

Contributory pensions in emerging Asia: Status, innovations & impacts

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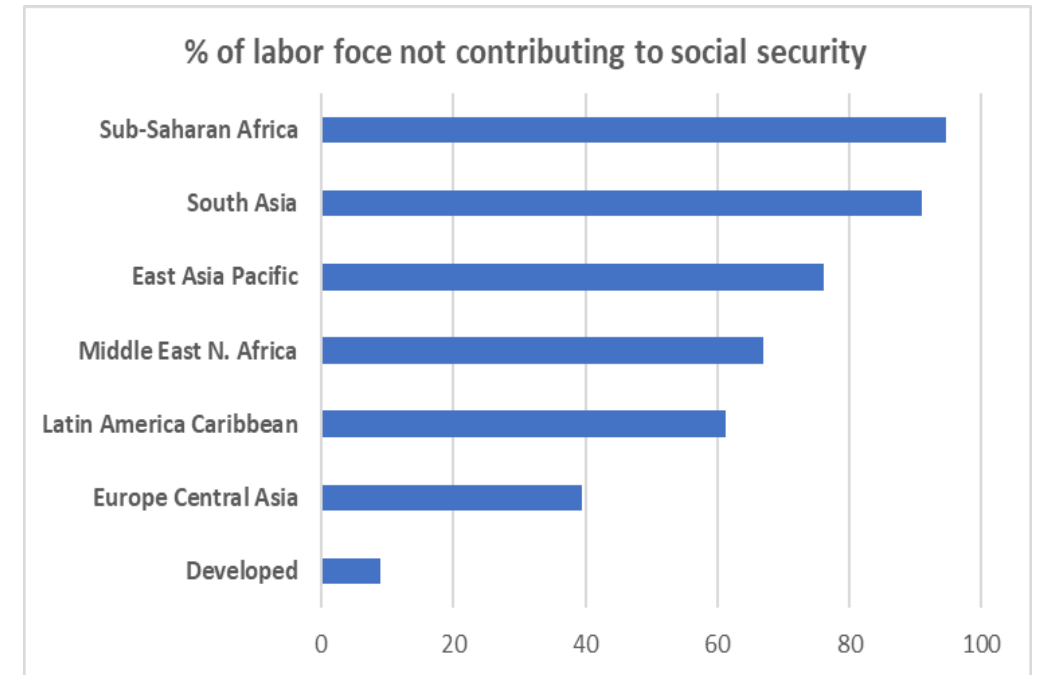
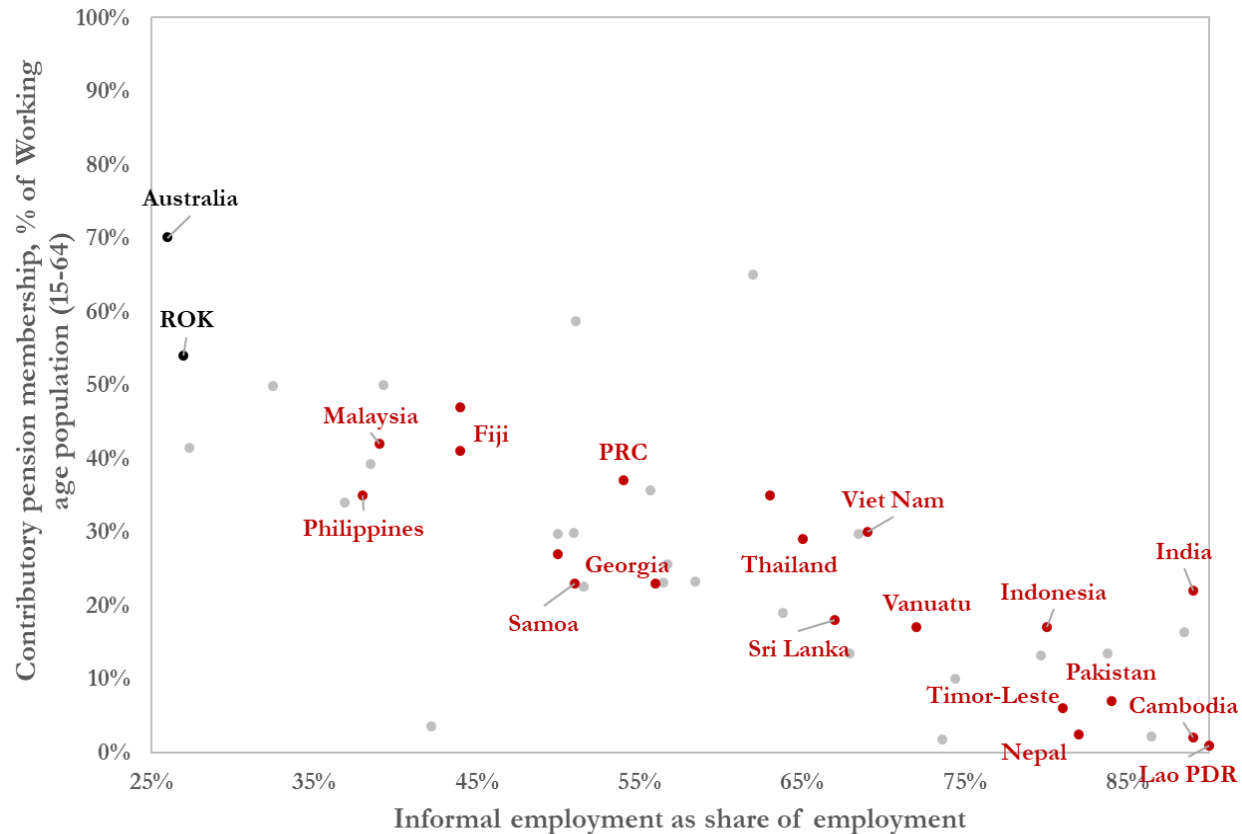
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Low contributory pension coverage is closely associated with high rates of informal sector employment

High correlation between coverage and informal employment share...

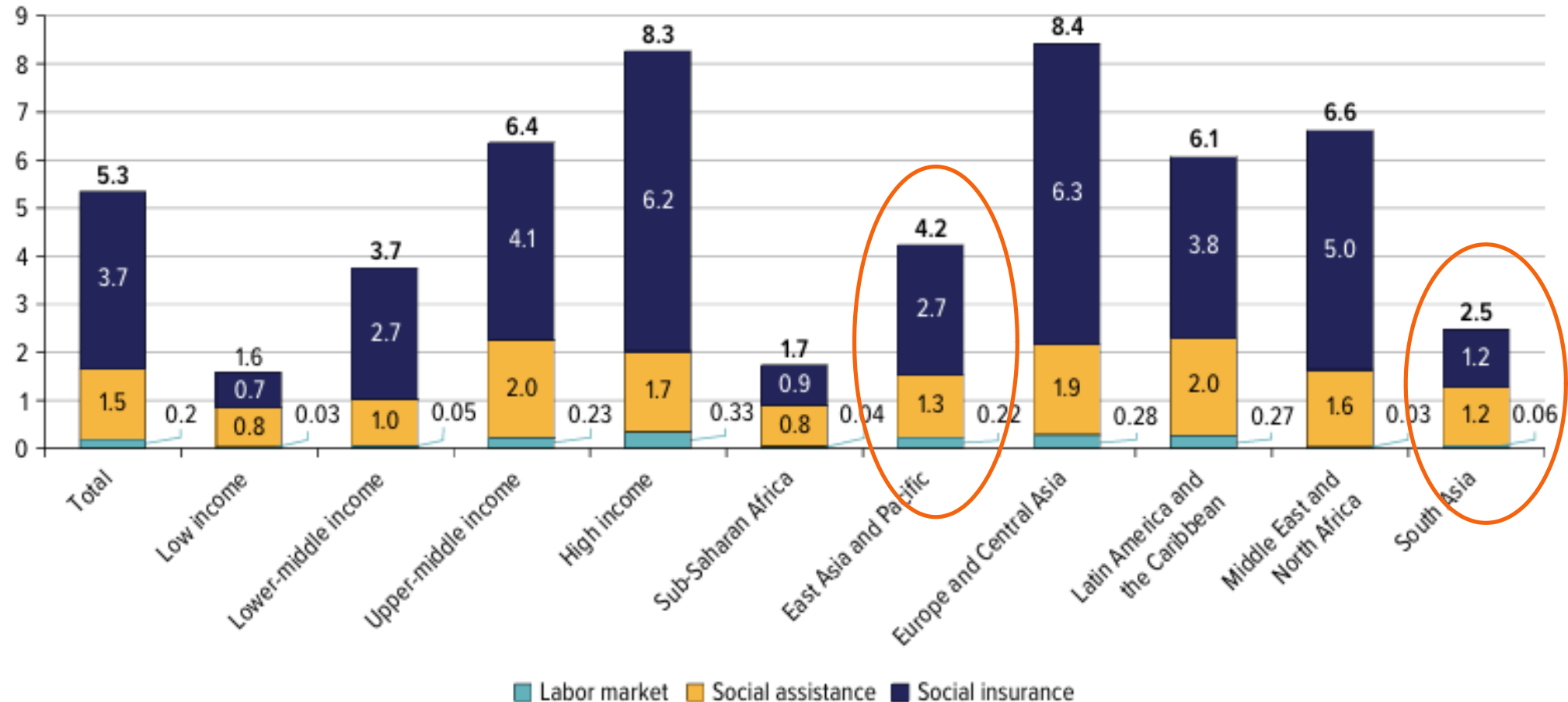


Women also less likely to participate in contributory schemes & have lower pension benefits even when covered

Sources: Chomik et al, 2024 (LHS) & ILO (RHS)

Social insurance increasingly dominates social protection spending as countries get richer – often creating fiscal pressures

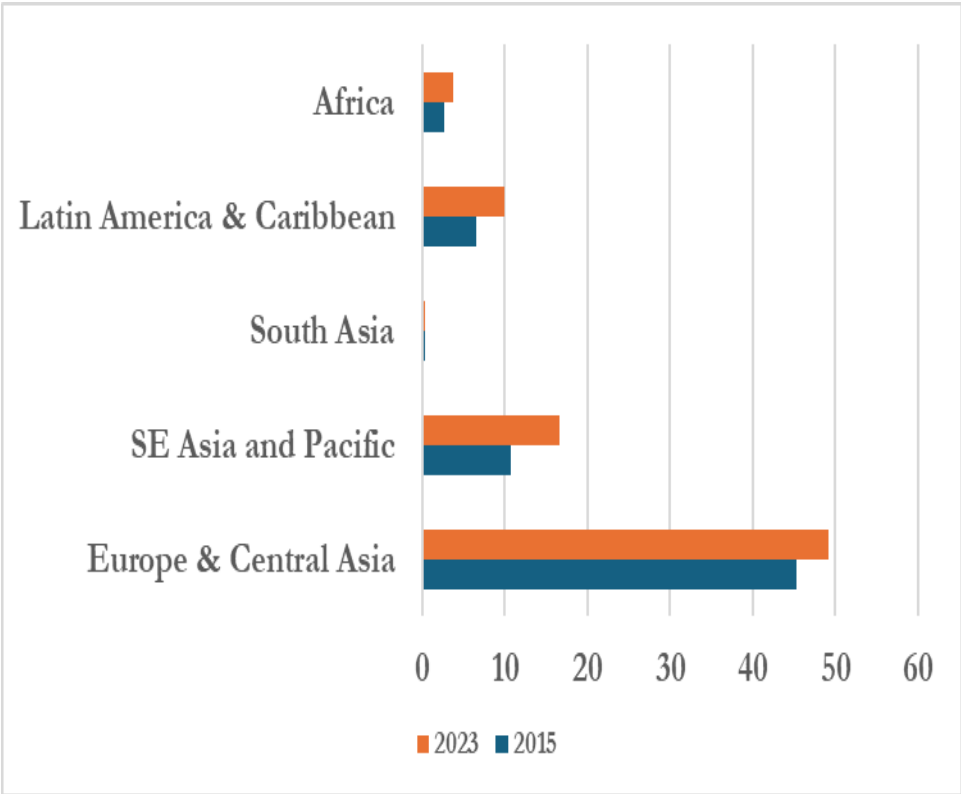
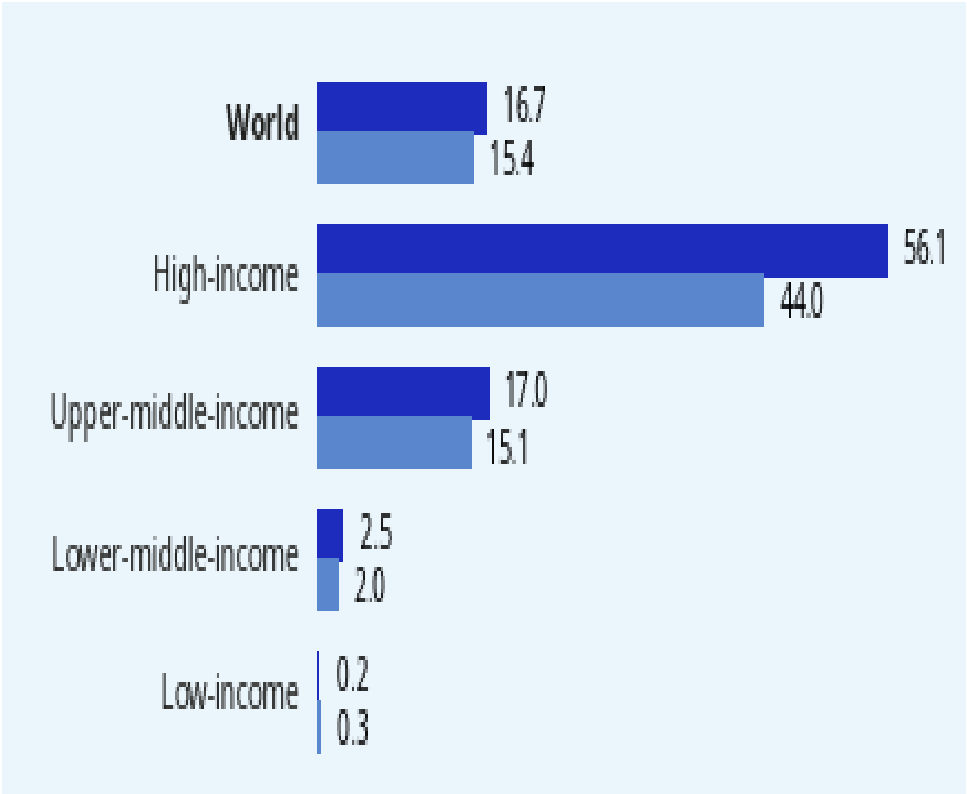
Social protection spending by category, latest available year, % of GDP



Source: World Bank, 2025

Similarly, most unemployed people are not covered by unemployment insurance benefits, with exception of Europe & Central Asia

% of unemployed people receiving unemployment benefits, 2015 and 2023, by income level and region



Source: ILO, 2024

Due to low coverage of formal sector pension schemes, developing countries have tried various approaches to expanding contributory coverage for informal workers

Pension schemes for informal workers

Country/year started	Scheme Type	Type of incentive	Coverage
China (2010)	Parallel, DC	Matching and post retirement	High
Colombia (2015)	Parallel, DC	Post retirement	Low
Costa Rica (2005)	Integrated, DB	Matching	moderate
Egypt (2019)	Integrated, DB	Matching	Low
India (2009)	Parallel, fixed amounts	Matching	Low
Kenya (2010)	Parallel, DC	None	Low
Korea (1999)	Integrated, DB	Matching	High
Malaysia (2014)	Integrated, DC	Matching	Low
Philippines (2018?)	Parallel, DC	None	Low
Rwanda (2018)	Parallel, DC	Matching, plus ST insurance	Moderate
Sri Lanka (1987)	Parallel, DB fixed amounts	Depends on table	Moderate
Thailand (2010)	Parallel, DC fixed amounts	Matching, plus ST insurance	Moderate
Viet Nam (2008)	Integrated, DB	Reduced contribution	Low

Key design decisions for informal pension schemes:

- **Parallel or integrated with formal sector scheme?**
- **Is the scheme defined benefit (DB) or defined contribution (DC)?**
- **Do you match contributions and – if so – at what level?**
- **How to structure worker contributions in terms of level, frequency & payment channels?**

While there have been notable success stories (e.g., PRC, Korea, Rwanda), coverage remains low in many informal worker schemes & rarely achieves wide coverage in the “missing middle” of workers

Innovations to incentivize participation in informal sector pension schemes...often used in combination

- **Financial incentives through contribution matching** by government (10% match up to 100%, sometimes higher matching for poorest and/or for fixed period)
- **Bundling of retirement savings products with short-term benefits** - often health cover, but others including life/funeral insurance, maternity, microfinance, loan collateral etc.
- **Simple and flexible design & leveraging alternative implementation channels:**
 - Flat or flexible contributions
 - Flexible contribution periodicity from weekly to annual
 - Simplification of know-your-customer (KYC) requirements for opening bank accounts, e.g., India
 - Auto-enrollment with opt-outs – workers must actively opt-out
 - Expansion of contribution channels (mobile payments/WhatsApp/convenience stores)
 - Reliance on aggregators (unions/worker associations/co-ops/microfinance institutions/self-help groups/telcos/gig platforms)
- **Public information and financial literacy initiatives** to explain products and promote participant retention

Too early to say for most schemes, but regularity & continuity of contributions (“contribution density”) likely to be issue over time for informal workers and may impact adequacy of benefits at older age

Innovations in contributory coverage expansion for platform/gig workers are expanding – and are relevant for some (but not all) other informal worker segments

Various approaches internationally for platform workers – also have relevance for some non-platform informal workers with some characteristics of formality in terms of regularity & capacity to track incomes

- **Mandates** for platforms to contribute over certain income – e.g., Belgium & Singapore
- **Stronger presumption of employment relationship** & contribution obligation – e.g., several EU & California
- **Default contributions by platforms, with opt-outs** (e.g., Gojek Indonesia) & platform matching (e.g., Grab MY)
- **Earmarked levy on platforms** to fund social security for platform workers, e.g., India Social Security Code requires contribution of lesser of 1-2% of platform annual turnover or 5% of wages owed to platform employees; Karnataka state welfare fund of 1% per platform transaction to fund
- Countries incl. Mexico, Thailand, Viet Nam already **mandate personal income tax (PIT) withholding** by digital platforms for workers – and similar approach could be used for pension/social insurance contributions
- **Inclusion of work injury insurance** in worker contracts – starting with a product with clear demand from workers to build exposure to insurance products, e.g., PRC platform worker work injury pilots

Expanding innovations for small business and self-employed to nudge & facilitate social insurance registration

Linking social insurance registration to small business registration – e.g., Egypt:

- Drivers of commercial vehicles are required to contribute as employees when renewing commercial driver permit. No permit can be issued or re-issued without social insurance agency certificate of coverage.
- Commercial vehicle owners are required to contribute as employer at vehicle license re-issue.

Impacts

Coverage rates are above the average across all forms of employment in transport sector (ranging 40 to 80%), even when no formal contract

Latin America: Monotributo (monotax) approach

Brazil (1996), Argentina (1998), Colombia & Uruguay (2001) offer self-employed & microenterprises to include social security contributions in periodic tax payments as part of a simplified tax regime:

- Single payment, less bureaucracy
- Fixed contribution rates / scales – lower contribution rates than general regime
- Sometimes, different regimes for different occupation groups or certain sector excluded

Positive evidence on increased formalization & SI registration among self-employed and microenterprises, though contribution density an ongoing challenge

Welfare impacts of contributory schemes often positive – but evidence base is thin & large research gaps remain outside PRC

For formal sector workers:

Evidence base on welfare impacts thinner than expected, and identification & selection issues
WRT causality,

- **Korea:** pension receipt impacts labor market participation/hours but can be mitigated by design; positive mental health impacts.
- **PRC:** higher life satisfaction; strong protection from old age poverty.
- **Vietnam:** no statistically significant effect on LF participation
- **Indonesia:** formal pension recipients 4.5 x less likely to be poor – but major selection bias

BUT – formal sector schemes may exacerbate inequality among older population cohorts

For informal worker schemes:

Except for PRC's hybrid scheme, evidence on welfare impacts on pensioners minimal due to immaturity of schemes – real research gap remains

For **PRC**, however, impact evidence is promising despite low benefits:

- Reductions in old age **poverty**
- Range of positive impacts on physical, cognitive and mental **health**
- Some reduction in **labor force participation** though effects not dramatic
- Do not appear to crowd out **private transfers** from family – though global evidence on question mixed
- A range of positive effects on **other family members** of the pension recipient

Three key messages

- Informal workers are very heterogeneous. Tailor pension coverage expansion approaches to the different characteristics of informal work by segment – no one size fits all...phasing will be necessary
- But - the nature of informal work is also evolving & capacity to track labor incomes & simplify contributions is growing over time
- Even with innovations, accept that social pensions will remain necessary for the foreseeable future to promote old age financial protection, particularly for those with unobservable & volatile incomes

Thank you

