

## **Thailand's Government Pension Fund**

In 1991, the Cabinet agreed to appoint the Ministry of Finance to change the gratuity and pension system (which started from the time of King Chulalongkom (Rama V) under the Ratanakosin 120 Pension Act of 1901), into a Central Provident Fund system. The design of the new system was to be such that government officials would retain their full rights as in the earlier system. Ultimately, the Government Pension Fund (GPF) was established.

## **The reasons and the necessity for improving the treasury and pension system**

The gratuity and pension system according to the 1951 Gratuity and Pension Act required that the calculation of retirement benefits be based on the last-month salary. This prevented the state from indexing the salary rates of those government officials who were in service to appropriate actual "cost of living" because, such changes would certainly cause the state expenditure on retirees to rise. In addition, previously, the state was obligated for pension payments on the basis of only the annual budgets as they were calculated each year, without preparing for any reserve in advance. This conflicted with good treasury administration. Besides, future pension obligations, as a ratio of the annual expenditures, were rising, causing doubts about the credibility of guaranteed future pension payments among both pensioners and the government officials in service.

Accordingly, the state had to find a way to build up both a confidence in government officials of assured pension payments when they retired, and to enable the state to put in place a long-term treasury administration plan. The idea of improving the pension system was thus originated. Moreover, it was intended that the fund would be an important savings institution that would have a significant role in the support and development of the nation's economy.

The Cabinet passed the 1996 Government Pension Fund Bill and notified the Act on 27 September 1996. A Board of Directors would determine the administrative policies and even permit private management of the Fund. All government officials and permanent employees had to become members. Members would then remit their monthly savings, with contributions from the state, to the Fund. When an official left the service, he would receive only the gratuity, except for those who had already been in service before the establishment of the Fund, who would opt to receive either an additional gratuity or the existing pension from the budget.

The GPF has two functions - fund administration and fund management. All or some of the components of the two functions can be performed in-house or can be outsourced. The GPF managed a major portion of its balances of \$2.9 billion as of May 1999 (2.6 percent of the 1998 GDP) in-house, but it also has 5 external fund managers. As the fund had approximately 1.3 million members on May 31, 1999, the balance per member was \$2231. The GPF has also outsourced the membership registration and record keeping, but has retained the responsibility of handling the receipt of money, payments, claims and account settlement.

The GPF can allocate funds for investment in the following manner:

- At least 60 percent of the total investments must be in one or more of the following classes of assets: cash and bank deposits, government debt paper, including those of state enterprises, and those guaranteed by the government, debt paper issued or endorsed by a bank, or issued by an approved company.
- A maximum of 40 percent of total investments in domestic equity. certain types of debt instruments, mutual funds (or Unit Trust) and others.

The regulations currently do not permit the GPF assets to be invested abroad. At end

1998, 48.6 percent of the total investments were in bank deposits; and another 45.5 percent were in various debt instruments with Government and Public Enterprise Bonds predominating; and 2.5% in equities.

**Excerpts of Data  
Received from  
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