

# THE NATIONAL PENSION FUND – A PRECIOUS TOOL FOR ALL OUR SAVINGS

**NEWS OF** our rapidly ageing society has recently been making headlines. According to a report by the International Labour Organisation, the number of Thailand's elderly is expected to grow from this year's figure of 16.37 per cent of the total population to 28.09 per cent in 2025.

In addition, data from Mahidol University's Institute for Population and Social Research shows that in 2010 each retirement-age Thai was potentially supported by 5.7 working-age citizens; that figure will decrease to 3.2 working-age people in 2025.

As a society's ratio of retirement-age citizens grows, there is a corresponding growth in the need for financial security to sustain oneself in old age.

The National Pension Fund (NPF), initiated as part of the government's Pracha Wiwat policy, is a contribution system designed to relieve the ageing-population crisis. It will offer direct benefits to around 26 million non-salaried and low-income workers who have no investments in retirement funds.

Saving for retirement requires long-term investment. However, people commonly invest their savings by depositing

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their money in a bank, either through their savings account or fixed deposits that are usually shorter than two years in duration. This short-term investing typically offers a return of not more than 2.25 per cent.

On the other hand, putting money into long-term investments, such as government bonds, offers the benefit of low minimum investment levels and a return that is much higher.

Currently, 10-year government bonds give a healthy return of 3.80 per cent per annum.

The NPF returns are expected to be even higher, perhaps equal to 6 per cent per annum, when the fund is implemented sometime in the middle of this year.

The NPF is being proposed as a mandatory saving system that will indirectly support domestic investment. It has the potential to reduce risks of capital movement volatility since it offers a source of domestic investment independent from foreign funds.

This project is also expected to bring direct improvement to the bond market, as new products will be created in line with higher demand and the lower cost of the fund.

However, the NPF will only be a success if we see fairer income distribution in Thailand.

A more equitable distribution of wealth will increase wages among the working class and encourage the habit of saving through the pension fund. This in turn will lead to lasting economic expansion and improved welfare provision for Thais.

## BOND OUTLOOK

THAILAND BOND MARKET ASSOCIATION