introduction to the current development of social welfare and protection systems in Thailand, we want to refer to the recent enactment of two laws in Thailand in 2003. These two laws are the Social Welfare Promotion Act B. E. 2546 and the Senior Citizens Act B. E. 2546.

It can be considered quite extraordinary that the efforts on reforming social welfare systems in Thailand under the general public sector reform policy of Dr. Thaksin Shinawatra's government in 2002 could culminate in the passing of the above two laws in 2003. Of course, the negative welfare effects of the economic crisis of 1997 were well known, and indeed could be seen as catalysts to more formal and

³⁴ Holzman and Hinz (2005)

³⁵ *Ibid.* p. 2

systematic government efforts to deal with similar situations in the future. As part of the technical assistance from the European Union (EU) to help Thailand and other countries in East Asia which were affected by the post 1997 economic crises, the Asia-Europe Meeting or ASEM Trust Fund was set up to provide financial assistance to these affected countries to conduct studies on various aspects of development issues, with the World Bank acting as financial as well as technical intermediary. Thailand Country Development Partnership (CDP) program was set up between the government of Thailand and the World Bank in 2001, with the Country Development Program for Social Protection (CDP-SP) as one of the first research and planning activities that the World Bank had conducted with related government agencies (Ministry of Labour and Social Welfare and the National Statistical Office).

The Program Report on Thailand CDP-SP which was published in June 2002 gives broad perspective of five areas of social protection in Thailand, namely social assistance and transfers, employment services and labour market information, unemployment insurance, occupational safety and health and workmen's compensation, and improvement in socio-economic data and dissemination. Under these five areas of social protection, the World Bank-led study team had succeeded in carrying out many tasks. For example in social assistance area, the team was able to launch a social risk and vulnerability assessment to examine the characteristics of vulnerable groups and identify gaps in program coverage and adequacy targeted to these groups. On employment services, CDP-SP helped develop a labour market information (LMI) system and upgrade the analytical capacity to understand labour market dynamics in Thailand. On unemployment insurance, CDP-SP helped establish unemployment insurance unit in the Ministry of Labour and Social Welfare to coordinate unemployment insurance planning and implementation with the Social Security Office and other MOLSW departments. On occupational health and safety, CDP-SP assisted the Department of Labour Protection Welfare to develop proposals on Occupational Safety and Health (OSH) management reform, and so on.

The work of CDP-SP continued after the creation of the new Ministry of Social Development and Human Security and reorganization of former departments of MOLSW such as the Department of Public Welfare which is now recommended to move away from direct provision of social assistance to a policy making and monitoring role. It was the new ministry that took care of the preparation and the launch of the two important laws on social welfare in Thailand.

In the Promotion of Social Welfare Provision Act, the rationale given from the enactment of this act is that Section 80 of the present Constitution of Thailand stipulates that the state must protect and promote children and youth, gender equality, family cohesiveness, community strength, assist the elderly, the poor, the disabled, and the vulnerable to attain good quality of life and self dependence. The direction of social welfare activities under this act will be decided by the National Committee for the Promotion of Social Welfare Provision with the prime minister as chairman and members appointed from various related government agencies, NGOs, and outside experts. Its main tasks, among other things, are of course to promote social welfare among the Thai people. Social welfare here is defined to include the system that provides social services that will solve problems of social security as well as the development and strengthening of it, in order to satisfy basic needs of the people to achieve good quality of life and self dependence, which may include minimum levels of education, health, shelter, employment and income, and participation at all levels in the society.

As the above act provides the framework upon which a more specific activities could be undertaken, examples of activities under this act are still not clear to see. However, under a more specific law Elderly Act, specific provision may be more clearly seen. For example, the elderly Thais (those 60 and over) under this Act will now have, as a matter of rights, be able to receive free medical services from the state, receive

some concessions on public transports, receive occupation and legal advice from the state, receive funeral assistance in time of their deaths, generate tax privileges to their offsprings who look after them, and so on. Again the list of these privileges is still not extensive, but the future prospects are good.

In order to prepare a more detailed master plan for the provision of social welfare for the Thai people under these and other laws, many government agencies are now involved in drafting the 5-Year Strategic Plan for the Promotion of Social Welfare in Thailand which will start in 2007 and will end in 2011. The account on this preparation may be discussed as follows:

As mentioned earlier, as a result of bureaucratic reform in 2002, the social welfare part of the old Ministry of Labour was used to form a base for a new ministry called Ministry of Social Development and Human Security. On the face of it, this is adequate to attest to the wish of the current government to pay more attention to the social welfare issues of the Thai population. Although it is true that there are no new departments being created but just a reorganization and renaming of some of the departments in the old ministry, the scope of work and activities of this new ministry have expanded. For instance, the former Department of Public Welfare is now called Department of Social Development and Welfare, and the Housing Authority of Thailand was moved from the Ministry of Interior to this new ministry. The potential for future expansion on social development and welfare is not in doubt.

To outline a plan of actions for the future, this new ministry decides to draw up a 5-Year Strategic Plan for the Promotion of Social Welfare in Thailand that will cover the periods from 2007 to 2011. In its first workshop to prepare this Strategic Plan, almost 1,000 participants from all over the country were invited to meet in Bangkok on March 13, 2006. In this meeting, Mr. Suwat Liptapanlop, a Deputy Prime Minister of the present acting government who presided over the open ceremony, stressed the four directions of the work, namely:

- (a) the new welfare provision must be “Welfare for All”;
- (b) In such provision, the rights, dignity and participation of all citizens must be considered;
- (c) There will be 7 areas that the new welfare provision will cover: education, health, shelter, employment and income, justice process, recreation, and general social services;
- (d) There will be four measures to support the above 7 areas of work, namely, measures to create or generate consciousness and responsibility to the society; measures to give social protection measures to strengthen social partnership; and measures to develop social mechanisms.

The 14 small discussion groups that the organisers of this workshop had organised are indicative of what they had in mind in terms of what need to be done in this plan. These 14 areas are:

- (i) Educational Welfare Group
- (ii) Health and Sanitation Welfare Group
- (iii) Housing Welfare Group
- (iv) Employment and Income Welfare Group
- (v) Recreation Welfare Group
- (vi) Justice for All Welfare Group
- (vii) Group for the Generation of Social Consciousness and Responsibility
- (viii) Children and Youth Welfare Group
- (ix) Women Welfare Group
- (x) Family Welfare Group
- (xi) Old Age Welfare Group

- (xii) Group for the Welfare of the Disabled
- (xiii) Welfare of the Poor and the Vulnerable Group
- (xiv) Group for the Development of Mechanisms for Sustainable Welfare Systems.

The list is quite impressive. One can only hope that there is enough sustained interest and drive among policy makers to see this plan of actions through.

In action today, the social welfare system in Thailand may include the social security system which provides social insurance for Thai workers in six contingency areas namely sickness out of work, death, disability, maternity, child dependency, old age, and unemployment. On health, Thai people are now covered by the mixture of compulsory social security system of formal sector workers, the health coverage for government and state enterprise officials, and the national health protection plan under the so-called 30 baht Health Scheme. There are some social assistance programs especially for the elderly people who are without family supports, and those who have the disabled in the family, and those who are afflicted with HIV/Aids, but the coverage is still small by the standards of more developed economies. The analysis for these social welfare schemes and provisions may require a much more extensive research beyond the confine of this report. However, we will pick up one specific area of social welfare, that is welfare for the old age and will analyse this system in Thailand.³⁶

3. The Reform of Old-Age Security System in Thailand

Compared to the situations, say, 20 years ago, the older people of Thailand have received much better social welfare treatments from the state today. In comparison with similar treatments to older people in other, more developed countries, however, we still lag behind in many respects, and there are vast rooms for improvement. In this chapter, we will describe and analyse the existing old-age security systems for the aged in Thailand, especially its pensions systems, to see how adequate, or effective, or efficient these systems are in their social welfare or social security provision for its older population, and how these systems can be reformed, or what kinds of reforms are needed, to bring about better or more improved old-age security systems at present and in the future.

3-1 Existing Old-Age Security Systems³⁷

That the country is facing a future crisis of aging population in Thailand is beyond anyone's doubt. Indeed this is a global phenomenon that is true in almost all countries in the world due to advances in medical knowledge and technologies, and improved health facilities, services and sanitation in most countries that bring down the death rate and lengthen life expectancy. The falling birth rate and fertility rate which result in lower percentage of younger population are also another main factor that heightens the

³⁶ There are many studies on social security and health insurance systems of Thailand and their various aspects and derivatives, for example, Manthana and Somchai (1997); TDRI (2004), ILO (2004).

³⁷ There are several sources of information and references on the existing old age pension systems in Thailand in Thai and English languages. First, the websites of all government agencies vested with the responsibilities to execute various old age pension programs provide basic information on the systems under their control, for example, the Social Security Office (<http://www.sso.go.th>), the Government Pension Fund Office (<http://www.gpf.or.th>), the Security Exchange Commission (<http://www.thaipvd.com>). For information on retirement mutual funds, one can go to the websites of associations of mutual fund management companies such as <http://www.aimc.or.th>, or <http://www.thaimutualfund.com>. For papers and articles in both Thai and English, see Sutthichai et al. (2002), Holzmann et al. (2002), Wiener (2002), Niwat (2005), Nawaporn (2002) (in Thai), and Jiraporn (2002) (in Thai).

prospect of old age crisis. In Chart 1, we can see that the percentage of Thai population aged 60 and over as a percentage of the total population will increase from 10.4 % in 2005 to 17.5 in 2020. Similarly, the Old Age Dependency Ratio defined as the percentage of the population aged 60 and over who are expected to depend on the working population aged 15 to 59 for support will also increase from 15.41 % in 2005 to 23.51 % in 2020.

Based on the above situations, there have been numerous attempts the last two decades to install old age security systems in Thailand. What have existed today can be said to consist of a mixture of old and new techniques or approaches to help the older people of Thailand to cope with their lives after retirement. In what follows, we will discuss five categories of old age security systems in operation in Thailand today, namely:

- (1) Old Age Pension in the Current Social Security System;
- (2) Pension Systems for Government State Enterprise Officials;
- (3) Private Sector Provident Fund System;
- (4) Retirement Mutual Fund System;
- (5) Other Old Age Pension System.

(1) Old Age Pension in the Current Social Security System

In Thailand the first state-supported old age pension system was established in 1892 during the reign of King Rama the Fifth as part of the welfare provision for public servants.³⁸ In fact this was the only pension provision in the Thai society at that time, and had continued without any change or new scheme in place until almost a hundred years later in 1987 when the government sponsored private-sector provident funds system. The state's welfare protection through the existence of this public-sector old age pension was so highly regarded and preferred that many people in the post-war, modern Thai economy would be willing to work for the government even when the salary structure was very low because the security in life after retirement was assured through this pension scheme.

Change has to come about because as the country develops, the government or public sector becomes smaller, while the private sector becomes bigger. In most countries in the West, the development of the social security systems that provided welfare assistance to the older population who had retired from employment would be the norm, and in Thailand, this was also the case when the country adopted its first official Social Security System in 1991 that, by 2006, covers the following exigencies:

- Sickness and injuries outside work
- Maternity
- Disability
- Death
- Child allowance
- Old age
- Unemployment

We will only focus on old age security aspect of the present Social Security Act in this report. To begin with, it should be noted that this provision is for all those workers who work in the private-sector enterprises, which as of the end of March 2006 covered 8,351,946 members in 366,897 private enterprises.³⁹

³⁸ Nawaporn (2002) p. 299

³⁹ Data from the Social Security Office at <http://www.sso.go.th>.

It should be noted also that government officials and permanent employees of the government are not included in this group, but will be covered by another system for this groups of public sector employees only (see later). And in order to receive benefits in the old age provision section, the workers or subscribers must have contributed to the Social Security Fund for not less than 180 months, and that the person will have aged at least 55 years and no longer working.⁴⁰ In terms of contributions, each worker and employer will contribute 3% of the worker's earnings (up to the ceiling of 15,000 baht per month), and the government adds additional 1% (all together 7%).⁴¹ However, if the contribution goes beyond 180 months, the contribution rate will increase by 1 percentage point every year. For benefits, this scheme is a defined benefit (DB) type of old age pension where a member retiree will receive a monthly pension at the rate of 15% of the average salary of the last 60 months before retirement. For those who have contributed beyond 180 months, the pension rate will increase from 15% to 25%.

The overall operations of the present social security system come under the responsibility of the Social Security Office, which was set up with an equivalent status as a department in the Ministry of Labour, with the Secretary General of the Office as its head. The overall policy direction of the Office comes under the jurisdiction of the Board of the SSO headed by the permanent secretary of the Ministry of Labour with members appointed or selected from various other organizations representing various types of workers.

(2) Government Pension Fund (GPF)

This pension scheme is in fact a continuation of the original government pension plan for public servants, but it has changed from Pillar 1 type of defined benefit pension scheme to Pillar 2 type of defined contribution pension scheme and operated under an equivalent of private sector provider but under government's control. This change came as a result of the enactment of the Government Pension Fund Act of 1996. However, because the government allowed those public officials who were already employed before March 27, 1997, the date of operation of this new GPF scheme, to choose whether to switch to the new system or remain in the old system, the government actually runs two parallel systems concurrently, that is to say, those who did not want to switch, would remain in the old, Pillar 1, PAYG-type of pension which will stay on until the last person retires (probably around 2037), and those who wanted to switch and all other new public officials will come under the new scheme. The government had designed a system that will adjust the transition from the old system to the new system for existing public officials to make it fair for them to do so.⁴²

Under the new GPF scheme, public officials will contribute 3% of their monthly salaries to the GPF, where as the government will also add another 3% to the Fund in these public officials' names. At retirement, these public officials will have a choice of receiving lump-sum gratuities or monthly pensions. Parts of these payments will come from government's budget, but for those who have made contributions to the Fund will also receive benefits from the investment incomes of the Fund. Parts of these benefits will

⁴⁰ Since this old age provision in the present social security system only started in 1999, it will be the year 2014 before the first retiree will receive the first pension under this scheme.

⁴¹ This is different from the contributions that cover the other four aspects of social security, namely, sickness or injuries out of work, maternity, disability, and death, which require a contribution rate of 1.5 % of wage or earning, and the contribution for unemployment coverage which requires 0.5 % each from the worker and his employer, and 0.25 % from the government.

⁴² The strange thing is that private sector workers who come under the Social Security Act are "protected" by public welfare supports through the PAYG-typed pension system, whereas the public sector officials (civil servants) are now outside the welfare support of the government as they were traditionally treated, but (for the new public servants anyway) were "forced" into the new system which is of defined-contribution type and individual account, where the risks will be undertaken by these public servants themselves through management of professional fund managers.

also receive special tax treatments (such as income tax exemptions for those who retire after 55 years of age and over after at least 25 years of service) under the present revenue code.

This GPF is managed by a semi-public, semi-private organization. The Government Pension Fund Office is set up and run like a private sector office, but its policy is controlled by the Board of the GPF under the chairmanship of the permanent secretary of the Ministry of Finance, with members selected from different groups of public services. Unlike the Social Security Office, the Secretary General of the GPF is not a government official, but a private employee, hired on contract by the government.

(3) Private Sector Provident Fund (PVD)

To help retirees in the private sector, the Thai government enacted the Provident Fund Act in 1987 with the minister of finance acting as officer in charge and the Fiscal Policy Office as registrar. Later the government decided to transfer the operations and control of this Provident Fund to the Securities and Exchange Commission of Thailand because this agency also had the responsibility of looking after the operations of mutual funds and personal funds. Subsequently amendments in the above Provident Fund Act and the Securities and Exchange Commission Act of 1992 had resulted in new provisions in these two acts in 1999 which are in force today.

This Provident Fund scheme is one of Pillar 3, privately managed, voluntary savings, defined contribution type of pension scheme. At the end of 2005, there were 542 funds in existence. Each fund comes under monitoring and control of a fund committee which is comprised of representatives from the employer and employees. The fund committee then chooses fund manager to manage this fund under general regulations set up by the Securities and Exchange Commission (SEC) of Thailand.

Employees' contributions must be at least 3% of wages but not exceed 15%. Employer's contributions must not be less than employees' contributions. As of the end of 2005, there were 542 provident funds in existence, covering 1,665,709 employees in 5,342 business enterprises, and with the total value of funds estimated at 345,896 million baht.⁴³ In terms of benefits, the employees will receive lump-sum payments at the time of their resignation or retirement. These payments will be tax exempted on the part of employees, and tax deductible on the part of employer.

(4) Retirement Mutual Funds (RMF)

This Pillar 3 voluntary pension scheme is the latest addition to the old age pension schemes of Thailand. It aims to provide a means of voluntary retirement savings to employees who are not in the Provident Fund, or who want to make additional contributions. Investors are free to choose different packages of investment with different risk and return profiles, but they are not allowed to withdraw these funds before reaching the retirement age of 55 without tax penalty. As for tax privileges under this voluntary old age savings scheme, the three Es (EEE) benefits are given. The first E is for the contributions to the funds to be tax deductible up to a limit of 300,000 baht per annum. The second E is for the investment income to be exempted from tax. And the third E is for the retirement benefits payable from the fund not to be taxed as income to beneficiaries. But to be able to benefit from the above tax privileges, the investor must invest in the RMF at least once a year for 5 years with at least 3% of the earnings or at least 5,000 baht whichever is lower, and will not sell or redeem these savings before the age of 55, after maintaining these savings for at least 5 years.

⁴³ Information from the SEC of Thailand at <http://www.sec.or.th>

(5) Other Old Age Pension Systems

Apart from the four major types of old age pension systems discussed above, there are few other old age pension systems that can be considered a subset of the above systems. For example, the Private Teachers' Provident Fund system is the mandatory, defined contributions for teachers of private schools under the Private School Act. The current contributions rates are 3 % of salaries from teachers, 3% from school owners, and 6% from the government. These private school teachers will receive payment in lump sum when they resign from their employment after 5 years of service. At the end of 2004, there were 127,034 teachers in 7,688 private schools with a fund size of 7,718 million baht managed by the Ministry of Education.⁴⁴ Most of present government enterprises' workers are also covered by the Provident Fund Act of 1987 and will receive lump sum payments upon retirement. The government permanent employees (not government public officials) also come under this Provident Fund provision.

3-2 Issues and Problems Concerning the Current Old Age Pension Systems

On the face of it, it seems that the old age pension systems of Thailand are fairly well developed, with all the three pillars of old age pension in operation. However, the overall operations of Thailand's old age pension systems are not without problems. The following are some of the problems that we have seen mentioned or discussed by several experts or practitioners of old age pension systems of Thailand.

(1) The Survivability of the PAYG DB System

Although the full old age pension provision under the present Social Security scheme will not become fully functioning until 2014, it is quite obvious that the system will be facing problems as seen from the experiences of other more developed countries such as Japan. At first when only establishments with 20 or more employees would be covered, the problems appeared to be small, but when the government decided to cover all enterprises with at least one employee, the severity of the problems has increased many fold. The existing retirement age of 55 is certain to create a lot of pressure on the financial adequacy of the system based on the increase longevity of the Thai people. The replacement rate or the rate at which retirees will receive their pension as a percentage of income before retirement can also pose a question if social or economic pressure in the future forces an unsustainable increase in this replacement rate.

Several experts have commented on the old age pension under the current social security system. Funke and Stadtmann⁴⁵, for example, raised concern about the weaknesses inherent in the old pension system. Three problem areas can be pointed out: (i) civil service salaries were constrained to levels that were inadequate in many respects, which decreased the quality of the civil service applicants and provided incentives for creating side incomes, including corruption. (ii) Pension obligations were being considered only within the context of the annual budget, as they were calculated each year, without providing for any reserve for future increases, thus undercutting the prudent fiscal administration the Thai government sought to pursue. And (iii) future pension obligations as a ratio to annual government expenditures were rising, jeopardising guaranteed benefits for pensioners and government officials in active service alike. Holzmann, Mac Arthur, and Sin (2001) also commented on the potential weakness of the present system.

⁴⁴ Niwat (2004) p. 9

⁴⁵ Funke and Stadtmann (2001) p. 5

(2) The Lack of Savings Mechanisms for Old Age

There exist two kinds of problems simultaneously involving individual savings for old age in Thailand. One is the general low income of a large number of the Thai people who do not have enough savings even for short-term exigencies let alone old age security. In this case, the government may still have to keep the basic pension plan that provides old age security as a matter of redistribution. The other is that there are some limitations today on the current old age security systems that hinder greater flexibility in savings mobilisation. For example, under the GPF and PVD, members cannot contribute more than 3% and 15% of their earnings, respectively. Currently, there is also a ceiling of eligible income in the basic pension plan. And although the intention of most old age pension funds is to keep the funds uninterrupted until retirement age, which should be appropriately high enough to reflect the improvement in health situations and increase in life expectancy, there are tendencies and possibilities that these funds may be withdrawn earlier. Moreover, when the time comes to draw out the savings fund either as a lump sum payment or a pension, there are no appropriate mechanisms that help roll over the funds for those who still have no needs for them, which could, of course, help further increase in domestic savings. Or there is no mechanism that helps workers transfer their pension plans from one scheme to another in case of changes in employment. All these have adverse effects on national savings as a whole.

(3) Investment Problems in the Defined Contributions Old Age Systems

So far we have said little about what we should do with the savings of workers in the forms of contributions that they themselves, and their employers and the government, have paid to the pension funds. This is another large area that requires expertise from financial analysts to address and tackle. It suffices to say here that either the government or the fund managers have to maintain appropriate balance between profitability and the risk of the invested funds. Too cautious investment policy would bring in little returns, which hurts the viability of the scheme and reduces the welfare of the subscribers. But too risky investment policy could jeopardise the future security of the members. The risk may also exist, not between any sets of investment opportunities, but between the price stability now and the inflation instability in the future. A popular and well accepted way to invest the funds is to diversify investment sources, with varying degrees of maturity.

There normally is a subtle difference between the mentality toward investment risks of policy makers and/or fund managers in the public sector and private sector. As a rule, responsible people in the public sector tend to be more cautious and more conservative towards risk, whereas the same people in the private sector tend to have more “aggressive” attitude towards risk taking. In the latter case, their future employment contracts may depend on the success of their performances (probably measured in terms of the profitability of the investment of the reserve funds), whereas the job security of, say, the secretary general of the government pension scheme is not in danger if he opts to be careful with his reserve fund investment. The case in point is the desire to invest overseas of the Director of the Government Pension Fund Scheme of Thailand, a privately contracted employee working under the official policy board representing the government. This desire was based on the fact that the investment opportunities in the local market in Thailand were quite limited, so that not much profit could be made in the domestic setting. Contrary to the belief that investment market outside Thailand can be dangerous and risky, the opposite may be true because the financial and capital market in developed countries have matured and are likely to be even

Table 2-1 The Size of Different Old Age Pension Funds

	Invested Fund 1st Q, 2005	Invested Fund 2nd Q, 2005	Rate of Change (%)
1. Social Security Fund	282,900	302,821	7.04
- 4 coverages: sickness, disability, maternity and death	104,822	48,661	-53.58
- 2 coverages: child allowance and old age	171,422	245,407	43.16
- 1 coverage: unemployment	6,656	8,753	31.51
2. Government Pension Fund	255,990	268,703	4.97
3. Provident Funds	311,187	319,437	2.65
4. Retirement Mutual Funds	12,893	13,212	2.47
Total	862,970	904,173	4.77

Source: Ministry of Finance, Fiscal Policy Office (2003)

more stable than local markets.⁴⁶

Tables 2-1 and Table 2-2 show how pension reserve funds are being invested in Thailand. It is clear that for the SSF and GPF, the established rule is to go for government bonds and state enterprises bonds guaranteed by the Ministry of Finance. This constitutes more than half of the overall share of total investment. For private sector PVD, government bonds constitute less than a third of its total investment share. The private sector fund managers are more inclined to put their money in commercial bank deposits, debt instruments issued by commercial banks and other private financial institutions, and even common stocks and mutual funds.⁴⁷

⁴⁶ The conservativeness of the Thai government investment policy on its social security investment can be seen in the Ministry of Finance Ministerial Regulation No. 4 (B.E. 2539) prohibits GPF to acquire foreign assets. In the main, the investment policy of the GPF is determined by the Board of Directors under general rules provided in the above said Ministerial Regulation. As an indication of how careful the drafters of this Regulation thought about the “soundness” of investment, 60 % of the Fund’s assets must be invested in “secure assets” which are defined to include:

- Cash
- Bank deposits (guaranteed by the government through the Financial Institution Development Fund (FIDF))
- Government bonds
- Treasury bills
- Bonds issued by the Bank of Thailand
- Fixed income instruments issued by a state owned enterprise, banks, or reputable companies, and those guaranteed by the Ministry of Finance.

No more than 40 % of the total amount of the Funds may be held in the following assets:

- Fixed income instruments other than those defined as secure assets,
- Shares or certificates showing the right to shares,
- Bills of exchange accepted by a finance company or a bank, and
- “alternative investments” if approved by the Board of Directors.

Moreover, not more than 10 % of total assets are to be held in equities and no more than 2 % of the total assets are to be held in the shares of one single company.

It was found that there was a low correlation between returns to assets within the country and outside it, meaning that the risks from investing in both markets can be appropriately spread. Secondly, the size of the government pension reserves are too large for domestic capital market and can destabilise it. Therefore, there are reasons for them to go out.

⁴⁷ It appears now that with persistent explanations based on sound reasoning and empirical experience, the fiscal authorities of Thailand are now convinced that investing overseas is fine, and they will gradually authorise this action on government pension funds.

Table 2-2 The Size and Type of Old Age Pension Funds Investments

	SSF		GPF		PVD		Average %
		%		%		%	
1. Government bonds and State Enterprises Debt Instruments guaranteed by Ministry of Finance	176,319	58.23	137,824	51.29	97,718	29.34	46.29
2. Deposits and Debt Instruments issued by commercial banks	60,187	19.88	41,962	15.62	120,093	37.6	24.36
3. Debt instruments of the private sector and other financial institutions	41,014	13.54	43,024	16.01	62,831	19.67	16.41
4. Common stocks and mutual funds	25,300	8.35	48,650	18.11	41,669	13.04	13.17
5. Other investment and assets	-	0	-2,757	-1.03	1,126	0.35	-0.22
Total	302,821	100	268,703	100	319,437	100	100

Source: Ministry of Finance, Fiscal Policy Office (2003)

3-3 Reform Plan of Old Age Pension System in Thailand

As a result of several concerted efforts both within the country itself and from outside international financial or economic organizations such as the World Bank, the Asian Development Bank, the International Labour Office, and the Organization for Economic Cooperation and Development (OECD), Thailand is on the way to create a major reform to its old age pension systems. But the journey so far was not without pitfalls and obstacles. Many teams of experts have been invited to come to Thailand to study the possibilities of old age reforms in the last decade or so, and many proposals for reform have been tabled. The agreements are hard to come by for at least three reasons:

- (i) There are many people and organizations involved in the handling of old age pension plans in Thailand, with different objectives and purposes. Each would try to protect its own self-interest and pursue its own goals. Often these come into conflict with those of other agencies or organizations, resulting the slowing down of needed reform.
- (ii) Decision making in the Thai public sector is usually carried out collectively through committee system. It is usually the case that committee members representing certain interest groups or organizations will not agree quickly with committee decision if such decision has a negative impact on their positions. They would try to stall the collective decision for fear that their superiors whom they represent might not agree to it. Delays occur until people at the top at each agency have a chance to protect the agencies' positions.
- (iii) Foreign experts are often criticised for not knowing the true situations in Thailand, and their views and recommendations are often dismissed as not relevant or incorrect. The situation is a reverse from what happened 30 to 40 years ago when foreign experts tended to be arrogant because no local views challenged them. The opposition is likely to be true today when local high-ranking officials are too arrogant to accept the views or foreign experts (and often local experts also) easily.

We want to refer to just one example of the recommendations by one foreign expert sent by the Asian Development Bank in 2001 to help Thailand plan for its old age pension reform. Michell Wiener (2002) visited Thailand several times to conduct his research on old age pension reform, and to convince the Thai authorities on the practicability and soundness of his study and recommendations. It was not an easy assignment, and a lot can still be changed in today's plan.

Wiener's detailed plan will not be discussed here, but we can make some comparisons between his plan and other study groups or expert groups.⁴⁸ Because of the almost uniform or identical recommendation for the Thai authorities to improve the existing basic Pillar 1 pension system, and to expand or strengthen Pillar 2 pension system, the Thai authorities have become more confident that they have the correct lead. The Fiscal Policy Office in the Ministry of Finance in the Thai government which is vested with the responsibility to plan this new old age pension reform, now has in its hand a blueprint or design for the new old age pension plan for Thailand that is called the National Pension Fund (NPF).

The Fiscal Policy Office continues to receive technical assistance from the ADB in the form of the service of a pension reform and actuarial expert who, in March 2006, has already prepared an Inception Report on Thailand's Pension System Reform as requested by the Office. Three policy issues have been set up and debated. They are: (i) the rationale for the National Pension Fund of the government; (ii) the analysis of old age social security fund, and (iii) the analysis of the NPF.

(1) The Rationale for the Establishment of the NPF

This is mainly to prevent the majority of the Thai population to fall into poverty after their retirement from work, to maintain standard of living that is not too different from the time they are still in the active workforce, to regulate the movement or turnover of retired people who can retire with dignity and satisfaction; and to increase long-term savings of the country and the development of its capital market.

(2) The Analysis of the Existing Old Age Pension Scheme in the Social Security

System has revealed that in the future the burden of the fund will be twice that of the contributions due to the ageing population, falling birth rate, and the low retirement age of 55 (which is reputed to be the lowest in the world compared to the usual 62 to 65 years of age). In that connection, it is suggested that there should be a separation between the management of short-term benefit pension fund and long-term benefit pension fund, with different benefit rates, and different investment strategies for these different funds.

(3) The Analysis of the National Pension Fund

The Office has agreed with the ADB expert in the following recommendations:

- 3.1 On Coverage: The new scheme should start with the enterprises with 100 workers and over first in 2008, and continuously expand to cover enterprises with one worker in 2018.
- 3.2 On Contribution Rates: The rate of 3% each from employees and employers is appropriate at the beginning, and will be increased gradually as the Government Pension Fund is amalgamated with the Old Age Pension plan in the current Social Security system so that at the end the benefit from the new program is about 50% of the last month's salary.
- 3.3 Retirement Age: 60 is the recommended retirement age at the start, and should be increased in the future.
- 3.4 Benefit structures: Benefits should be annuitised at the replacement rate of 50% as mentioned above. Beyond that amount, retirees can choose to accept an annuity or a lump sum payment to make sure that they have sufficient income for the rest of their lives.
- 3.5 Tax Treatments: The usual position of the Fiscal Policy Office is to support the three tax exemptions regime (EEE), that is, exemption on contribution, on investment income, and on income

⁴⁸ There are at least two more expert groups that were requested to conduct studies on old age pension reforms in Thailand. One was by a private consulting company, Deloitte and Touche in 1999, and the ILO in 2003.

benefits after retirement, but according to the view of the ADB expert, the last benefit should be abolished.

- 3.6 Transition from PVD: Those employees and employers who have already contributed 3% of workers' earnings to the fund should not have to make additional contributions, and this part will be regarded as part of compulsory pension plan, to be separated from voluntary plan.
- 3.7 Policy Making Structure of the NPF: the National Saving for Old Age Committee will be set up with the prime minister as its head.
- 3.8 Operating Agency: the National Pension Fund Office will be set up to manage and oversee the operations of this new scheme.
- 3.9 Structure of New Pension Act: It should have a similar structure as the Provident Fund Act, with a new concept of trust and trustee to be introduced to fund managers.
- 3.10 Management Practice: There will be a consideration on the pros and cons of centralised and decentralised approaches to managing the new scheme on database issues and contribution collection techniques
- 3.11 Transfer of Workers and Accounts: Transfers between government services and private sector accounts should be allowed, and new regulations should be set up to smooth out the change from one account to the other.
- 3.12 Risk Assurance: A risk assurance system will be installed to make sure that the management and investment of pension reserve fund are carried out properly.
- 3.13 Investment Principles: The fund will be invested based on the principles of safety, liquidity, and investment spread. Overseas investment will be considered based on security, safety and size of returns.
- 3.14 Team of Experts: Domestic experts or personnel will be recruited to help bring this scheme out in 2007.

4. Summary, Conclusion and Policy Implications

We begin this paper by asserting that the degree of state involvements in the provision of social welfare may vary according to the type and character of the government in power at any one time. A libertarian government would allow the market to play its full role with as little state intervention as possible. On the contrary, a collectivist government would control and direct all economic decision making units in the economy, whereas a liberal government is more likely to mix the best parts of the two systems above. It is safe to say that most governments in the world today is of this liberal type, and the provision for social welfare in the form of social security can be regarded as a usual norm. As for old age security in the form of old age pension system, not all countries are having it, or they may have it but need some kinds of reforms. We have shown that there are several attempts in Thailand in the aftermath of the economic crisis in 1997 to install a certain system of social protection in addition to the employment-related social security system and state-subsidized health care programs, but the coverage of this social protection in Thailand is still quite thin.

On the matters of policy recommendation, Barr suggests that countries with mature PAYG systems which face population aging should adopt policies that increase output and reduce the generosity of the PAYG pensions. For countries with large, unsustainable PAYG systems, they must reduce benefits, increase contributions, or a mix of the two. For countries with very limited capacity, the focus should be on poverty relief rather than public pension, which should be in the realm of the private sector. Thai system does not

fall neatly into any system mentioned above, but the message is clear: the government cannot afford to be too generous about its future old age pension plan. As a developing economy, the retirees cannot expect to enjoy life after retirement the same way found in more developed economies. The risks of financial sustainability may dictate that the fully funded system may dominate over the basic defined benefits system. People may be required to work longer and contribute more to the system. This is necessary if we are to have a safe and strong old age pension system.

More specifically, no one would disagree with the National Pension Fund proposed by the Thai government, to be launched in Thailand probably in 2006. But true to the spirit of the conditions mentioned earlier, the agreed retirement age presently set at 55 is certainly too early. It should be extended to 60 and finally to 65 at the minimum. As recommended by Michell Wiener, an ADB expert, the agreed system by the Thai government is already a multi-pillar pension system for all salaried workers, government workers, and state enterprise workers with mandatory contribution system to supplement the existing basic old age pension system and the voluntary provident funds scheme. Further recommendations include bringing the basic pension system back into balance by increasing the contribution rate, decreasing the accrual rate, and increasing the retirement age. To be exact, contribution rates of 7.4% for basic or solidarity system, and 6% for defined contribution or accumulation system will be recommended, split evenly between employers and employees. Basic old age pension retirement age should be increased to 65 over time, and the accrual rate of benefits on an annual basis can be decreased immediately to 0.8%. To Wiener, this would produce a target replacement rate of about 55% of the system as a whole.

In all, there seems to be little disagreements among experts who have worked on old age pension system for Thailand. The problems often lie in the personalities of high-ranking officials in various government agencies that have stakes in the new old age pension funds. This could be corrected by allowing more people to join the decision making process, and keeping the general public as much informed as possible. In the end, Thailand could have a viable and satisfactory old age security system that everyone enjoys.

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Chapter 3 China's Social Security System – Present Status and Issues

Yinhua Sha⁴⁹

1. Introduction

Since China embarked on full-fledged reforms and market opening in 1978, the market economy has rapidly developed, while social security reforms have also been advanced. The government is pushing ahead with social security reforms as a key component of the economic reforms. There are two objectives in making social security reforms a key part of the reforms and market opening.

The first objective is to stabilize the national life. In recent years, the national life has become extremely unstable as unbalanced economic growth causes growing income disparities between coastal and inland areas. Under these conditions, as aging advanced, the social security system became an unbearable burden on companies, who were responsible for funding retirement pensions in entirety. In particular, financially troubled state-owned enterprises struggled to pay retirement benefits, and many actually stopped doing so. By forging ahead with social security reforms, the government seeks to alleviate anxieties regarding pensions and thereby stabilize the national life.

The government's second objective is to provide full support in reforming financially troubled state-owned enterprises. With state-owned enterprises crippled by social security expenses, social security reform is critical to reducing their burden and adjusting excess employment so that the reform of these enterprises can proceed smoothly.

In March 1998, the National People's Congress adopted the three major reforms for state-owned enterprises, the financial system, and government administration. Premier Zhu Ronji promised at that time to achieve the basics of the three reforms in three years. However, the reform (privatization) of state-owned enterprises has caused the demise of the lifetime employment system, creating large numbers of unemployed and laid-off persons.⁵⁰ Since the successful reform of state-owned enterprises rests on alleviating the unemployment problem, observers both in China and abroad have focused on the new social security system as a solution to the unemployment problem.

This paper first examines the development and present status of the social security system in China's urban areas, and then discusses pending issues for the future.

2. Reform of the Social Security System

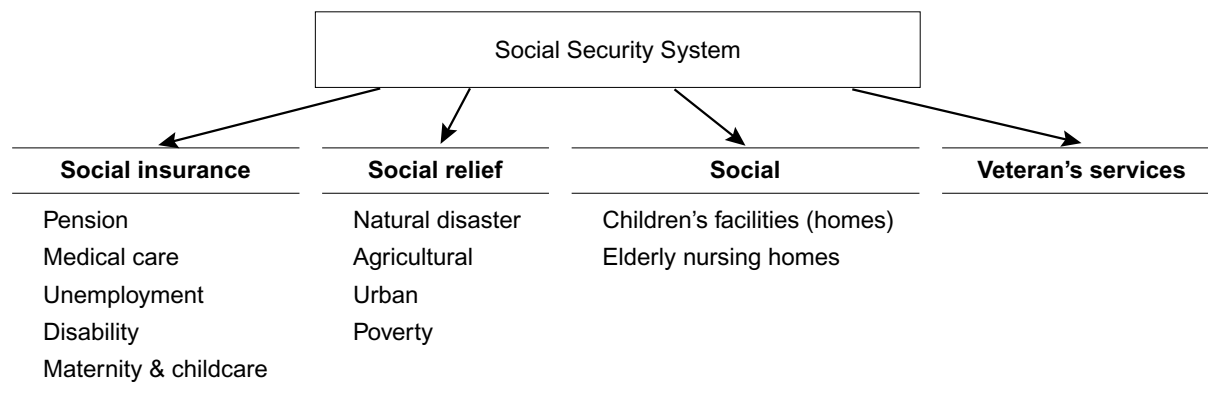
China's social security system includes not only various types of social insurance, but also social relief and welfare for the disadvantaged, the disabled, and natural disaster victims.

The social security system was created by the labor insurance regulation of 1951, and consisted of pension insurance, medical insurance, mortality insurance, maternity and childcare insurance, natural disaster insurance, and family insurance. Initially, the system was funded solely by companies, and no contributions were made by staff and workers. Companies paid in premiums equivalent to 3% of total

⁴⁹ NLI Research Institute

⁵⁰ For information on unemployment and layoffs, see Yinhua Sha (1999b) No. 126, p. 124.

Figure 3-1 China's Social Security System



Sources: Newspaper articles and government regulations.

wages every month. Of this amount, 30% was allocated to the labor insurance general fund of the All-China Federation of Trade Unions. The remaining 70% went to the labor insurance fund of the labor union at the company, and was used to fund pensions, medical and disaster relief subsidies, funeral subsidies, and so forth. Fund shortages were financed by a higher level of the labor union (city or province level). In this way, the social security system had a uniform nationwide system of collection premiums and paying out benefits.

Social security coverage was not universal, but instead covered only qualified company staff and workers, and public employees in urban areas. The agricultural population, which comprised over 70% of the total population, was excluded.

With the start of the Cultural Revolution in 1966, as the administrative capability of the Federation deteriorated, social security functions were relegated to state-owned enterprises, who no longer paid in premiums to the Federation, but rather managed the funds on their own. Under this new company-administered insurance arrangement, companies acquired the role of paying all pension and insurance benefits to recipients.

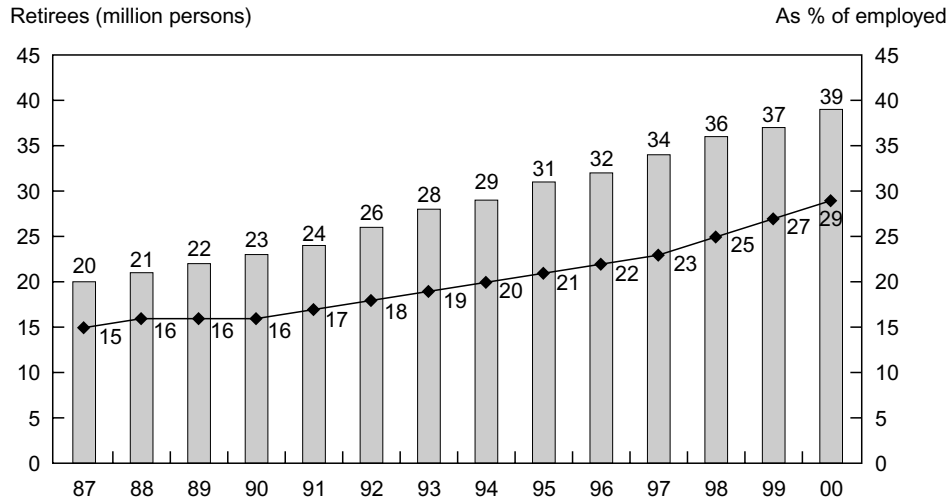
However, from the late 1970s, as the number of retirees increased sharply, the decaying state-owned enterprises became unable to finance their company-administered insurance obligations. Due to the large number of retirees, a ratio of one or two workers for every retiree was not uncommon at many companies. As a result, employees at some companies had to pay for all social security expenses of retirees, including pension and medical insurance benefits (Fig. 3-2). For example, in Shanghai City, pension benefits (including medical insurance expenses) for retirees comprised 28.6% of total wages in 1984.

In the late 1980s, many state-owned enterprises in basic industries posted persistent losses, while continuing to pay for all retirement pensions, as the number of retired persons increased, pension finances became increasingly constrained. Some state-owned enterprises failed to pay out wages to staff and workers, and at the same time also stopped making pension payments.

Medical insurance was in a similar situation. At some decaying state-owned enterprises, the medical insurance system had become an empty shell. Citing financial difficulties, companies rejected claims from employees and retirees, and continued to disregard their obligation to pay out medical expenses under medical insurance.

Furthermore, in pursuing the reform of state-owned enterprises following the reforms and market opening of 1978, state-owned enterprises sought to improve efficiency by restructuring and reducing excess

Figure 3-2 Number of Retirees, and Ratio to Employed Persons



Sources: *China Statistics Annual, China Labor Statistics Annual.*

employment. For the successful reform of state-owned enterprises and maintenance of social stability, it was necessary to alleviate the anxieties of unemployed and laid-off persons by promoting re-employment and at the same time laying out the social security safety net of unemployment insurance, medical insurance, and pension insurance. However, as mentioned earlier, the former social security system became a major obstacle to the ongoing reform state-owned enterprises. Thus there was no choice but to reform the old system and establish a new one.

The social security reform initiated in the 1990s introduced premium payments by individuals, and divided the responsibility of funding among three entities – companies, individuals, and the state. In addition, the reform seeks to eliminate local disparities by establishing a uniform system nationwide.

3. Characteristics of the Social Security System

The social security reform initiated in 1992 aims to revert the company-administered insurance system into a social security system, thereby reducing the burden on companies and particularly state-owned enterprises. The reversion, however, does not represent a complete return to the social security system of the 1950s, but is rather a shift to a new kind of social security system. At present, the main components of the social security system – pension, medical, and unemployment insurance – are mostly in place, while disability insurance and maternity and childcare insurance are still in development.

The core part of the new system is called basic insurance. For basic pension insurance and basic medical insurance, minimum benefit levels have been established to guarantee minimum living standards for persons covered by social security.

The remainder of this paper examines basic insurance. Under the new system, pension and medical insurance are augmented with supplementary company insurance and individual insurance with a savings component.

The aim of reform is to establish the three-tiered structure of industrialized nations with supplementary company insurance and individual insurance with a savings component, which correspond to Japan's company-sponsored insurance and individual insurance policy. A key feature of the social security system is that it is administered at the local government level (in addition, there is private insurance offered by

private insurers).

However, these types of insurance are not widespread at present.

3-1 Introduction of Individual Premiums

The transition from the company-administered insurance system to the new social security system entails the introduction of premium payments by individuals. During the era of company-administered insurance, funding was almost entirely the responsibility of companies. Under the new system, funding responsibilities are allocated among individuals, companies, and the state. Of greatest interest is the introduction of individual premiums. It is a fundamental characteristic of the new system, as well as a focus of the social security system reform.

3-2 Introduction of Individual Accounts

A second characteristic of the social security system reform is the introduction of individual accounts for pension and medical insurance.

In the individual pension account, the individual and employer pay monthly premiums which are accumulated in the account and earn interest. Upon retirement, the individual receives a fixed monthly payment from the account.

A similar individual account exists for medical insurance. If medical expenses do not meet standards prescribed by the medical insurance system, they are paid out of the individual account. If the individual account has insufficient funds, the individual must pay out of pocket.

3-3 Introduction of Social Security Funds

Smooth operation of the social security system requires the introduction of a social security fund scheme. Under this scheme, premiums that local governments collect from companies are pooled into the social security fund, and the funds are managed to ensure that pension and medical benefits can be paid to participants. By expanding the pooling function from the company level to the community level, funding burdens have become more equitable.

4. Outline of the Basic Insurance System

4-1 Basic Pension Insurance for Retirement Income

(1) Funding for Basic Pension Insurance

Funding for pension insurance is provided by the state, companies, and individuals as described below.

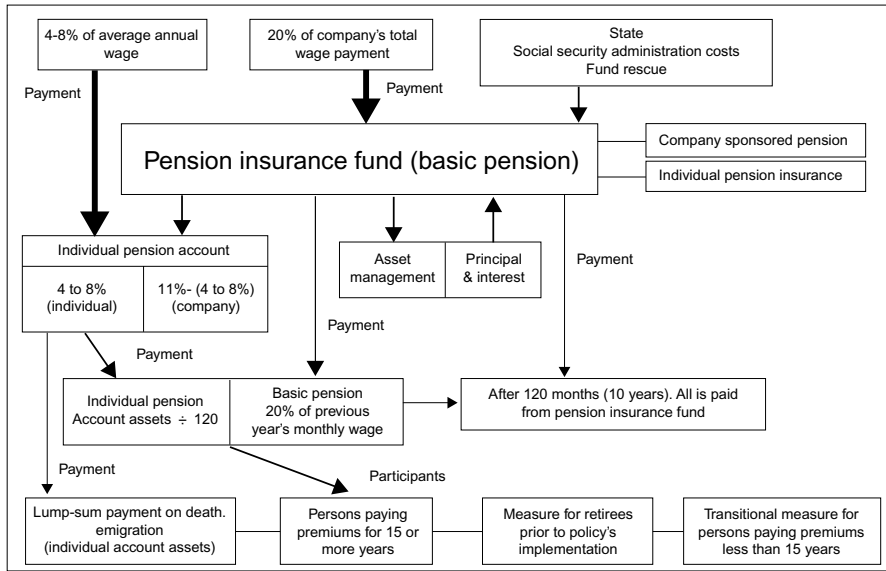
The state provides operating funds for labor and other administrative expenses of social security administration, as well as rescue funds in case of financial difficulty.

Corporate funding consists of pension insurance premiums paid on behalf of employees to the pension insurance fund. Under national regulations, this contribution must not exceed 20% of total wage expenses. Part of the corporate contribution is allocated to the individual accounts of employees.

The allocation to individual accounts, when combined with the individual's contribution, brings the total contribution to 11% of the individual's average wage. Assets in individual accounts earn a fixed deposit rate.

Individuals pay pension insurance premiums directly into their individual accounts. The premium rate stood at 4% of average wages in 1995, but from 1998 is being stepped up one percentage point every two years until it reaches 8%. The corporate portion decreases correspondingly by one percentage point until it

Figure 3-3 The Basic Pension Insurance Scheme



Sources: Newspaper articles and administrative regulations.

reaches 3%.

Despite the declining corporate contribution to individual fund, companies will continue to contribute 20% of total wage expenses to the pension insurance fund.

(2) Basic Pension Benefits

Under national regulations, participants who have paid in premiums for at least 15 years are entitled to basic pension benefits upon retirement.⁵¹

Basic pension benefits consist of a basic pension component and individual account component. The basic component is paid out of the pension insurance fund, and is equivalent to 20% of the average local monthly wage in the previous year. The individual account component pays out account assets in equal installments over 120 months (10 years). Once the account is depleted, all benefits are paid out of the pension insurance fund.

Since individual accounts are meant to ensure retirement income, early withdrawal prior to retirement is disallowed. If employees change jobs, the account and account assets are transferred to the new employer. However, in the event of death or emigration, not all of the remaining account assets are paid out; only that part contributed by the individual is paid out to inheritors or the individual respectively, even if the individual has already retired.

4-2 Basic Medical Insurance

The former medical insurance system was comprised of a public medical system and labor insurance medical system, both of which offered free medical services to participants. However, after the economic reforms and market opening, state-owned enterprises accustomed to a planned economy fell into distress, and many could no longer afford to pay medical expenses.

In addition, the former medical insurance system was subject to rampant misuse. To expand profits,

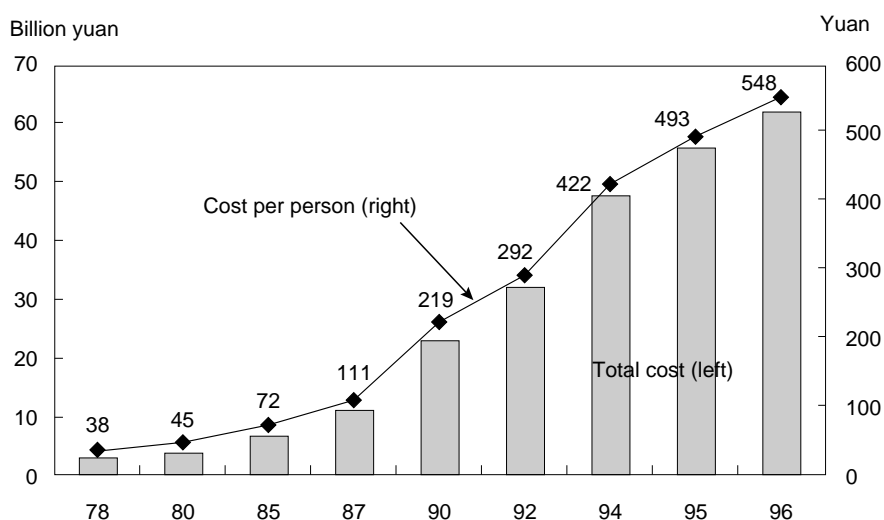
⁵¹ Different rules apply to participants with less than 15 years of premium payments.

medical facilities provided expensive medicines, unrelated nutritional supplements, unnecessary examinations, and extended hospitalizations. Since medical treatment was free, patients themselves often asked for such excessive treatment.

Thus from the 1990s, the medical insurance system underwent fundamental reform. A national uniform medical insurance system was promulgated in 1998, at which point a new system was finally developed. Medical insurance premiums are described in Fig. 3-5.

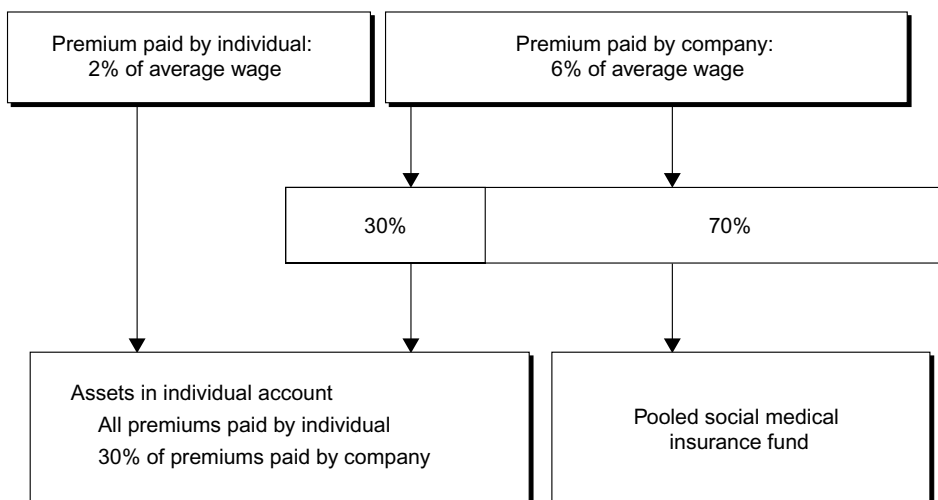
As with pension insurance, medical insurance premiums are paid by both individual and companies. For individuals, the premium rate is 2% of their average wage (including bonuses), and premiums are contributed to their individual medical insurance accounts.

Figure 3-4 Medical Expenses of State-Owned Enterprises



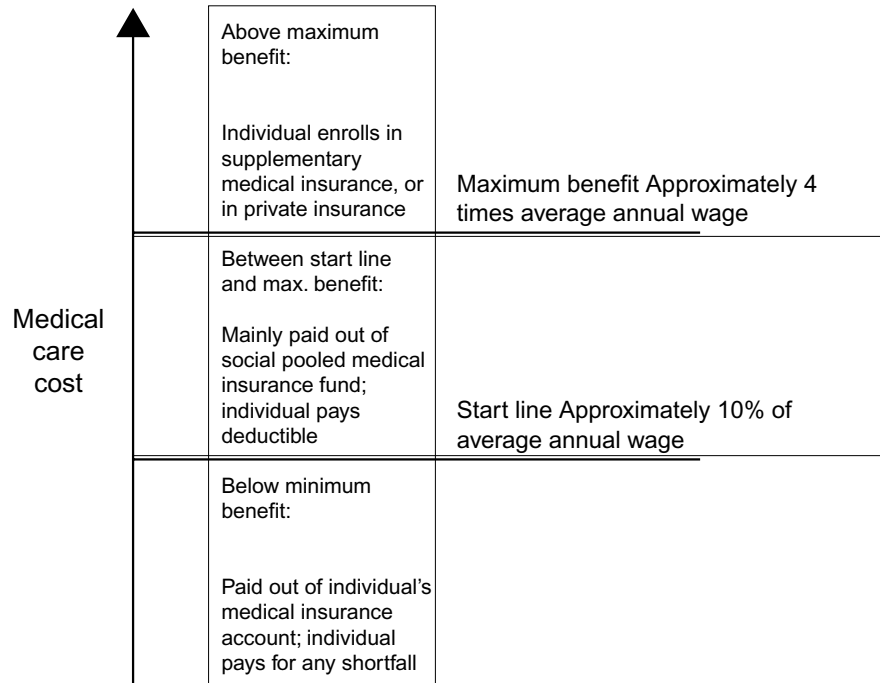
Source: *China Social Security*, October 1998.

Figure 3-5 The Basic Medical Insurance System



Sources: Newspaper articles and administrative regulations.

Figure 3-6 Medical Insurance Benefits



Sources: Newspaper articles and administrative regulations.

Companies contribute 6% of the total average wage expense as medical insurance premiums. Of this amount, 70% is allocated to the medical insurance fund, and the other 30% to individual medical insurance accounts.

Medical insurance benefits are determined by comparing actual medical expenses against a schedule of benefits. Benefits start when medical expenses reach the provision start line of approximately 10% of local average annual wages, and peak out when medical expenses exceed the ceiling of approximately four times the average annual wage. Specific benefit levels are determined by the local government.

- (i) For medical expenses below the start line, no benefits are paid out of the medical insurance fund. Expenses are paid from the individual account or out of pocket.
- (ii) For medical expenses between the start line and maximum, benefits are paid out of the medical insurance fund, but the individual must also pay a deductible.
- (iii) For medical expenses above the maximum, the individual must pay the full amount. Alternatively, the individual can enroll in supplementary company insurance, individual insurance with a savings component, or other private insurance. If the employer is in a good condition, the company may also voluntarily offer assistance.

As with pension insurance, the pooled medical insurance fund and individual accounts represent a fundamental reform from the previous system.

4-3 Unemployment Insurance and Relief for Layoffs

(1) Unemployment Insurance

The reform of state-owned enterprises has generated a sharp increase in unemployment and layoffs. In

Table 3-1 Unemployment Benefits

Years of premium payment	Maximum duration of benefits
1 to 4 years	12 months
5 to 9 years	18 months
10 or more years	24 months

Sources: Newspaper articles and administrative regulations.

China, since laid-off persons are seldom called back to work, they must find new jobs as well.

Prior to the reforms, China's labor system was modeled on the former Soviet model, and since job separations were rare, unemployment was not a major social problem. Thus unemployment insurance was also unnecessary.

However, after the labor system reform of state-owned enterprises began in 1978, unemployment surfaced due to collapse of the lifetime employment system, introduction of free occupational choice, and failure of companies. From the late 1980s to 1990s, the number of unemployed and laid-off persons gradually increased.

To promote social stability, the central government required state-owned enterprises to provide relief to laid-off persons, and pressed ahead with the development of an unemployment insurance system. In 1999, the State Council (China's cabinet) enacted unemployment insurance regulations, and local governments complied by providing social relief to unemployed persons, thus formally establishing the unemployment insurance system.

Under the unemployment insurance system, companies must contribute 2% of total wage expenses, and individuals 1% of their average wage.

Unemployment benefits are determined by local governments, and fall somewhere above subsistence but below local minimum wages. The benefit eligibility period is based on the length of participation prior to becoming unemployed.

The reform principles of social security system – expanded coverage, and low guaranteed benefits – are reflected in unemployment insurance. Coverage has been expanded from employees of some state-owned enterprises to other workers in urban areas, and benefits have been kept somewhere between minimum local wages and the subsistence level. Given the small size of the unemployment insurance fund and massive number of unemployed persons, this is the most effective approach.

(2) Layoff Relief

In 1998, to ensure basic livelihood and promote the re-employment of laid-off persons, the State Council ordered local governments to create re-employment service centers. The Ministry of Finance, Ministry of Education, National Bureau of Statistics, and the All China Federation of Trade Unions complied by issuing detailed regulations to create the centers.

The centers are temporary administrative departments created by each industry. If an industry does not create a center, a center is created within companies.

1) Roles of Center

- To train and develop persons for re-employment
- To assist in finding re-employment
- To pay living allowance to laid-off persons
- To collect social security premiums from laid-off persons

Table 3-2 Enrollment Rate at Job Placement Centers (end of 1998)

	Laid-off persons (A)	Participants (B)	Enrollment rate (B/A)	1997 enrollment rate
Beijing	67,487	68,487	100.0%	39.6%
Shanghai	162,926	162,926	100.0%	62.0%
Tianjin	80,491	80,491	100.0%	0.0%
Chongqing	123,800	110,800	89.5%	6.6%
Heilongjian	830,800	528,000	63.6%	9.8%
Liaoning	1,035,147	527,000	50.9%	15.5%
Jiangsu	411,554	411,554	100.0%	12.7%
Sichuang	435,451	352,121	80.9%	7.9%
Henan	417,120	259,495	62.2%	4.5%
China total	8,769,314	6,827,000	77.9%	11.1%

Sources: China Statistics Press, *China Labour Statistical Yearbook*, 1998 and 1999.

2) Joining and Leaving the Center

Although laid-off persons must stay at home, they are still employees of the company as long as the labor contract remains in force. Thus they must follow their company's instructions and enroll at the center. If they refuse to do so, under the regulations of the State Council, the company can cancel the labor contract.

The enrollment procedure requires that individuals sign a contract with the center called the "Basic Livelihood Assurance and Re-employment Agreement." This consists of two parts. First, the employment provisions in the present labor contract are replaced by the center, who assumes the responsibilities of the company. This consists of paying basic living allowances to the individual, and shouldering social security premiums that the individual is supposed to pay while employed. Second, the individual must accept the center's training and engage in job searching. When a new job is found, the agreement is automatically canceled. The duration of the contract is less than three years in principle.

Acceptance of the center's contract is mandatory for enrollment. Under the state Council's regulations, if the individual refuses, the employment contract with the company will be canceled.

Upon enrollment, a "layoff certificate" is issued, enabling the individual to receive a basic living allowance and other welfare measures.

3) Funding of Re-Employment Centers

Operating funds for the centers are provided by the state, society, and companies. The state provides one-third of the total funds to local government finances. Local administrative agencies fund another one-third from independently procured funds. While local disparities exist, part of these funds are procured from the unemployment insurance fund, and part from local public finances. In the case of Shanghai City, the social security and labor administration bureau draws from the administrative expenses of migrant workers. Companies provide the remainder.

4) Status of Job Placement Centers

Although enrollment rates were not very high in 1997, according to fiscal 1998 data, enrollment in coastal areas was almost 100%, but still low in inland areas. These results do not coincide with the government's expectations.⁵²

⁵² Yinhu Sha (1999b) No. 126, p. 130.

5. Issues Confronting the Social Security System

5-1 Fiscal Crisis of the Social Security Fund

With the rapid advance of aging, the pension insurance system must confront the sharp growth in number of retired persons. Given its limited resources, the pension insurance fund faces a difficult situation, with little prospect for improvement.

The medical insurance system, still in the process of reform, is already ailing, and may lapse into financial distress unless rampant abuses are checked.

The unemployment insurance fund also faces a grim financial outlook. The reform of state-owned enterprises is exacerbating urban unemployment (including layoffs). Unemployment stood at 19.34 million in 1998,⁵³ and is predicted to exceed 23.94 million in 1999. By 2020, the total of urban unemployment and excess rural employment is predicted to reach 300 million.⁵⁴

Due to the above factors and difficulties in collecting social security premiums, the financial condition of the social security fund has started to deteriorate. As local social security funds confront the risk of failure, the system has entered a precarious phase.

5-2 Difficulty of Premium Collection

Difficulty in collecting social security premiums is a major obstacle to social security reform. More companies either neglect or fall behind in paying their share of social security premiums, which affects not only the collection of pension insurance premiums (old-age insurance in China) but the social security fund and medical insurance premiums. In addition, they often delay the payment of medical insurance benefits to staff and workers for extended periods.

In August 1999, Japan's National Institute of Population and Social Security Research conducted a survey of social security systems at 100 present or former state-owned enterprises (consisting of an equal number of large, medium and small enterprises) in the coastal province of Jiangsu and inland province of Sichuan.⁵⁵ According to the results, 49 state-owned enterprises report having failed at some time to pay social security premiums or to disburse pension or medical benefits to recipients, with the unpaid amount totaling 64.82 million yuan (approximately 970 million yen).⁵⁶ This amount is equivalent to 48.0% of the total annual premiums owed by the 49 companies, and 18.7% of the amount owed by all 100 companies. Only three companies report having paid all premiums and benefits, and the remaining 48 companies who did not respond are assumed to be largely delinquent. By type of social security, 62.2% of the unpaid premiums and benefits pertain to pensions, 8.0% to medical insurance, and 7.1% to unemployment insurance premiums.

The survey reveals that despite social security reforms implemented over the past few years, almost all state-owned and privatized enterprises for various reasons remain delinquent in paying part of their social security premiums and benefits. This obviously hinders the operation of social security funds. Below we examine five reasons companies do not meet their social security obligations.

⁵³ State Development Planning Commission, as cited in "Unemployment Next Year to Reach 23 Million," (in Chinese) *Hong Kong Economic Times*, November 25, 1998.

⁵⁴ Yin Hua Sha (1996b) No. 126, p. 130.

⁵⁵ The survey sample consisted of 60 state-owned enterprises, 23 privatized companies, 2 Sino-foreign equity joint venture or cooperative venture companies, and 15 other companies.

⁵⁶ Unlike Japan, where pension and medical benefits are paid directly to recipients, China's social security system pays benefits to companies, who then pays recipients.

(1) Undeveloped Legal System

Since laws regulating social security still do not exist, the social security system is regulated by administrative ordinances and notifications issued by the State Council and administrative agencies. As a result, legal enforcement measures for premium collection are weak and ineffective.

To correct this problem, local governments established their own ordinances and provisional regulations for social security premium collection, and called on companies in their jurisdiction to pay premiums as required. However, the results have not been encouraging.⁵⁷ Some companies are unable to pay premiums due to their poor financial. However, the problem is that even successful companies who can afford to build modern office buildings and procure a fleet of expensive cars are refusing to pay premiums. Bill collectors from social security administration agencies cannot even get past the receptionist at these companies.

This problem relates to the lack of a social security law. Under the Labor Law, companies and individuals are required to pay social security premiums, and should perform their obligation completely. While the law requires staff and workers to pay social security premiums and also stipulates their right to receive benefits, this right is not legally guaranteed. If companies fail to pay social security premiums or disburse benefits, the local social security administration has no legal basis for imposing penalties.⁵⁸

Since companies receive the same treatment regardless of whether they pay premiums, and companies that do not pay premiums are not disciplined, the present legal system actually encourages the tendency to not pay premiums.

With no explicit legal provisions to enforce the payment of premiums, enforcement is very weak because the administrative regulations and notifications that now exist amount to little more than administrative guidance. In addition, there are no provisions regarding administrative discipline for late payment or nonpayment of social security premiums. Thus the enactment of laws pertaining to social security is an urgent priority.

(2) Poor Business Condition Companies

Poor business condition and loss-making management are the primary reason for late or nonpayment of social security premiums.

Following the implementation of the reforms and market opening, some state-owned enterprises were privatized, while others remained state-owned. The problem with security reform lies with the latter group. In retaining their state-owned production and management methods, they fell behind the rapidly changing market economy and are in dismal condition: they have unsellable products, lack working capital, are entwined in nonperforming debt called “third-party loans” (*san jiao zhai*), carry massive debt, have no bank credit, cannot pay wages or pension benefits, and are delinquent in paying social security premiums.

For example, in 1997, 172 companies in Dongtai, Jiangsu province failed to pay a total of 37.0575 million yuan (approximately 550 million yen) in social security premiums. In Zhuzhou, Hunan province, the collection rate for social security premiums stood at 88.0% in fiscal 1997, and fell to 78.2% in fiscal 1998.⁵⁹ According to China's official statistics, the collection rate in fiscal 1997 and 1998 averaged around 80%. Moreover, in Hainan province, from January to April 2000, 2,760 companies failed to pay a total of

⁵⁷ Li Pei Fu (1999)

⁵⁸ Peng Shu Sheng stresses the urgent need to enact a social security law in “Company Reform and the Problem of Social Security Liabilities,” (in Chinese) in *Shanghai lao dong bao zhang*, May 1998.

⁵⁹ Zhou Guangyao (1999)

294.42 million yuan (approximately 4.6 billion yen) in social security premiums.⁶⁰ As these statistics show, late or nonpayment of social security premiums is a very serious problem.⁶¹

(3) Deficiencies in Social Security Administration

Three major problems plague the administrative organization of social security. First, administrative systems for social security are in disarray. As is typical in China, administrative systems vary significantly by area because they are tailored to local circumstances. Even the names of administrative organizations differ – the social security bureau might be a center, commission, or office. In addition, a variety of affiliated agencies may be involved, including the labor bureau, personnel bureau, welfare bureau, or health bureau.⁶²

For example, in Yunan province, pension insurance, disability insurance, and maternity and childcare insurance are managed by the social security bureau, while unemployment insurance is managed by the employment bureau, and medical insurance by the medical insurance center. In Shanghai, pension insurance, unemployment insurance, disability insurance, and maternity and childcare insurance are managed by the labor and social security administration bureau, while medical insurance is managed by the medical insurance administration bureau.

Under these conditions, administrative disarray is inevitable. For example, if staff or workers should move to another area, it is doubtful whether appropriate administrative measures would be taken due to the lack of uniformity.

Second, the administrative structure consists of multiple layers. In Shanghai, for instance, besides the local insurance administration that actually carries out operations, there are three to four layers of upper management including the Shanghai People's Government, Shanghai Social Security Commission, Shanghai Insurance Administration and Labor Bureau, Medical Health Bureau and Shanghai Social Security Administration Center.

The more administrative layers that exist, the lower the system's operating efficiency, and the larger the ratio of administrative expenses. If left alone, there is genuine concern that the inefficiencies of the present system will overburden the companies and individuals who must pay premiums.⁶³

Third, there are too few staff personnel at the working level. As with other government agencies, organizations are top heavy, with too many managers and too few staffers. Moreover, compared to management, the staffers are significantly less educated and experienced. To sum up the situation, there are too many new graduates and older persons, and too few specialists and front line staff.

(4) Inefficient Premium Collection Method

The social security administration currently relies on banks to collect premiums from companies. This arrangement has the following flaws.

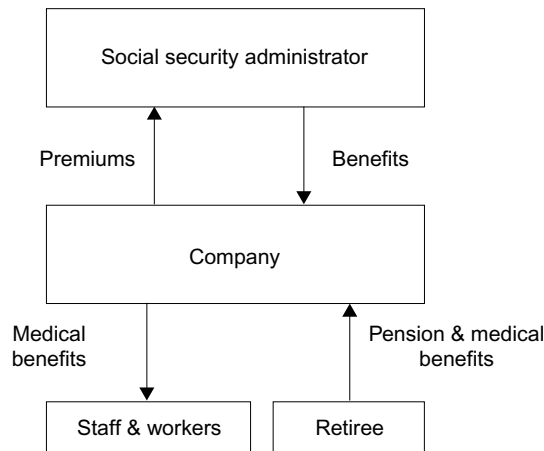
First, banks have no legal enforcement measures in collecting premiums. Thus if a company can

⁶⁰ Let us put this in perspective using the latest available data from fiscal 1996 and 1998. Since Hainan province had 19,888 companies in 1998, the 2,760 delinquent companies represent approximately 13.9% of the total. Using fiscal 1996 data for social security premiums due of 980.6 million yuan, unpaid premiums in the first quarter of fiscal 2000 comprise 32% of the total. (*China Statistical Yearbook 1999, and China Social Security Yearbook 1997.*)

⁶¹ See *Shenzhen Special Zone Daily*, May 31, 2000.

⁶² The social security bureau is an administrative unit of the government. The social security center is not a government agency, but rather a public corporation or foundation. The commission and office are both units of the government, with the commission being higher in stature.

⁶³ Yinhua Sha (1995) pp.21-22.

Figure 3-7 Flow of Premiums and Benefits

Source: Newspaper articles and administrative ordinances.

simply refuse to pay, the bank has no recourse.

Second, some social security administrations use a method of collecting the difference between premiums owed and benefits due (*chae nafu*). If a company owes more in premiums that it expects to receive in benefits, it is likely to delay or evade premium payment. To see why, consider the arrangements for premium and benefit payments (Fig. 3-7). The company regularly pays the required premiums to the social security administration. Every month, the social security administration allocates funds to the company, which the company disburses as pension and medical insurance benefits.

Collecting the difference means, for instance, that if a company owes more in annual premiums than it receives from the social security administration as benefit allocation, it needs only to pay the excess premium rather than the full amount. On the other hand, if the difference is negative, no premium payment is required, and the company simply receives the difference in benefits.

The problem is that if companies owe more in premiums than they will receive in benefits, they will seldom volunteer to pay the difference. Of course, if benefits exceed premiums, companies are unlikely to be delinquent.

To resolve these problems, in the second half of 1999, Shanghai took measures to enforce the collection of social security premiums, and set up a single office for direct payment (*she hui fa fang*) of pension and other social security benefits to recipients instead of through companies. Beijing implemented similar measures on June 1, 2000.

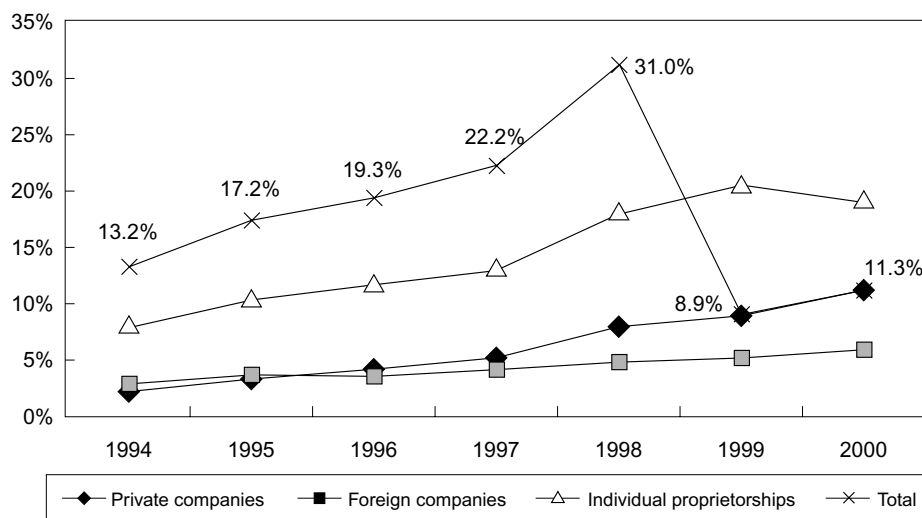
However, smaller cities and towns have difficulty adopting these measures, and thus confront the likelihood of encountering delinquent payment problems and operating losses when they set up a social security fund. As long as such funding uncertainties exist, prospects for setting up a fund are dim. This problem is likely to persist.

5-3 Social Security Participation Rate

(1) Participation Rate is Low Outside of State Enterprises

In recent years, the number of employees and workers at private companies, individual proprietors, and foreign companies has increased sharply, comprising approximately 31% of the total in 1998 (Fig. 3-8). However, compared to state-owned enterprises and collective enterprises, the social security participation rate is extremely low. Below we examine the situation at private companies and foreign companies.

Figure 3-8 Employment Ratio of Private & Foreign Companies, and Proprietorships



Note: Foreign companies include those from Taiwan, Hong Kong and Macao.

Source: *China Labor yearbook*.

1) Private Companies

Across the country, private companies are preventing their staff and workers from participating in social security. This is a very serious problem. Below we examine the regions in which the situation is most serious.

In Ningxiahui autonomous region, located far inland, economic development lags behind the coastal region. Private companies are slow to participate in social security compared to other areas. With regard to individual proprietorships, the latest available statistics (March 2000) indicate that there are 45,548 individual proprietorships with 79,967 employees, but only 745 persons participating in pension insurance – a participation rate of only 0.93% – and practically no participants in medical insurance. As for private companies, 4,180 private companies and 52,835 employees are registered at the State Administration for Industry and Commerce (the equivalent of the legal affairs bureau in Japan), but only 1,176 persons participate in old-age insurance. The number of participants in medical insurance is also practically zero.⁶⁴

Conditions are also grim in Anhui province, located in central China. As of March 2000, out of two million eligible persons for basic medical insurance, only 360,000 are participants, for a 24% participation rate.

This can be explained by four factors, First, due to intense competition in the labor market, staff and workers have little clout in requesting social security benefits from employers. Many temporary employees at private companies are migrants from agricultural villages. Due to the instability of business conditions at private companies, employee turnover is high. And since supply greatly exceeds demand in the labor market for temporary staff and workers, those fortunate enough to be hired seldom dare to negotiate their social security participation with employers. Stated differently, employees know when they are hired not to expect any social security coverage.

⁶⁴ See “Social Security Participation Rates of Individual Proprietors and Private Companies are Very Low,” (in Chinese) *Ninxia Daily*, May 29, 2000.

Second, in most private companies, since labor unions or staff and workers' congresses do not exist, employees seldom have the opportunity to negotiate with employers.

Third, some private companies have practically no work regulations, and do not offer labor contracts. As a result, employees have no legal means of protecting their rights. In 1989, the Ministry of Labor and Social Security issued provisional regulations for labor management at private companies. The regulations stipulated that if employees become ill or incur injuries off the job, the private company must provide a paid recuperation period of three to six months depending on the length of service, with the wage being at least 60% of the employee's regular wage. However, no provisions were made regarding pension and medical insurance for employees of private companies.

Fourth, private companies refrain from participating in social security to contain costs.

In light of these conditions, the lack of participation in social security by private companies can be expected.

2) Foreign Companies

The status of social security participation among foreign companies is better than at domestic private companies. In particular, participation rates at Japanese, U.S. and European companies are higher than at companies from Taiwan, Hong Kong and Macao.

In August 1999, Japan's National Institute for Population and Social Security Research conducted a survey of 200 Japanese companies with a presence in China, receiving 159 valid responses. In the survey, only four companies admitted to being delinquent in paying social security premiums.

According to the results, while there appears to be full participation in pension insurance, the situation with medical insurance is different-134 companies are participating, for a participation rate of 84%.

With regard to why companies participate in social security, 127 companies responded. The top two reasons are: (i) to comply with a government request (114 companies), and (ii) to alleviate uncertainty among employees (55 companies, multiple response).

In the survey, 12 companies cited the second reason of alleviating employees' uncertainty, while 31 companies cited both responses. The overwhelming majority, however, cited only the first response. These companies complied with the government's administrative order to participate in medical insurance. This, no doubt, is the main reason Japanese companies participate in social security.

However even with the government's forceful request, 16% of Japanese companies still refuse to participate in medical insurance. It will be interesting to see how this situation develops in the future.

(2) Special Groups not Covered by Social Security

1) Medical Insurance for Temporary Staff and Workers

Following the reforms and market opening, there has been a sharp increase in temporary staff and workers in urban areas. These people are migrant workers, or surplus labor spilling out of agricultural villages. Major metropolitan areas on the coast have several million such persons on average, while smaller cities and towns average several tens of thousands of people. The jobs available to migrant workers are characterized by severe working conditions – for example, construction sites, municipal construction projects, ports, steel factories, processing plants, and production lines in heavy industry. One company employs 87 regular employees and 132 temporary employees. In a more extreme case, a construction firm fired all regular employees and replaced them with temporary workers. In recent years, jobs for women have been growing to include janitorial work and unskilled patient care at

Table 3-3 Medical Insurance Participation Rate (Japanese Companies in China)

Company	Regular Staff & workers (A)	Temporary Staff & workers (B)	(B/A) (%)	Medical insurance participants (C)	(C/B) (%)
A	150	130	86.7	0	0
B	245	229	93.5	229	100
C	153	278	181.7	0	0
D	191	449	235.1	0	0
E	795	608	76.5	0	0
F	120	878	731.7	0	0
G	1,927	1,131	58.7	1,131	100
H	1,000	1,500	150.0	0	0
I	2,659	1,562	58.7	0	0

Source: National Institute of Population and Social Security Research, *Survey of Japanese Companies*.

hospitals, housekeeping, and production line work in hi-tech industries.

Because of these conditions, the problem of social security participation among temporary employees is receiving greater attention from society. In the survey of Japanese companies cited above, 44 out of 159 companies (27.7%) make their temporary employees participate in medical insurance. The employment status of these companies is shown in Table 3-3.

Why do companies that perform labor intensive operations prefer to use temporary staff and workers? While ease of hiring and firing is one reason, the main reason is the significant cost savings. Below we analyze two facets of these cost savings.

First, companies that hire temporary staff and workers seldom use labor contracts, while labor regulations have no provisions regarding employment problems of temporary staff and workers. Thus as long as employers pay above minimum wages, they can hire temporary staff and workers for substantially less than regular employees.

Second, since temporary staff and workers have their family registries in rural areas, they are not eligible for the company-oriented social security system in urban areas. Thus employers do not need to pay social security premiums.

It is an important social problem that despite their large contribution to urban construction, temporary staff and workers have no social security coverage should they become ill and unable to afford proper medical care. Authorities are at a loss as to how to provide relief.

In light of their reliance on temporary staff and workers, cities have no choice but to find ways to provide some form of social security coverage.

2) Medical Insurance for Unemployed and Laid-Off Persons

As China underwent full-fledged economic reforms in the 1990s, the collapse of the bubble economy caused economic conditions to deteriorate. The lifetime employment system at state-owned enterprises became unsustainable, generating massive unemployment and layoffs. For these unemployed and laid-off persons, a key concern has been whether they can continue to receive medical insurance coverage.⁶⁵

The greatest concern among unemployed and laid-off persons is that job severance can result in the

⁶⁵ Regarding the problems of unemployed and laid-off persons, see Yinhua Sha (1999a).

loss of pension and medical insurance coverage. This happens because some companies stop paying premiums for these persons, thereby voiding the insurance coverage. Moreover, companies often refuse to pay former employees medical benefits to which they are entitled. Thus in many cases, people who are severed from the workplace lose all social security coverage.

Under these circumstances, at least three problems arise regarding medical insurance coverage for unemployed and laid-off persons. First, without medical insurance coverage during the unemployment or layoff period, if the person becomes ill, no other relief measures may be available. Second, if the person is re-employed at a private company or other non-state enterprise, the new employer may not continue the medical insurance coverage from the former employer. Third, if the person decides to become an individual proprietor, they may not be eligible for medical insurance coverage.

In the case of Shanghai, these problems are addressed with the following three measures. First, job placement centers (affiliated with the government's labor and social security bureau) distribute a special medical insurance certificate to unemployed and laid-off persons, which is valid only during the period of unemployment, and carries the same coverage as ordinary medical insurance. In addition, premiums are waived.

Second, if these persons are re-employed at a private company or other non-state enterprise, the new employer is required to enroll them in medical insurance. Employers are supervised by the government's medical insurance administrative agency.

Third, if these persons become individual proprietors, they can enroll in medical insurance in the same way as staff and workers at ordinary companies. In this case, the government's labor and social security administration bureau administers medical insurance, and collects individual premiums on behalf of the medical insurance administration.

However, such measures to provide medical insurance for unemployed and laid-off workers have been implemented in only a few cities, and are tentative rather than fundamental reforms. For a fundamental solution, a national health insurance system with universal participation needs to be established similar to the system in Japan. In addition, in many areas, no action has been taken. Further developments will be followed with keen interest.

6. Conclusion

China's social security system is now in the process of reform. Meanwhile, the aging of society is creating new pressures on society over the long term.

In the 21st century, as China's population continues to grow, aging is predicted to impose a substantial burden on the labor force.⁶⁶ By the middle of the century, the total population is predicted to reach 1.5 billion, while the elderly population will exceed 300 million and the labor force will easily top one billion. Due to the one-child policy, aging and the decline in birthrate are advancing most rapidly in urban areas. As a result, the number of retirees will continue to rise (excluding elderly in agricultural areas), eventually resulting in a two-to-one ratio of working to retired persons in urban areas.⁶⁷

To ensure a stable life for the 300 million elderly persons, actions must be taken now to ensure pension and medical insurance benefits without overburdening younger generations. As for the labor force of one billion persons, measures need to be implemented to provide unemployment benefits and social relief to the

⁶⁶ See Hu An Gang and Wang Yi (1989) p. 20.

⁶⁷ Development Research Center of the State Council of the People's Republic of China, ed. (1995)

extent possible for unemployed and laid-off persons. Unless necessary measures are taken, China will struggle merely to survive, much less develop in the 21st century. The response to these difficult problems will be followed with keen interest.

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Chapter 4

Common Social Issues and Experience Sharing between Japan, China and Korea – Focusing on the Issue of the Aging Society⁶⁸

Takeo Ogawa

There is widespread alarm that Japan has entered a period of population decline. On the other hand, visiting Korea and China or TV images from these two countries gives the impression that East Asia is “young and energetic.” Japan itself, however, used to be “young and energetic” about 40 years ago. While the country appeared young and energetic on the surface, Japan’s birth rate started to contract after the baby boomers were born, and Japanese society has been graying steadily ever since. The manifest result is the recent decrease in population. In the 1970s, Japan experienced high economic growth, yet at the same time it entered the beginning of an aging society stage, with 7% of the population over 65 years old. The declining birth rate and aging of the population have resulted in the current declining population. The so-called “population pyramid” which shows demographic changes by sex and age does not resemble a “pyramid” any more. The shape of the future will rather look more like a “pot” or even like a “mushroom cloud.”

China, Korea and other East Asian countries are seemingly “young and energetic,” but the population structure reveals similar falling birthrates and population aging. For example, the current high economic growth in China is reminiscent of Japan’s situation in the 1970s. Its percentage of aged population also reached 7% in 2000. It is believed that China’s one-child policy has contributed to this result. Nevertheless, it is uncertain whether loosening the one-child policy would succeed in bringing back the previous high birth rates. In the meantime, changes in the population pyramid show that the population structure of Chinese society is becoming similar to that of Japan; low birth and death rates. Korea, with the lowest birth rate in the world, is also experiencing a sense of crisis. Despite the time gap among Japan, China and Korea, they share similar problems.

So far, the aging of the population has been regarded as a problem common to industrialized countries in Europe and North America, which was not directly relevant to developing countries. Since the 1970s, however, the United Nations (UN) has made efforts to make this recognized by all the member countries and formulate policies by increasing their awareness. As a result, developing countries are finally starting to sense the necessity of taking concrete countermeasures to population aging.

In particular, East Asia has a large population and aging occurs at a speed dramatically faster than in the West; this fact attracts considerable attention. Japan may be considered a model for this situation. It took only 24 years for Japan to double its percentage of population over 65 from over 7% in 1970 to 14% in 1994. France took 115 years for this process. It took a very long time for most industrialized countries with an aging population to reach this stage, but Japan’s graying speed is two, three, or even four times faster. Population aging estimates indicate that Korea will become the fastest graying country in the world and that China’s population will be aging at rates higher than the average for the world, too.

⁶⁸ This chapter is based on the keynote address the author delivered at the Fukuoka Symposium hosted by Kyushu University Asia Center on February 1-2, 2007, in Fukuoka, Japan.

A specific feature of Japan's population aging is the fact that it is caused by low birth rates. Pre-war Japan had national policies of promoting a high birth rate and population increase, which resulted in the overseas expansion of colonial rule. This experience led Japan to a pacifist mentality, and Japanese families tend to have fewer children but to attach more importance to the way in which they are raised. This trend caused falling birthrates, and Japan's work-age population succeeded in escaping the situation of "poor people who breed many children" - as the burden of supporting children is reduced, both the financial budget of work-age people and the entire society become more affluent, contributing to a rise in industrial production and consumption and then the acceleration of investment cycles. Economists regarded this situation as "high economic growth," while population experts called it a "population bonus" or "demographic dividend" period. As the size of the work-age population kept rising, and a stable composition ratio was maintained while Japan was experiencing the oil shock and the bubble economy, the country has utilized its population bonus.

East Asia generally has the idea that reducing demographic pressures is a necessary step to produce wealth. Irrespective of policy involvement, falling birthrates have been a common trend in the region. As a result, Japan has reached a stage in which the aged population is outnumbering the child population, and this trend is expected to continue. Whereas in Japan measures to reverse the birthrate decline have been publicized in recent years, the population aging and low fertility remain a significant policy challenge in Korea, too. Although China has not dropped its one-child policy yet, it seems to be getting ready for a major policy turnover.

If the birthrate decline is slower than aging, the burden on the work-age population to support the children and the elderly is gradually reduced over time. In Japan, such a decline in the ratio of dependent population actually overlapped with the period of high economic growth. Therefore, the use of a term such as "population bonus" reflects the fact that the drop in birthrates and dependent population was a major factor leading to the accumulation of economic wealth. Nevertheless, Japan has already exhausted its population bonus asset. Although the burden of caring for children has been reduced, the need to care for a large elderly population is expected to become a more severe burden in the future. A closer look at the population composition reveals that Japan's birth rate is below the replacement level required to maintain a stable population. The situation is similar in Korea and China. In these conditions, the whole East Asian region is expected to enter a stage of reduced reproduction.

"In order to become rich, we have to keep working. If we want to keep working, children are often a hindrance." This way of thinking has become common sense in our society. Although much discussion has been going on about women's tendency to either marry later or not to marry at all, a look at the percentage of married people indicates that in fact men tend to marry even later than women. The prolonged low birthrates have led Japan to the stage where it has to face the problem of a dwindling work-age population.

There is the idea that foreign migrant workers could compensate for the lack of a young productive force. By accepting large numbers of young immigrants, the United States has seemingly succeeded in maintaining a "young and energetic" society in comparison to other industrialized countries. The concept of "replacement migration" has been developed by the United Nations, who estimated the scale of international immigrants needed to offset the population decline in order to maintain the 1995 population structure. The results of this estimate, publicized on the UN website, are astonishing: It predicts that by 2050 the native Japanese might become a minority group within Japanese society.

The progress from low birthrates to population aging is also occurring at an accelerating pace in Korea, China and Taiwan. Korea has been reported to have the lowest total fertility rate in the world. Although a few adjustments have been made in China, the one-child policy is still in place. Total fertility

rate in Shanghai is already a little under one child per woman. Sooner or later, countries with low birthrates will have to face the problem of population aging.

Another feature of population aging in Japan is the tendency for young people in the rural area to leave their home villages and move to the cities. No matter how many children are born in the area, if they leave their place of birth as they grow up, the remaining rural population will be aged inevitably. In Japan this phenomenon is usually referred to as “depopulated aging society.” Nevertheless, it does not affect only remote mountain villages or islands. It can also occur in urban areas. This is observed in the publicly-developed housing estates once called “new towns,” which used to be inhabited by young nuclear families. In the United States, such places are known as Naturally Occurring Retirement Communities (NORC). The process of over-urbanization continues in the big cities in Korea and the coastal area in China by attracting a younger population, which means that a serious problem affecting the whole of East Asia is looming with the emergence of NORC through the aging and depopulation of agricultural villages.

Japan has engaged in a variety of social reforms while serving as a model to experience low birthrates and an aging society. These social reforms are now being carried out at multiple levels. Seeing Japan’s efforts, other East Asian countries will develop their own policies according to their particular needs. Japan used to view Northern Europe as an advanced model for countermeasures to an aging society. In the future, however, Japan with the most aging society needs to serve as a model both for the East Asian and Northern Europe.

WHO advocated a policy framework called “Active Aging” in 2002 in order to rouse all countries to build a society where the elderly can enjoy an active lifestyle in response to the dwindling birthrates and population aging. Prior to this, Japan had already enacted the Basic Law on Measures for the Aging Society. The law reflects the awareness that adjustments to an aging society need to be made in all areas, including labor and income, learning and social participation, health care and welfare, and the living environment, etc. In May 2005, Korea passed the Basic Act on Low Births and Aging Society, a law addressing simultaneously the issues of the birthrate decline and aging. In China, the Law on the Protection of the Rights and Interests of Elderly People was passed in 1996. However, there is no law focusing on the birthrate decline and population aging as problems of the society as a whole.

In Japan, “Active Aging” is understood as “building a society which enables lifelong activities.” While countries throughout the world have undertaken a variety of initiatives in order to realize this ideal, Japan sees the policy challenge as how to build a society where people are able to spend their old age in a familiar environment at the base level of communities and daily life. Comprehensive local support centers have been established to act as counseling desks in the areas of nursing prevention and right protection. Furthermore, steps have been taken in order to provide a variety of community-based, multifunctional life support services. In China, the establishment of the “residential unit” as the sphere of daily activities has become an important policy issue. Social welfare funds are collected through the Welfare Lottery, while countless old age activities have been created through the grand design of the Starlight Plan, China’s National Community Welfare Service for Elderly People. In Korea, social workers are on duty day and night, making efforts to identify the residents’ needs at the level of *dong* “neighborhoods,” Korea’s primary divisions of wards. Korea is also implementing unique initiatives, including the requirement that, for a determined number of residences built, developers set up an Elderly Center where the elderly can get together and interact.

Recently, Japan has been taking measures to facilitate employment continuation for senior citizens, extend retirement age and eliminate the mandatory retirement system. It also focuses on the initiation and promotion of community businesses which develop job opportunities for the elderly, as well as of elderly-

oriented “silver industries.” The same trend can be seen in Korea. In China, a system enabling senior technical experts to participate as volunteers in assistance programs for inland areas is emerging.

Furthermore, Japan introduced the Long-term Care Insurance System, which has attracted worldwide attention. Following this model, Korea is preparing to introduce an original health care insurance system and the Japanese-English expression “silver industries” has come to be used. China has also adopted the Japanese word for care, *kaigo*. Such exchange of knowledge and expertise is expected to continue in the future. So far, I have taken part in mutual visits and in information exchanges through symposiums with East Asian researchers and policymakers whenever the opportunity presented itself. Each of us, however, recognizes that we should go further into public policy research and discussions aimed at business model formulation.

We believe that sharing each other’s accumulated knowledge makes it possible to create a society in which, as a Chinese idiom which symbolizes a desirable situation in a family says, four generations can live together in harmony, irrespective of age or sex; a society based on East Asian reality. Region-wide cooperation starts with achieving the seamless flow of commodities in the earliest stage, which is followed by the liberalization of the flow of people, the liberalization of business locations and progresses ultimately toward monetary integration. In that process, educational integration contains several difficult issues. Even more difficult is the integration of social security. As long as we understand each other’s social problems and keep expanding our areas of cooperation, however, it is possible to overcome such difficulties. Social changes, such as the aging society, do not allow for any delay. It is crucial that we look toward a distant future and start doing every little thing we can do now.

Free Trade Agreements (FTA) will now be expected to expand so as to cover aspects related to the workforce. For example, Filipino nurses and nursing care workers will come to Japan. For such a new age, there is a growing need for the internationalization of the qualification system, as well as for the development of a common curriculum and for recurrent education. It has also been proposed that an Education Development Center be created in Fukuoka City. Its curriculum should encompass not only a broad range of practical education at working level, but also international labor law and education for intercultural understanding.

Japan has the capacity to contribute to aging-related public policies in East Asia, but it lacks a base for this role. Fukuoka City, the gateway to East Asia, is a site proposed for building a research center on aging in the region. The idea of bringing together various related universities from Japan and abroad, and establishing a joint graduate study institution to function as a research facility for aging policies in East Asia is also under consideration. Kyushu University could act as the hub of several satellite campuses in East Asia. By fostering adequate human resources, the center would contribute to stimulating the emergence and development of businesses in all areas. Such a human network is expected to have a major influence on framing a new stage for East Asian society.

Every year, many Korean delegations visit Japan via Fukuoka to study the Long-term Care Insurance System. The East Asia Center on Aging, established during my tenure at the Kyushu University, has released a Korean glossary on care insurance terminology, which is currently being used by the members of the delegations. An experimental Chinese glossary has also been released. Such welfare tourism is a sort of public policy proposal and it can also become the seed for a new business model in welfare. Korean delegations have consisted so far mostly of elderly-care educators and students, but the number of businesspeople eager to learn about new business opportunities is rising. The exchange programs for welfare volunteers or workers are also expanding. Exchange programs between Chinese and Japanese “universities for the elderly” have also started to appear. The Korean Association for the Elderly has

ardently expressed its intentions to send study groups of about 30 people daily to Fukuoka City or in the Kyushu area, provided that Japan and Korea maintain good relationships. In the future, residents of pay nursing homes could visit each other's facilities and enjoy international exchanges. Taking these trends into consideration, I suggested to the authorities of Fukuoka City the idea of regional development planning mobilizing Fukuoka's local resources as a training center for aging-related know-how, "Fukuoka Aging Open Museum." The idea was forwarded by Fukuoka City as a national model research in urban renaissance. The project has been adopted in FY2006 by the Cabinet Secretariat and is currently in the examination and result-systematization stage. We have a vision to establish the Asian Aging Society Research Center that is the center for the network of all the aging business centers in Asia.

Japan has entered an age in which it no longer has a model to follow with regard to aging-related policies. That is because, in terms of the aging of its population, Japan is now at the top of the world. Korea, China, Singapore and other East Asian countries are following closely in its path. Therefore, it is essential for Japan, China and Republic of Korea to get together and share their aging-related knowledge and expertise. Thinking of this era, I always remember the two following lines from a poem by the poet Kotaro Takamura: In front of us, there is no road. Behind us, there is a road.

Part 2: Seminar Report

Aging Population in Asia: Toward a Sustainable Welfare Society

Parallel Session 4.1 at the 8th Annual Global Development Conference

January 16, 2007, Beijing Friendship Hotel, China

Chair:

Koji Yamada

Associate Senior Researcher, Japan International Cooperation Agency (JICA)

Presenter:

Natsumi Aratame

Professor, Takushoku University, Japan

Discussants:

Medhi Krongkaew

Commissioner, National Counter Corruption Commission (NCCC), Thailand

Yinhua Sha

Chief Analyst, NLI Research Institute, Japan

Takeo Ogawa

Professor, Yamaguchi Prefectural University, Japan

Yamada: Several countries in the region are experiencing declining birth and death rates. The increasing number of the elderly in these societies will, within the next few decades, result in shifting socio-economic structures with a significant impact on labor markets, economic growth rates, and fiscal balance of the state budgets. These issues are discussed in the context of the design of social security systems and concurrent costs associated with the aging population. Speakers will discuss sustainable social security frameworks with reference to Japan, Thailand, and China.

Now what is the motivation, why a bilateral donor agency like JICA takes up this topic? Firstly, population aging is a common phenomenon in Asia in the next couple of decades. The total fertility rate is now 1.25 in Japan, 1.08 in Korea, 1.80 in China and Thailand. But in case of the city of Shanghai, it is already less than 1.0, and it was 0.96 in the year 2000.

Along with improved longevity, the elderly ratio has been rapidly rising. In Japan it has already reached 21% last year, and China is currently 7%, but it is going to reach 20% by 2040s. Also amazing is the speed of aging in East Asia. Please look at the table. I would better move to the podium to explain. This table shows the years each country takes to reach the threshold of 14% of the elderly ratio from 7%. Japan took 24 years. But most of the Asian countries are going to reach 14% with less years than Japan

experienced. So this is the motivation for us to prepare for the time for the rapidly aging society in Asia.

And secondly is our recent focus on human security. While focusing on the investment in the next generation, which is spelled out in the latest World Development Report, countries are supposed to bear the increased burdens of the population aging, including pension and health care costs. Under the heavy budgetary constraints, developing countries have to design their social security systems with the priorities. So the question is, which group is less prioritized. And we in the donor agencies are supposed to focus on the least prioritized group.

So much for my introduction. I would like to hand the microphone over to Professor Aratame.

Aratame: Thank you very much, Mr. Yamada, for your introduction. This is part of JICA research which is entitled, *Facing up to the Problem of Population Aging in Developing Countries: New Perspectives for Assistance and Cooperation*, by Keiichiro Oizumi, Hirokazu Kajiwara, and myself.

Chapter 1 gives an overview of aging in the world and Asia in this report. Chapter 2 discusses the relationship between aging and economic growth, followed by a discussion of aging and social security in Chapter 3. Chapter 4, my chapter, discusses community-oriented welfare, and the means to respond to aging problems in Japan.

Today, since I do not have time, I will primarily focus on Chapter 4, discussing the notion and practices of community-oriented welfare in Japan and its implication to Asian developing countries with some additional information which I did not or I could not put in the JICA report.

First, let me briefly discuss the general background that gave rise to the necessity of community-oriented welfare, which I will abbreviate as COW from now. First, as Mr. Yamada already has explained, Japan has been aging very rapidly at a rate never observed before. As a result, Japan had to start worrying about how to provide security at older age since 1970. But this process is being repeated by other Asian countries in a much more compressed form. Particularly China and Korea are rapidly catching up with it. As a result, a similar problem and discussion are showing up in other Asian countries, particularly in East Asia, such as South Korea and China.

Please look at the next picture. This is a public nursing home in Thailand. And the next one, at the right, is a private nursing home in Indonesia. This one is an NGO worker visiting an old woman's home in Indonesia. And here is a picture of a group home run by NGO in the Philippines. So how to take care of the elderly is becoming a universal issue throughout Asia. But their social insurance system is underdeveloped. The problem is they are aging before they achieve enough economic development to be able to provide social security for all at older ages. What does it mean and what options do they have?

Now, coming back to the background that gave rise to the idea of COW or community-oriented welfare, I will point out just three reasons, although there are many reasons I think we should touch upon.

First, the pattern of living arrangement has changed. In Japan, and even in many Asian countries, it was traditionally the responsibility of the family. Now, the proportion of the elderly living with their children declined from 70% to 45% in 2004.

Secondly, a change has taken place also in the community. Before, everybody knew everybody. In 1975, according to the opinion poll, more than 50% of community members had close interaction with their neighbors. This percentage declined to as low as 22% in 2004. So the living arrangement has changed, and there is no more neighborly relationship in the community. But the elderly normally want to stay where they grew up. Besides, they cannot go to a distant trip as their physical conditions deteriorate. So the need arises to take care of the elderly in a community, but social capital, so to speak, that supports the elderly in the community got weak.

Thirdly, I have to add the fiscal crisis resulting from the 1974 oil shock, and the increasing payment in elderly welfare led to the debate on social welfare reform, and eventually, led to the idea of COW as I explain today.

In the light of this general background, Japan's social welfare for the elderly people evolved. It went through three phases. Phase #1 is the beginning of social welfare, #2, is the period when a lot of experiments were conducted with regard to elderly care, both by the government and by private organizations. And Phase #3, or the take-off period is a period when these experiments evolved into the Social Welfare Law, and public long-term care insurance. For reasons of time constraints, I will skip the explanation for the first two phases.

Phase #3, or the take-off period started by enacting or revising the laws that clearly introduced the concept and methodology that are now central to the idea of COW. Most important in my opinion is the Social Welfare Law, and Public Long-term Care Insurance, which I will abbreviate as PLTCI from now on. But before going into detail of Social Welfare Law, I would like to point out how the idea and practices of COW have emerged. It emerged not merely as an administrative response by the government to the growing aging problem. A concern to reduce social security expenditure certainly led to welfare reform as I mentioned before. However, there were theoretical debates among social welfare researchers that paved the way to the concept of COW and practice of community care. So the administrative response as well as the social welfare research combined to produce what I call community-oriented welfare today.

Now, back to the Social Welfare Law that was enacted in the Phase #3 or in the year 2000. Social Welfare Law clearly indicates that the community is what we should pay attention to. It states that the purpose of social welfare is to be able to maintain dignity and a self-reliant daily life. It states that we have to promote a cooperation of volunteers, for-profit and non-profit organizations engaged in social welfare, and local government. It also defined, or redefined the role of the Social Welfare Council as an organization that promotes COW in the local community. I will come back to the importance of Social Welfare Council later on.

If the social welfare law of 2000 defined the spirit of COW, PLTCI spelled out the procedures to realize the concept of COW. First, it enabled the elderly in need of care to purchase care services through a universal social insurance scheme. It used to be limited to the elderly with special conditions such as poverty and without family to take care of them. PLTCI encourages community care services such as home help, day service, short-stay or personal care rather than institutional care. PLTCI allows the entry of for-profit and non-profit organizations in the care service market realizing pluralism in service providers. It's a market-oriented scheme. The service providers used to be limited to the local government and the government supervised social welfare corporations. Now the private enterprises can provide care services. PLTCI is also a regional insurance scheme. It is partly the responsibility now of the local government to set the amount of the insurance fee to make the system sustainable.

After the PLTCI was put into effect in 2000, the elderly eligible for care services through PLTCI mushroomed from 2.1 million to 4.1 million, reflecting the potential demand untapped until PLTCI came into effect.

Let me now turn to the nature of pluralism that was introduced by PLTCI. In the year 2000 when PLTCI came into effect, the biggest service providers were social welfare corporations followed by for-profit organizations. In 2004, four years after introduction, that share has reversed completely. It is for-profit organizations that are playing the central role in providing care services. This fact suggests that the Japanese social welfare for the elderly is shifting rapidly to a market-oriented welfare system. While this is not totally untrue, it has to be qualified in several important ways.

While the number of for-profit organizations is increasing rapidly, their services are limited to community care services defined by PLCTI or services where profit is expected. When the kind of service is outside the scope of PLCTI, or not profitable enough, they cannot help the elderly. But there are many such areas such as social and cultural activities or providing just companionship. This is where other types of organizations kick in.

The first to be noted is a dramatic growth in the number of volunteers and non-profit organizations working for a socially important cause including health and welfare areas. I will not describe the reason in detail. It's in the paper. It is, however, partly due to government's own efforts to encourage volunteerism and partly owing to the efforts by Social Welfare Council to promote volunteerism. As a result, the number of non-profit organizations working in the health and welfare fields outside the PLCTI increased from nearly 480, in 1999 to 16,630 in 2006.

What I would also like to direct your attention is the role played by Social Welfare Council and Commissioned Welfare Volunteer. Social Welfare Council, which I will abbreviate as SWC, was established in 1951 and it now exists in every city and municipality, numbering over 3200 organizations throughout Japan. What do they do?

They promote volunteer activities through their own Volunteer Centers. They make care plans for the elderly who want to use care services through PLCTI. They provide community care services by themselves. They implement their own program to promote COW, such as establishing a small house where the elderly get together to have a good time. They organize and coordinate residents and neighbors for welfare activities.

Commissioned Welfare Volunteer, or *minsei-iin* in Japanese is an unpaid district social worker whose occupational roots dates back to 1910. So it has a very long history. There are over 220,000 CWVs nationwide in 2003.

While a volunteer, CWVs are formally commissioned by the Health, Labor and Welfare Minister. So it is an official position, and *minsei-iin* is an official title. CWV used to be and still is an honorary post, recruited from persons of considerable character. Working as CWVs gave them social respect and recognition. To some, especially before the war, it was an avenue for raising their social status.

What makes CWV unique is its dual personality. Officially commissioned, they work for the local government such as doing household survey for the government. Yet they work for community residents as a volunteer. They look for persons with problems in the community. They help such persons understand the welfare system, give them advice, refer them to appropriate offices, help them receive public assistance if needed. The amount of consultations they do annually is enormous. In 2003, 8.6 million consultations were made by 224,000 CWVs. Among consultation made, one quarter or about 25% were questions related to elderly care, indicating the extent of the contribution CWVs make in elderly welfare.

The progress of pluralism in service providers does not necessarily mean that each agent is working independently. Quite to the contrary, they often work together. It appears that the success of real COW relies on the collaboration of multiple agents. I am describing in the paper one such example in Chofu City in Tokyo, where they have constructed watch-out networks for the elderly. It is a system to look after the safety of the elderly who are living alone. Many people participate in this network, both profit and non-profit organizations and volunteer, and both modern and traditional or informal organizations.

Now, let me summarize my presentation. First, to reiterate the Japanese experience, national initiative is still strong. Ministry of Health, Labour and Welfare remains central in policy formulation. I did not elaborate on this point, so just take my word for it. This is something that everybody studying this subject in Japan knows. Second, however, more active role has been granted than ever to the local government. Now

they are responsible for planning welfare programs and maintaining PLTCI. Third, community-oriented welfare has become a policy idea as well as a policy tool. Fourth, pluralism in service provider is in progress. The modern organizations have increased in great number including for-profit and non-profit organizations and volunteers.

Pluralism, however, is not equal to fragmentation of service providers. SWC, or Social Welfare Council is playing an important role in every city and municipality. Pluralism is also not equal to disappearance of traditional elements. Traditional social welfare workers, such as CWVs, play an active role in the community. Most importantly, families still remain as central agents to take care of the elderly. Although the living arrangement is changing, 45% of the elderly persons are still living with their children. The proportions of the elderly living with their children are declining, but it is still around 45% - it is going down, but still very high compared with the situation in the US, where the elderly person living with their children are close to zero.

What are the implications of Japan's experience for the developing countries in Asia? Clearly, most Asian developing countries would not be able to adopt either a welfare state model or market-oriented welfare model. The family and community will remain as the main provider of elderly care service.

However, with rapid industrialization and urbanization as experienced in Japan and elsewhere, the welfare function of the traditional and informal resources is likely to lose its importance. The Japanese experience provides a clue on how to reconstruct the welfare networks for the elderly under such conditions.

First, it points to the importance of inviting volunteers and for-profit and non-profit organizations to provide a helping hand to the elderly and to their families which can no longer take responsibility for elderly care.

Second, it shows the importance of introducing a formal system such as PLTCI, but not necessarily PLTCI, that facilitates the participation of non-traditional organizations in local welfare activities in a continuous and predictable fashion.

The presence of an organization such as the Social Welfare Councils in Japan, which coordinate local welfare resources, may not only help promote community-oriented welfare activities, but bring stability to the welfare services. While an NGO could play an important role in elderly care, its activities are threatened when funds are running low, or members change. In comparison, SWC in Japan is a special non-profit organization that is stipulated by Social Welfare Law as the organization that promotes community-oriented welfare activities.

Lastly, it shows the importance of making use of traditional social institutions such as Commissioned Welfare Volunteer in Japan to buttress the welfare scheme at the local community level. Please note again that the CWV is an honorary post recruited from persons of considerable character. So they are part of traditional social structure. Normally, they are persons well respected in a local community. The idea of including somebody like him or her is probably not alien in many Asian countries. When properly motivated, such institutions will help the elderly on an informal basis, and if and when needed, help the elderly get acquainted with more formal services available at the local government level.

The Japanese model did not arise overnight. It has evolved over 30 years and converged to where we see now. This is where we ended up after many years of trial and error. Although we still expect many adjustments coming, basic philosophy is firmly established and procedures to realize it is clearly spelled out.

So it is more than my pleasure if my paper and this presentation are informative to welfare experts in other Asian countries. Thank you very much.

Yamada: Thank you very much, Professor Aratame. For your information, his paper is ready at the other side of this room. So if you are interested, please pick it up before you leave this room.

The next speaker is Dr. Medhi Krongkaew. He is going to speak about the social welfare system in the context of Thailand. And he is also going to give us a comment about the JICA report.

Krongkaew: Since time is limited, I just want to show you on the screen, but I would not talk about it for a while. I would like to fashion my comment on three parts. One is to comment on the big project of JICA, Professor Aratame's paper. Second, I give my comment on my perception of the Japanese system. And then the last part will be to say something on the social welfare particularly for the older people in my country, Thailand.

On the first part, if you have not seen the report of JICA on the facing up to the problem of population aging in developing countries, which I have in my hand here - this is a copy which is printed from the email - then I think you can wait for Yamada-san to send you whatever final product that JICA would come up with. It is a very comprehensive picture of how the issue or the problem of population dynamics is being discussed. So it will give you all information of how the so-called demographic changes in many countries in the world, you can learn a lot from how countries develop from one stage to the other. There are actually three or four stages that we can talk about, like the stage where you have a very high birth rate, high mortality rate, and increasingly changing to low mortality and low birth rates, which is what we have seen in many countries in the world today including countries that we will talk about like China, Thailand, Japan and so on. So it gives a very good basic foundation of knowledge. For those of you who would like to teach about population changes, this is a very good source of information for you. And of course, it has also given the readers some of the nice findings that even myself find quite interesting. For example, I was very surprised to learn that China will not be the largest country in the world in terms of population twenty years from now. What country? Can you guess? You probably cannot guess. Anyway, you find it out yourself, okay? So this is a nice finding that the paper, the report has shown.

Professor Aratame's paper is part of the report of this. I think in Chapter 4, right? Chapter 4 in the report it is much more detailed in the paper he gave us at this meeting. So it is much richer in terms of information. I have to admit that I passed through it several times, but because it is a new situation for me, I really cannot fully understand the real situation. Probably without having, probably I have to go live there in one of the community-based social welfare settings for a while to understand what is happening there.

Anyway, from his writing it seemed very clear that Japan has done a lot for its own old people in Japan. And this is something which I would like to maybe find some critical comment on. It is not that I do not like the older people to be looked after well. I do. I am getting old myself. I would like to be looked after by my society, my country, myself when I get to be 70 or 80. But there is something very true about the reality of this. It means how I can be looked after if I live in a country where we do not have enough resources to do that. Japan may be lucky in the sense that it has a lot of resources to look after its older people. But even in Japan, we have learned from various studies, that with very, very rich resources, maybe in terms of income, it is facing a very challenging future in terms of looking after its older people. Japan is still to be regarded as a country where universalism, coverage of all welfare system, is kind of very conservative. That puts a lot of pressures on the fiscal position of the government. It means the government has to come up with a lot of money, which they have to raise now today, in order to pay for those older people who already stop contributing to the system. This has to be a fault that many of my colleagues who are mainly economists, try to look at with a very worrying eye in terms of, if you continue to follow this so-called social security system in Japan, the fiscal burden on the Japanese government will be kind of

overwhelming in the very near future. It is not the problem that the Japanese look after its old people not well enough. It is the opposite. They look after the old people in Japan too well, and the problems with the situation that Professor Aratame has mentioned, add on to the benefits that old people in Japan have to receive. And it is something which I do not have authority to say fully, but I talked to several people in Japan last year, particularly younger people, they are complaining that they did not want to live in a situation whereby they have to contribute a lot of their salary towards these pension funds so that these pension funds will be given to the elderly people in Japan, to the larger group at the end of their retirement age. It is very funny to consider this fact.

A colleague of mine told me that can you find in any country in the world where the people who are old - 60 or onward - actually have more income, average income, than the people who are at the 40 age bracket to 60. It means that when you count all the benefits that you receive from pensions, that the pension in Japan do not only pay for you, also pay for your spouse, if you are head of family, your spouse will get it. So you get a lot of money from the government. So for these, some of the younger people in Japan say that the Japanese system, not that the system do not look after the older people, it is too generous to the older people. That is why I am very much jealous or envious about the older people in Japan. I have to say that we can not copy the situation in Japan. I certainly would say that if we can copy even 10% of what Japan has in Thailand, then we can be much, much better off than today.

Well, in Thailand, it is also true that the older people in Thailand look for assistance from their own family. It is still true today. But I would like to change that, if I can. I would like the system to look after the older people in Thailand better than it is now today.

Well, in terms of formal insurance, when I say formal insurance it means when you have money from your work - I am saying that the system that is existing in Thailand today is quite acceptable. We have what actually is better than that of Japan in terms of certain kind of voluntary system whereby the people who work voluntarily save money more than they do in the case of Japan. I will show you this picture which gives you the kind of current structure of saving for retirement in Thailand. We have all the three pillars that the World Bank has suggested. Pillar 1 is supposed to be the traditional Thai public pension that you contribute your salary part to the fund, and you get defined benefit out when you retire. In Thailand, we have that old age pension system, but it is not operating yet. We started about 7 years ago that people start to contribute money. But in order to get the full benefit of it, you have to contribute for 15 years. But we have not reached that yet. So no one has received it yet except some of the lump sum money when they retire today, they get some lump sum money, but not a pension. We have that. But we have to wait 7, 8 more years before to get a full pension on the social security fund.

The Pillar 2 - this is strange, you know - this Pillar 2 is government pension funds. All the government, actually our public sector workers, they are now moving away to private sector management, whereas those who work in the private sector are covered under the public run program. It is very, very strange indeed. And in fact, the organization of our government public pension funds are privately run company, or semi-privately run company with the aid of the agency and of the government.

The Pillar 3 is a voluntary one meaning you contribute as much as you like and you get back a kind of a proportion of to what you have put in. This is a kind of a provident fund scheme of the private sector company. These are of course a kind of wide ranging for most of the private companies in Thailand now, to be added by another recent creation called retirement mutual funds. This is kind of an investment fund where I select a kind of a mutual fund to put my investment in and I would not draw out that money for 5 years, and have to contribute. And then again, what money I get from the retirement mutual fund, there will be some exemption like tax free. It is kind of a tax privilege given by the state. And these will give you

some idea of the scope of this.

We have capital fund of about 335 million. We cover about 8 million people. With the government pension fund, we have 1 million people, foreign fund about 1.6 million people, and about the mutual fund about 64 funds as of February last year. All together, about 13 million people in Thailand today receive coverage one way or the other when you get old.

Now, is this sufficient amount for people to be covered under this? I would say no, because we have about 64 million population. More than half of that is kind of actively engaged in employment, like those of 15, or 20 to 65. So only about 20% of the total population is under coverage of some sort. That is to be considered quite inadequate. And that is why a couple of years ago, the government has come up with what is known as the National Pension Fund that will take care of the rest of the people. They will cover the additional 30 million more workers and will be a kind of defined contribution. It means that you have to pay in your money before you get back - it would be proportional to what you pay in. That will be 3% of the salary. The money will be put in the investment-type package that will gain more profit out of it. Retirement age will be increased from current about 60 to 65 years. And they receive all the benefits from the tax, the three Es, other tax deductions, tax exemptions and so on. And eventually, if this will be coupled with additional law that we have seen in our country - there are two more laws by the way, that passed about 2 years ago, one is so called the Senior Citizens Act, and the Social Welfare Act. These only come out about 2 years ago. But in order to operate it, you have to have a special decree. But some of the law like the old age law, senior citizens law, is already functioning in some ways. For instance, if you are 60 years old in Thailand, you can apply for free medical service now. You can get half the price on public transport and things like that. It is very small. But things will be looking up in the future. So my conclusion is that while the future may look quite rosy for older people in Thailand, they probably have to wait a few more years before that to happen. Thank you very much.

Yamanda: Thank you very much. Next discussant will be Dr. Yinhua Sha, and please make sure that you get your headset ready for the simultaneous translation.

Sha: Thank you, Mr. Yamada. It is my pleasure to speak in such a global conference. I am going to speak on the social policies regarding aging societies in China. First, I will brief you on the current situation of aging in China and then speak on the policy issues with regards to population aging.

This chart illustrates the aging situation in China in the year 2004. As Mr. Yamada mentioned, the national elderly ratio is currently 7% in China as a whole. If we look at the data on a city-by-city or province-by-province basis, we will see a different picture: It has already reached 18.48% in Shanghai; 13.75% in Tianjin and Jiangsu; and 13.66% in Beijing. If we look at the demographic trend in urban and rural areas from 1952 to 2003, we will see it could be illustrated as a process of urbanization. Rural population stayed the same during the 1980s and early 90s, but started to decrease in the middle 90s. On the other hand the urban population has been increasing steadily since the end of the 1970s. As a result, the rural-urban population ratio has declined to around 60:40.

This means that we could see China as three-dimensional society: While there is more than 450 million population in the urban areas, there is 800 million population in the rural area and this includes the third population group, 240 million internal migrants, who left the residential registration in the rural villages but moved to the cities to make a better living. Currently the urban areas are characterized by the declining birth rate and aging, caused by one-child policy. The rural areas are characterized by the increasing birth rates and aging, in spite of the same one-child policy. And there are internal migrants, who

face the declining birth rate and increasing population of younger generation.

This chart shows the forecasts towards the years 2050 and 2100. In the end of the year 2004, population aged over 60 was 143 million. But it will reach 200 million in 2014; 300 million in 2026. The figure will exceed 400 million in 2037 and it will remain 300-400 in 2050. China has enjoyed the demographic dividends, caused by the decreasing share of the younger population of age 0-14 and increasing share of the work-age population of age 15-64. But the trend will be reversed in the near future and the share of the old-age population of age 65 and over will increase to 21.78% toward the year 2050.

Now we focus on the rural population after urbanization. In 2000, aged population in rural areas was 85.57 million, which is 65.82% of total aged population and 1.24% more than that of urban areas. According to the forecast, the rural population will decrease while the people who have migrated to the cities will eventually be assimilated into the urban population. As a result the population in the rural areas may decline from current rate of 60-70%, to 20-30% toward 2050. The same forecast says that in spite of the urbanization, after a few decades, there will be: (i) increasing birth rate and aging in urban areas; and (ii) declining birth rate and aging in rural areas.

This has posed the challenges to the pension schemes in urban areas. By the end of September 2004, the amount of appropriation from individual accounts reached RMB 740 billion, and it is expected that approximately RMB 100 billion will be appropriated. This is called “emptied account” problem. The burden for corporate sector under the corporate pension schemes will be 20% of the average corporate income. Aging causes the burden for the social pool: the amount contributed is expected to cover people for 10 years after retirement, but the average length of payouts is expected to exceed 20 years. Chinese pension schemes are characterized by high replacement rate of 80-90% in 1999, but it is expected to decline. Central government subsidized RMB 209.3 billion to pension fund for 5 years from 1998. But this will be a significant fiscal burden in the future.

Now what are the policy implications for China? We should divide the policies into 4 different groups. First, as the policies with regards to the population aging in urban areas, we should be engaged in the pension reforms aiming at solving the problem of “emptied account.” Medical insurance reforms are also ongoing and more reformation plans are expected in the future. Second are the policies regarding aging in the rural areas: reconstruction of farmers’ pension schemes and formation of collaborative medical schemes. Third are the policies regarding aging of internal migrants. The non-existence of pension schemes requires us to start with the formation of the schemes. But the situation of migrants varies between different areas, and some local authorities are already attempting formation of medical insurance schemes for the migrants flowing into their constituencies. And finally there are policies for the aging in the local communities, and this is the areas where we could learn from the Japan’s experience. In both urban and rural areas, communal authorities are attempting to cope with the aging society. Also, it requires the commitment of public sector to the issue of nursing care.

Thank you for listening.

Yamada: Thank you very much. The last discussant will be Professor Takeo Ogawa.

Ogawa: It will be my honor to be a discussant on Professor Aratame’s presentation and the whole JICA report. First, what are the things for the developing countries to learn from Aratame’s report? I should propose that the developing countries may wish to look at the Japanese first stage of aging. Professor Aratame emphasized the current Japanese situation. I think this is the latest one. But I suppose that developing countries could learn more from much earlier phases of development of the population aging in

Japan.

This chart illustrates the reason. It describes a dependency ratio and the productive population support, the aged population, and the child population. In Japan, birth rate declined and aging increased, but total dependency ratio still went down for a certain period of time. This is the advantage for the economic growth. Developing countries first focus on the low fertility policy for promoting the economic growth. At that time, there were various types of programs for supporting older persons as well as controlling the birth rate. This stage is what Japan can share with the countries following it. But this is the story of, maybe the 1940s to 1970s. But in Japan, already we have entered into the new stage. This stage is very different from the previous phase. It still shows this decreasing birth rate, but the old age dependency ratio is growing up. And now, total dependency ratio is getting higher and higher. This is a new stage and almost all the following countries confront with these kinds and very difficult social situation in the coming decades. Professor Aratame's report is very useful in this stage. Then, Japanese public Long-Term Care Insurance system is one option to resolve this situation.

Dr. Medhi highlighted the economic background and the financial difficulties in Thailand. But there are more things that we could learn from the Japanese first stage. In this stage, we could share the same social situation. There are a lot of programs for enforcing the social relationships with community ties and the family ties. This is a fundamental requirement of this social welfare for the older persons.

I observe that there are 4 dimensions of disparities and that the community-oriented welfare will be one option to resolve this disparity.

The first disparity is between formal and informal. Many people refer to this framework. Almost all economists and policymakers are interested in the government treatments of this aging problem and the market-oriented solution. But Japan chose the third way. This is a family, a neighborhood, sometimes the World Bank calls social capital framework. We should be interested in this third dimension.

The second disparity is between the rich and the poor. Almost all countries focus on the poor, poverty and poor people, and there is no concern to the rich men. But in Japan, Dr. Medhi said, there is universalism, which means everyone, every time, every where, we can enjoy the social services. In Japan, this is an ideal social situation. And the question is how we could make this an ideal situation? This is what we must learn. Middle class is also a target, not only poor people.

The third one is the disparity between urban and rural sectors, as Dr. Sha mentioned. And in China, it is a very big problem. There are many problems observed caused by the migrants between rural and the urban areas. It has brought about many social problems. How could we resolve these kinds of disparities? It is maybe a common problem in the world. And the Japanese experience shows many good examples and bad examples to resolve these disparities.

Then the community-oriented welfare program is one option to resolve these disparities, especially the one between formal and informal. Community-oriented welfare system is focused on the informal network, and the formal can be covered by institutional regime, but also they have very rich relationships with neighbors and families and friends. These kinds of informal networks are the good resource to resolve their own problems. How could we actualize these kinds of social capital? In Japan, there are many programs of these kinds. We say, we call these kinds of programs community-oriented welfare. Also another one is the rich and poor problem. It is sometimes an institutional one and an informal one, and I have no time to give a description in details. But the community-based welfare system is covered all over the region. If there is one of those for the rich men, one for the poor, whichever, poor and the rich, we can cover them.

The other one is the urban-rural one, and whether community-oriented welfare can cover these regional differences. Every region has its own organizations. And we can actualize these organizations with good

services.

This is the table on the combination of a public insurance and a taxation. This table shows that these European countries imposes expensive public burden for social security. But the Japanese is located in the modest level. It means every developing country must learn from Japanese society. It is a much cheaper way, and a very nice program.

Also I will emphasize that an older person is not only a receiver of the social services, but also a provider. This slide describes senior activities of one municipality in Japan. The people in the photos are mainly of the age of 70 to 75. These kinds of aged communities can sustain and maintain their good community situation, because they can provide many kinds of products for the residents. They sell the products to the neighbors, and they can maintain their lives with insufficient pension system, or social security system. How should we mobilize these kinds of social capital program? This is a very good issue for further discussions among the Asian countries and the other developing countries. Thank you very much.

Yamada: Thank you very much. Now, the time is almost up, but since we have started ten minutes behind the schedule, I would like to spend some time to open up the discussion to the floor for more comments and questions. I would like you to be very quick and concise when you ask questions or comments. So if you have any comments, questions, please raise your hand. I would like to take 2 or 3 questions.

Participant 1: I think nowadays, people's health is better than before. They have so many vitamins, health pills, whatever. So instead of just thinking of trying to deal with this aging problem in the conventional way, we should be thinking of a strategy to expand the working age. If you can expand the working age in line with the ability of people to contribute to society, then I think a lot of these financial problems will go away. So I would just like to make this comment.

Participant 2: I have a question for the first presenter. If I understand you correctly, you mentioned that national government plays a leading role, and the communities actually are playing an implementing role. I was wondering what role the family is playing. You definitely mentioned that. You said that the living arrangement is changing; 45% of the elderly people live with their children. Still I want to know what exact role it is. Thank you.

Participant 3: My name is He Wei of cnpension.net. I would like to ask Dr. Sha about the Japanese pension schemes although it is away from your presentation. My second question is how the corporate pension schemes are covering the SMEs in Japan.

Yamada: Okay. I would like to request Professor Aratame to respond to the second question, and Dr. Sha for the last question. If anyone would like to respond to the first comment, well, you can respond.

Aratame: I have no objection to expanding the working age. Regarding the role of the family, the national government has planned an overall strategy. The local government adopts the national framework to the local situation, and the family is responsible to providing assistance and taking advantage of the opportunities created by the local government.

Sha: I am afraid that the question about the Japanese pension scheme is off the main topic of my

presentation. Since there seems to be some pension specialists present at the session and they may come up with a similar question. Since I have written some papers on Japanese pension in Chinese, I would be happy to provide them after the session. As for the question on the corporate pension program, it is also a bit off the main topic for today's discussion, and would like to discuss later.

Yamada: Thank you very much. Well, I think you need some time for lunch, so I would like to stop taking the questions and comments. But finally I would like to say a few words about today's session.

Firstly, almost all the speakers in one way or another, based on the framework described in the World Bank report in 2005, they called it *multi-pillar pension taxonomy*. It said that we should design a social security system with due consideration to the optimum mix of social pensions, public pensions, informal social security provided by the family and community, other health care services and personal assets, after carefully taking into account the history, traditions and culture of each country. And today, most of the speakers used the same similar framework like rural/urban sectors, and also in-country migrants from the rural to urban sectors. And the issue arises in the coverage of the social security for the rural sectors and in-country migrants who are already existent in the urban sectors.

And secondly, I would like to highlight the population aging as an opportunity, as one of the participants on the floor mentioned. Nowadays the elderly people are very active and they can still contribute to the social development of the country.

And thirdly, I would like to mention the new role of the government agency. Back to the recommendations of the JICA report, it said that we should provide opportunities and fora for all the stakeholders, policymakers, opinion leaders, academic researchers and others to gather together and share their experiences. GDN Conference is one of such a nice opportunities today. But it also requires each participant to look back and systematically compile the experience of each country so that it could effectively be shared with each other. And this responsibility still lies mostly in the government and academic researchers.

So thank you very much. I would like to conclude this session. Thank you very much for your participation in this session. And also I would like to appreciate all the speakers for a very enthusiastic effort to contribute to this session. Thank you very much.

Annex: Visuals

1. Speed of Population Aging in East Asia

Koji Yamada

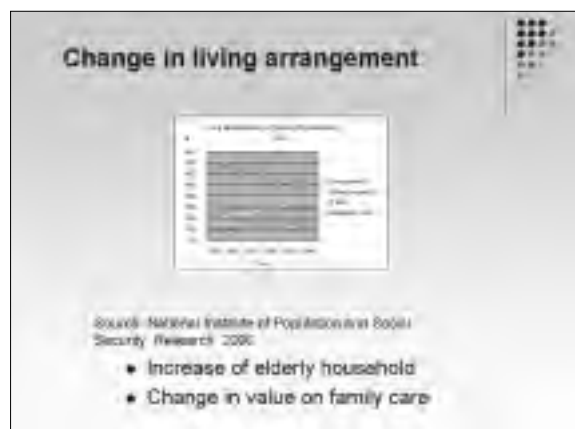
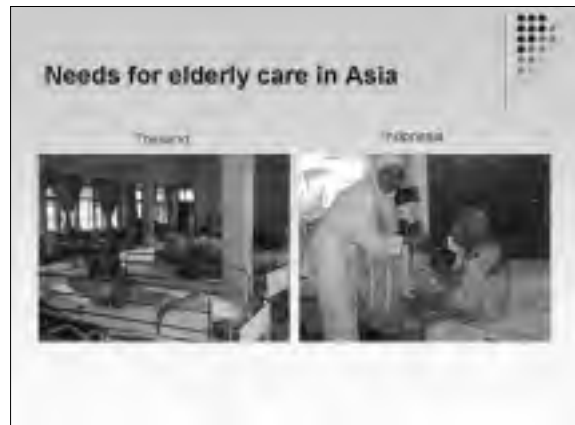
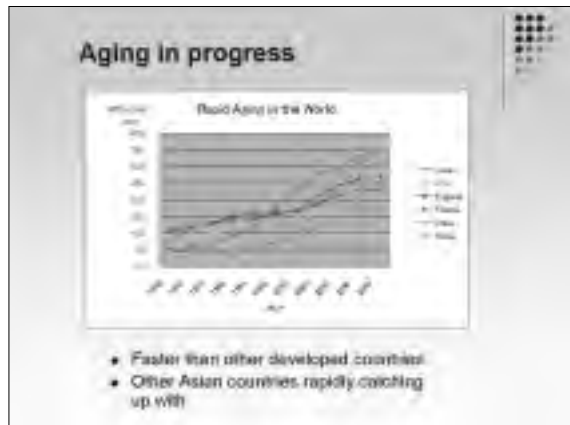
Speed of Population Aging in East Asia
(based on medium variant estimate)

	Elderly ratio 7%	Elderly ratio 14%	Number of Years to Double the ratio
Japan	1970	1994	24
Korea	1999	2017	18
Hong Kong	1983	2014	31
Singapore	2000	2016	16
Thailand	2005	2027	22
Malaysia	2019	2044	25
Indonesia	2019	2041	22
Philippines	2026	2049	23
China	2001	2026	25

2. Japan's Community-Oriented Welfare for the Elderly: Its Implications to Asian Developing Countries

Natsumi Aratame





How neighbors interact

—decline of neighborly relationships

	1960	1970	1980	1990	2000	2004
1960	1.8	22.3	49.4	21.9	3.8	0.0
1970	12.9	21.1	44.3	23.3	8.4	0.4
1980	11.8	42.3	35.3	16.7	5.1	0.4
1990	12.9	49.0	32.4	14.4	3.8	0.4
2000	12.9	44.9	32.8	17.3	4.3	0.8
2004	11.0	32.8	32.8	11.8	1.4	0.8

Source: Nakaguchi 1970, 1994



Three Phases in COW in Japan

- Beginning of social welfare (~1960s)
- Experimental period (1960s~1990)
- Take-off period (1990~)

Beginning of Social Welfare(~1960s)

- Objective—the support of the poor
- Six laws
 - Disability Basic Law (1946, revised in 1950)
 - Child Welfare Law (1947)
 - Law for the Welfare of the People with Physical Disabilities(1949)
 - Law for the Welfare for the People with Mental Retardation (1960)
 - Welfare Law for the Elderly (1963)
 - Maternal and Child Welfare Law (1964)
 - Social Welfare Service Law (1961) —regulative social welfare corporation
- Emphasis on institutional care through administrative action

Experimental period (1960s~1990)

- Objective—protection of poverty (—rise of living standard)
- Progress of aging → concern in old-age security
- Establish more welfare facilities
- Community oriented welfare
- Fiscal crisis, interest in budget balancing—welfare reform

Take-off Period(1990~)

- Eight welfare-related laws and social welfare service laws (1990#)
 - Community care
 - Delegation of authority to local government
 - Elderly health and welfare plan
- Long-term plans for the elderly(1989, 1994, 1999#)
- Social welfare law(2000)
- Public long-term care insurance (PLCI) (1997, 2000)

Theory of Community-Oriented Welfare justifies the trend

- Theoretical debates on
 1. COW activities and social policies—from charity to policies
 2. COW and people participation—encourages active involvement of beneficiaries themselves
 3. COW and welfare resources—emphasize community care

Social welfare law (2000~)

- Objective: community-oriented welfare
- Maintain dignity and a self-reliant daily life
- Promote cooperation of volunteers, for-profit and non-profit social-welfare service organizations, local government
- Define the role of Social Welfare Council
- Require to make Community Welfare Support Plan

Public Long-Term Care Insurance (PLTCI) (1997, 2000)

- Enabled the elderly in need of care to purchase care services through universal social insurance scheme
- Encourages community care services (home help, day service, short-stay)
- Allowed for-profit and non-profit organizations to enter the care services market
 - Industrial in several industries
 - Various professions
 - Capacity of service providers: 60% of elderly
- PLTCI (regional insurance) maintained by the local government

The elderly eligible for care services through PLTCI:
2.1 million (2000) → 4.1 million (2004)

Increase of For-profit and Non-profit service Providers

Number of Agencies Providing Quality Care Services

Year	For-profit (No.)	Non-profit (No.)	Total (No.)	For-profit (%)	Non-profit (%)	Total (%)	For-profit (No.)	Non-profit (No.)	Total (No.)
2000	662	4,256	4,918	13.5	86.5	100	270	5,323	6,023
2001	723	4,694	5,417	13.3	86.7	100	372	5,994	6,366
2002	789	4,951	5,740	13.8	86.2	100	455	6,405	6,860
2003	832	5,176	6,008	13.9	86.1	100	446	6,551	6,997
2004	867	5,325	6,192	14.0	86.0	100	432	6,783	7,215
Change	0.3	1.3	1.4	4.0	1.5	2.8	1.6	1.3	2.9

Source: Research Institute for Design, Tokyo; Tokyo Jyohoku, various years

Pluralism in Service Providers

- "Modern" agents for providing elderly care service:
 - For-profit organization — PLTCI
 - Volunteers and Non-profit organization
 - PLTCI
 - Non-profit Activities Promotion Law (1999)
 - Promotion and Encouragement by Social Welfare Council
 - NPO in health and welfare area increased from 458 (1992) to 1603 (2006)

Pluralism in Service Providers

- "Traditional/informal" agents for providing elderly care service:
 - Social welfare council
 - Commissioned Welfare Volunteer: unpaid local social worker
 - Neighborhood organizations, elderly residents

Social Welfare Council (SWC)

- Established in 1951, exists in every city and municipality
 - 3200+, 30,000+ employees (2004)
 - Promote volunteer activities
 - Make PLTCI care plans for the elderly/provide community care services
 - Plan and implement its own activities to promote CWV
 - Coordinate local residents and organizations for welfare
 - Municipal welfare activity plan

Commissioned Welfare Volunteer (CWV) "Minsei-iin"

- Started in 1910s and continues to present
- Unpaid district social worker, commissioned by the Health, Labour and Welfare Minister
- Honorary post, recruited from persons of considerable character
- Dual personalities
 - Work for the local government
 - Work for the community residents
- 8.6 million consultation by 224,582 CWVs

Collaboration of Various Agents for Social Service for the elderly – 24 Hour Watch-out Networks by Chofu City, Tokyo

• Objective: Look after the safety of the elderly living alone or persons with disabilities who need close monitoring. Report any problems to the Comprehensive Community Care Support Center, 24 hour.

• Participants;

- Local government taking initiatives
- Individual residents,
- For-profit organizations,
- Non-profit organization
- "Modern" and "traditional" organizations

24 Hour Watch-out Networks by Chofu City, Tokyo



Welfare state—Which type?

- Liberal regime—market-oriented
- Social democratic regime—nation as a primary provider
- Conservative regime—nation+family

Where does the Japanese model stand?

- ✓ liberal+conservative (Esping-Andersen) — mix of the three after 2000.

Japanese experience—Summary

1. National initiative – Ministry of Health, Labour and Welfare remains central in policy formulation
2. More active role granted to the local government; responsible for planning welfare programs and maintaining PLTC
3. Community-oriented welfare as policy ideal and policy tool.

Japanese experience—Summary(cont'd)

4. Pluralism in service provider in progress = increasing involvement of modern organizations (eg. for-profit and volunteers and non-profit organizations).
5. Pluralism ≠ fragmentation: existence of core non-profit organization-SWC
6. Pluralism ≠ disappearance of traditional elements
 - Traditional social welfare worker-CWV
 - Importance of family and community organizations

Japanese Experience-its Implication to Asian Developing Countries

1. To many Asian developing countries, "Welfare State" and "market-oriented" welfare model are not feasible. Family and community will remain to be the main provider of elderly care services
2. However, welfare functions of family and community will be less reliable as the Japanese experience indicates.
3. How to reconstruct welfare networks for the elderly when traditional support systems such as family and community are declining?

Lessons from Japan

1. Invite volunteers and for-profit and non-profit organizations to take part in elderly care.
2. Introduce a formal system (such as PLTC) that facilitates the participation of non-traditional organizations in local welfare activities.
3. The presence of a central (non-profit) organization such as the Social Welfare Council in Japan helps promote COW.
4. The traditional social institutions such as a Commissioned Welfare Volunteer in Japan provide a "natural" social worker.

地域独自の施策

- サービスの種類
 - 健康増進
 - 学習、社会参加
 - 家事援助
 - 配膳サービス
 - 生活援助
 - 安全確認、みまもり活動
- サービスの提供者
 - 自治体、社会福祉協議会、社会福祉公社、NPO、ボランティア等

3. Outlines of the Establishment of the National Pension Fund Project: NPF

Medhi Krongkaew

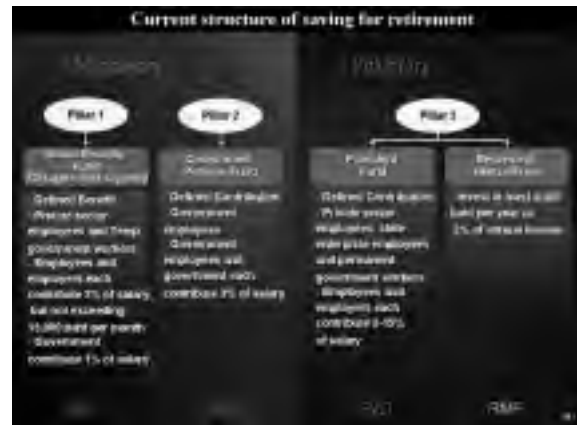
Outline of the establishment of the National Pension Fund Project (NPF)



This outline is based on the preliminary proposal of the Fiscal Policy Office, Ministry of Finance. The details of the structure of the National Pension Fund may be adjusted if deemed suitable to ensure consistency with the economic and social situation. The outline needs to be approved by the Ministry of Finance prior to full implementation.

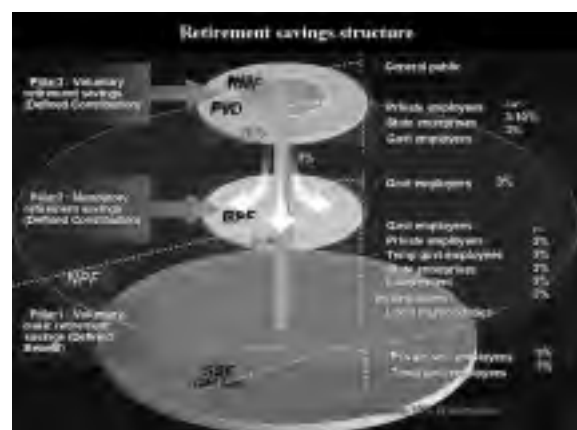
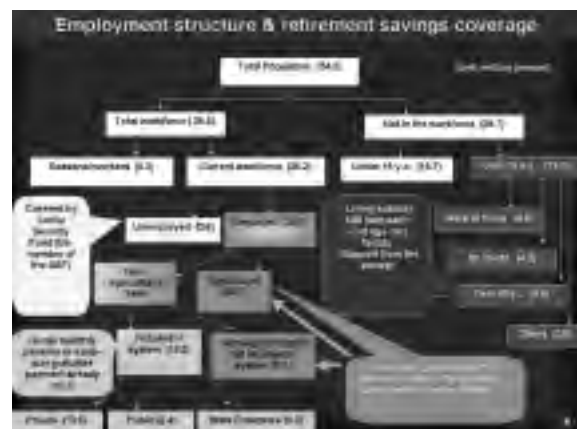
Objectives of saving for retirement

- Members must have adequate retirement income in order to maintain good quality of life.
- The system must cover all workers in Thailand
- The system must be financially sustainable in the long-run.
- The system must promote economic growth and stability.



Current status of each Fund (February 2006)

Fund Type	Capital (million baht)	No. of members (person)
SSF (Old age - child support)	352,864 (281,197)	8,287,764
GPF	292,799	1,166,377
PVD	348,241	1,678,758
RMF	19,251	64 Funds



Facts on Multi-Pillar retirement saving plans

Pillar	Fund	Characteristics
Pillar 1	Social Security Fund (SSF) (Social Security Fund)	<ul style="list-style-type: none"> The main objective of the establishment of SSF is to provide a financial safety net for the elderly population through a contributory system and encourage responsibility to the society by saving and paying to the public and contribute to burden to others. There is a strict rule regarding retirement income - at least above the poverty line. Therefore, the benefit scheme is structured as Defined Benefits with a link to the poverty line (business benefit should be equal or the link). Entered the retirement age in 65 years, with automatic state's retirement increase the cap on monthly salary according to the business wage index. Entered coverage to include employees of formal/informal institutions and temporary employees of such industries.

Facts on Multi-Pillar retirement saving plans

Pillar	Fund	Characteristics
Pillar 2	CPF (CPF)	<ul style="list-style-type: none"> This is a compulsory savings to ensure that all workers in the country will have adequate retirement income. After reaching age 55, individuals are able to provide for a good quality of life at 60% of the monthly income paid to employees (Private & Teachers). The system include personal accounts which members will be responsible for their own future and receive benefits on Full State Government. The Pillar 2 is financially sustainable in the long run.

Facts on Multi-Pillar retirement saving plans

Pillar	Fund	Characteristics
Pillar 3	Private Pension (Private Pension)	<ul style="list-style-type: none"> This is a voluntary savings to enable workers who are able and willing to save in order to improve the quality of life in retirement (P1 and P2). The incentives provided of these funds are interacting with employers who make this into a defined (Employer's funded), other funds are provided to the private sector.

Problems of the existing retirement savings structure

Category	Problem	Impact	Policy	Notes
1. Current Government Employees	Long-term Pension System (Defined Benefit)	DBP	-	None
2. Government Employees	Long-term Pension System (Defined Benefit)	DBP	-	Can potentially opt out of the system at any time. - Covers only some employees who are willing to participate. Proposed change to CPF for all employees.
3. Temporary Government Employees	Social Security Fund	-	-	- Inadequate income. - Paying out from non-sustainable Pension System. Excessive funding from CPF instead of extension of CPF coverage.

Problems of the existing retirement savings structure

Category	Problem	Impact	Policy	Notes
4. Self-Employed	SSSF (Social Security Fund)	-	-	- Inadequate income. - Paying out from non-sustainable Pension System. Excessive funding from CPF instead of extension of CPF coverage.
5. Employees of Informal Institutions (Private Sector)	Private Pension	-	-	- Can potentially opt out of the system at any time. - Covers only some employees who are willing to participate. Proposed change to CPF for all employees.
6. Employee of Informal Institutions (Private Sector)	Private Pension	-	-	- Inadequate income. - Paying out from non-sustainable Pension System. Excessive funding from CPF instead of extension of CPF coverage.

Problems of the existing retirement savings structure

Category	Problem	Impact	Policy	Notes
7. Temporary workers in the informal sector	Private Pension	-	-	- Inadequate income. - Paying out from non-sustainable Pension System. Excessive funding from CPF instead of extension of CPF coverage.
8. Private sector workers	Private Pension	-	-	- Inadequate income. - Paying out from non-sustainable Pension System. Excessive funding from CPF instead of extension of CPF coverage.

Problems of the existing retirement savings structure

Country	Year	Year	Problems of the existing structure
U.S. Private Sector Middle & high-income persons	1997	2007	- No systematic system - Covers only small employees with 401(k) rolling to 401(k) plans - Not covered in most way for finding job - Proposed: Establish PVD for jobless long-term job seekers and change to mandatory (not Social Security)
UK Generalized Savings Savings Savings	1997	2007	- Generally no coverage - Proposed: Propose PISA 3 to link up with existing 4 & 5 to provide systematic savings

Previous studies

Proposer/Commission	Year (Year)	Year (Year)	Problems of the existing structure
FPC (U.S. Gov.) 1997	A.D. 2003	A.D. 2003	- Increase support for 401(k) plans - Extend to lower age - Increase investment strategies - Establish PISA 2
A.D. (2000)	A.D. 2003	A.D. 2003	- Self-accumulated plan for private employees - Increase support for 401(k) plans - Adjust benefit for steadily pension accumulation - Increase investment strategies - Adjust Social Security FICA A1 toward more appropriate actuarial calculation
Centre for Social (1998)	A.D. 2003	A.D. 2004	- Establish PISA 2 - Adjust Social Security system by increasing retirement age, double government subsidy, and extend the legal investment coverage - Increase PISA 2 & introduce new standard of living

Problems of the existing retirement savings structure

Country	Year	Year	Problems of the existing structure
U.S. Private Sector Middle & high-income persons	1997	A.D. 2003	- Since 2001, they will be considered, on following year proposed - Universally increase retirement age to 60 years, and to increase 20 years, increase 4 further to 65 years of age - Establish the limit of savings age to calculate capital liability, study and increase the amount to a yearly basis, comparable to the national average wage increase - Monthly pension calculated based on 15% of salary should be reduced from 4% to 4.5% in 2004 and to 4.5% in 2007 - The benefit should be calculated on 2 yearly basis - The inflation rate may increase in the long term - Coverage should cover employees with over 100 employees, and extend 401(k) to the 401(k) - The monthly salary cap should be 50% - Provide individual account reporting - Benefits will vary from amount to amount, and should be paid out in lump sum retirement, and benefits should be provided for the partner after 50%

Underlying reasons supporting the change

Economic aspects

- Increase domestic savings, reduce the probability of current account deficit, & promote financial and capital market development
- Reduce government burden and promote fiscal stability
- Promote financial sustainability of Retirement Savings Funds in order to prevent fiscal risks

Social aspects

- Increase retirement income to an adequate level, from the 13% currently received from SSF, and gradually increasing to 60% of last month's salary
- Ensure full coverage for all employees nationwide



Reform of retirement savings structure

Tasks	Provisions
Setup 4 Columns for Retirement Savings Plans	Minimum 2 PISA 1
Establish P1 (15% of salary) adjustment to the Social Security Fund for 2004 April	- Extend 401(k) April 2004 PISA 1 - Increase retirement age from 50 years to 60 years - Increase the monthly contribution cap from the previous 15,000 baht to 20,000
Disband the National Pension Fund (NPF)	Propose P2 contribution for all employees in the system
Provide establishment of P3	Support the P3 system Fund like to be used to establish Social and Retirement Savings & if the PISA 1 is completed

National Pension Fund Establishment Project

Rationale
To enable Multi-Pillar system in Thailand

Why is it necessary?
 Ensure adequate retirement income
 Promote higher household savings
 'Old Age' benefits covering all workers in the country
 Promote financial and fiscal sustainability
 Support the Thai capital market's stability & sustainability

(21)

National Pension Fund Establishment Project

- Covers approximately 15 million workers
- Defined Contribution Fund
- The minimum contribution/add-on portion starts from 3% of monthly salary
- No specified monthly cap on contribution
- Fund type (investment objective) can be chosen freely by each employee (Employee's choice)
- Individualized account for each member
- Retirement at 60 years of age
- EEF tax treatment
- Benefits will be received upon retirement either as lump-sum or periodic payments - amount will depend on the contribution add-on & each fund's return
- Membered by an independent body (NPF Office)
- Decentralized management by profit-oriented management companies which have been approved by the SEC
- Collection of contribution/add-on will be performed by either commercial banks or asset management companies, & financial management will be outsourced

(22)



Outcomes

Positive outcomes
 Higher retirement income
 Promote economic development and increase annual savings by 84,277.51 million baht (during 2005 - 2060) or 1.16% of GDP
 Sustainability of saving for retirement
 Cover approximately 34.7 million workers nationally (initially cover approximately 13 million workers in the system)
 Reduce the government's burden and ensure fiscal sustainability

Negative outcome
 Increase burden on workers and their employers
 May cause some negative effects on short-term economic growth

(25)

Outlook of PVD following NPF establishment

Potential impacts
 Amount of new savings through Pillar 3 funds may slowdown
 Existing savings in Pillar 3 funds may be reduced initially :-

- For PVD which pays 2% of salary, the PVD may be abolished
- PVD which pays over 3% of salary will be transferred to NPF and the portion of PVD over 3% of salary will be abolished

(26)

Problem-solving guidelines

Case 1. Allow transfer of PVD funds to NPF

Existing	Transition	New Setup
A. PVD 2%	Additional Payment of 1%	NPF 2%
B. PVD 2%	Additional Payment of 1%	NPF 2%
C. PVD 2.5%	Additional Payment of 1%	NPF 2%

Note: The transition box contains text: 'Transition: Payment of 1% (1% of the total contribution) to the NPF. This is the same as the 1% of the total contribution that is currently paid to the PVD.'

Problem-solving guidelines

Case 2. Employers with PVD are exempted

Existing	Transition	New Setup
A. PVD 2%	Additional Payment of 1%	PVD/NPF 3% Cannot abolish following enactment of law
B. PVD 2.5%	Additional Payment of 1%	PVD/NPF 3.5% Cannot abolish the part that is under 3% following enactment of law

Note: The transition box contains text: 'Transition: Payment of 1% (1% of the total contribution) to the NPF. This is the same as the 1% of the total contribution that is currently paid to the PVD.'

Problem solving guidelines

3. Different tax structures for NPF and PVD

NPF	→	EET
PVD	→	EEE

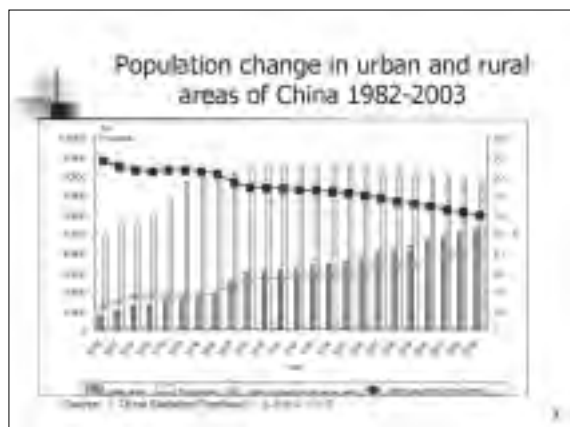
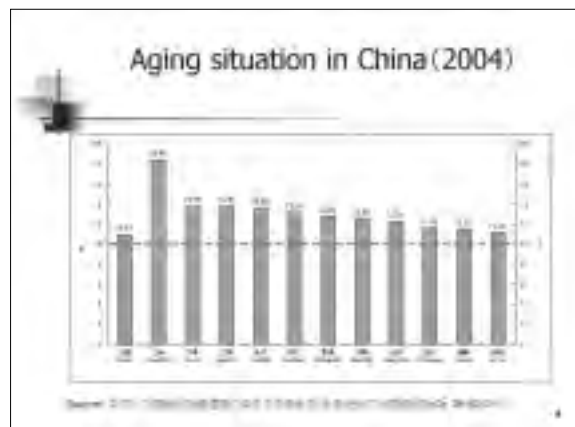
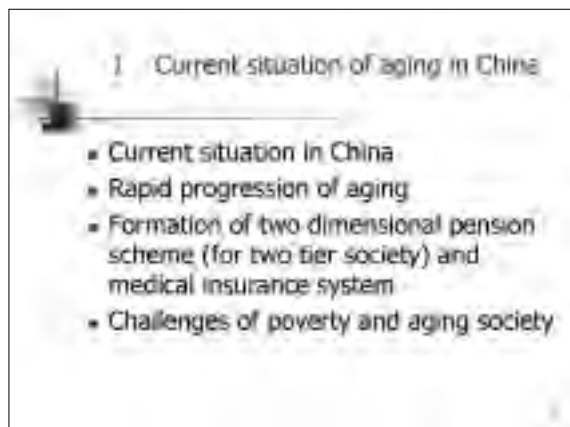
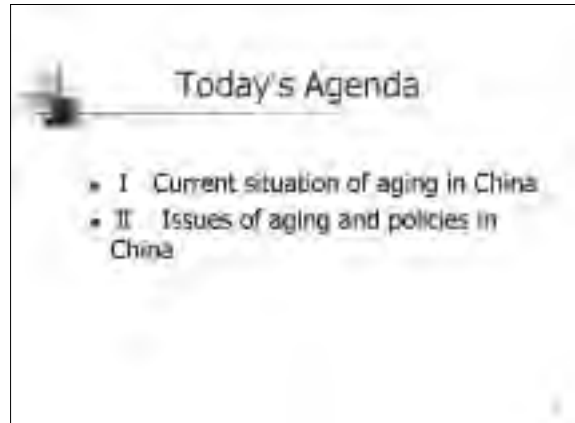
4. Seminar programs and public relations program nationwide

Promotion of Provident Fund Establishment

- Proposed amendment to the current Provident Fund Act
- Application to receive periodic payment after retirement
- Enable funds transfer from the GPF
- Allowing multiple investment objectives in funds established to better meet members' investment preference style
- Amendment to the Provident Fund Act B.E. 2538 once the NPF is established
- Abolish minimum and maximum monthly contribution / add-on
- Allow one-leg fund establishment
- Allow members to transfer the retirement funds when they change employers, & can continue to invest in the fund even after retirement

4. Social Policies Regarding Aging Societies in China

Yinhua Sha



Links between aging and population structure

Currently,

- In urban areas - declining birth rate and aging
(Aging society generated by one child policy)
- In rural areas - increasing birth rate and aging
(Not affected by one child policy)
- Internal migrants - declining birth rate and increasing population of younger generation

Forecasts of aged population

The end of 2004, population aged over 60 was 143 million. In 2014 it will be 200 million.
In 2026, 209 million.
In 2037, it will exceed 300 million.

Source: UNFPA, *World Population Prospects 2004*

Population by age (population census)

Source: UNFPA, *World Population Prospects 2004*

Forecast of population in rural areas after urbanisation

- In 2000, aged population in rural areas was 65.57 million which is 65.82% of total aged population and 3.24% more than that of urban areas.
- Population in rural areas will decrease. People who have migrated to the city will eventually be assimilated into the urban population. As a result the population in rural areas may decline from current rate of 60-70% to 20-30%.

Population of rural areas from population census

Source: UNFPA, *World Population Prospects 2004*

Population census (2000) Population structure in urban and rural areas

	Population (1000000)		% of total population	
	Urban	Rural	Urban	Rural
Population	365.1	282.7	56.4	43.6
Population aged 60+	143.0	209.0	21.2	29.2
Ratio	38.9	74.5	68.4	71.9

Source: UNFPA, *World Population Prospects 2004*

Forecast regarding aging and population structure after urbanisation

In spite of urbanisation, after a few decades there will be:

- increasing birth rate and aging in urban areas and
- declining birth rate and aging in rural areas

Challenges of pension schemes in urban areas

- "Stranded account" problem: by the end of September 2004, the amount of appropriation from individual accounts reached 740 billion RMB. Every year from now, approximately 100 billion RMB will be appropriated.
- Burden for corporations: 20% of average income
- Burden for social pool: the amount contributed is expected to cover people 10 years after retirement, however, average length of payouts exceeds 20 years.
- High replacement rate: 80-90% in 1998.
- Central government subsidised 209.3 billion to pension fund for 5 years from 1998.

II Policies regarding aging in China

- Policies regarding aging in urban areas
 - 1. Increase operational standards and standards to give priority to "basic account" (contribution from individual accounts are voluntary)
 - 2. Medical insurance reform are ongoing and great efforts given attention to special
- Policies regarding aging in rural areas
 - 1. Reconstruction of former pension schemes
 - 2. Promotion of collaborative medical schemes
- Policies regarding aging for internal migrants
 - 1. Continuation of pension schemes
 - 2. City, province, county, municipal authorities are addressing creation of medical insurance schemes for internal migrants
- Policies regarding aging in local communities
 - 1. At county level, government, village committees, and village residents' committees are working together
 - 2. Government is the main force in rural areas

- Thank you for listening!
- 謝謝!

5. Active Aging toward Conviviality among All Generations

Takeo Ogawa

