

# Strengthening future and present pension: A Cambodian perspective

## Introduction

With the adoption of the National Social Protection Policy Framework (NSPPF) 2016-2025, the social assistance pillar and social security pillar have been conceptualized as part of a single system, laying down clear strategic plans to ensure income security for all citizens, promote their welfare, strengthen social solidarity and maximize poverty alleviation impacts. In the NSPPF, the social assistance pillar is divided into four components namely (1) emergency response, (2) human capital development, (3) vocational training, (4) welfare for vulnerable (which include the infants, children, pregnant women, families with food insecurity, people with disability and elderly), while the social security pillars consist of (1) pension, (2) health care, (3) occupational risks, (4) unemployment insurance.

To implement the National Social Protection Council was established. The council guide policy development and coordinate stakeholders for operational coherence which lead to the improvement of the existing programs/schemes and the introduction of the new ones for various target population, including the programs/schemes targeting the old population and as a preparation of the coming old age.

## Social Protection for Elderly in Cambodia

According to a study conducted by the Ministry of Social Affairs, Veterans and Youth Rehabilitation (MoSVY), the majority of older people live with their adult children, and 73% of older people rely primarily on their families for support (MoSVY, 2021). This is primarily in the form of clothing and food, with roughly half also direct to purchase medication or medical care. Despite the fact that such support reflects a strong culture of family support for the elderly in Cambodia, it could raise potential problem in the future.

According to UN population projections, the proportion of Cambodians over the age of 60 will double between 2020 and 2050, from an estimated 7.6% of the population in 2020 to 16.4% in 2050. This trend is the result of lower fertility rates and longer life expectancies, which will result in fewer children to provide financial support and care for older people. This increases the urgency to develop a well-rounded pension system that safeguards elder population and their families through maintaining income security in old age.

With the direction provided by the NSPPF, efforts have been continuously put toward both reforming and developing various program and scheme for elder population. Below are the program and schemes being developed and also in the implementation in Cambodia.

### Pension Schemes for Formal Private Workers

The launching of the pension schemes for formal private workers in the mid of 2022 marked the first time in Cambodia history that the formal private workers will be able to participate in a pension scheme thus could ensure their income security after retirement. This defined benefit (DB) scheme is managed by the National Social Security Fund (NSSF) which further distinguish into three different types (1) Old-age pension (2) Invalidity pension and (3) Survivor's pension. The contribution is compulsory for all employers and employees, which the both parties have pay 2% each in the first five year and the rate will gradually increase over time.

In a consideration to the workers who are older than 30 years old at the time of the scheme created which could lead to lower contribution time to build up their replacement rate, the Royal Government of Cambodia enabled a special scheme called "Grandfathering Pension" which could add up maximum of 15 years of contribution to the calculation of replacement rate (the elder the workers, the bigger add up year).

## Pension for Public Workers

Retired public workers such as retired civil servant and veterans receive social security benefits, including pensions, such as in case of old-age (retirement), invalidity and death of the member (survivors'). The National Social Assistance Fund (NSAF) is responsible for the administration of the schemes. The benefits of the schemes can be summarize as following:

- After 20 years of service, members are eligible for retirement benefits worth a minimum of 60 percent of their final basic salary and a maximum of 80 percent of their final salary for the service of 30 years. Additionally, the pension amount is subject to a minimum amount based on salary grade.
- In the event of illness, members are entitled to a minimum invalidity pension.
- Upon the death of a pensioner, widows, widowers, and children under 21 are entitled to a survivor's pension.

Currently, the public pension is funded through the state budget, and the use of pay-as-you-go (PAYG). Based on an actuarial valuation, current arrangement will place a significant strain on the national budget (ILO & AFD, 2018). Thus, under the direction of the National Social Protection Council, the pension reform for government employees is currently being discussed. The reform will take into account the contributions of public employees through parametric reform and the improvement of organizational structure. This reform also aims to increase pension scheme uniformity and pave the way for a future general scheme.

## Family Package: Cash Transfer for Elderly

The elderly from poor and vulnerable households are susceptible to risks and vulnerabilities, such as lack of income security, lack of networking, health issues, disabilities, lack of supports, and limited access to public services. They must continue working in old age due to a lack of income. The majority of senior citizens in Cambodia continue to work as self-employed or unpaid family work. In addition,

immigration, urbanization, and changes in family structure have increased the pressure on the elderly because the majority of them are responsible for caring for young children and depend heavily on the remittances of their adult children. Regarding the vulnerabilities of the work, seasonal work, low savings, and the need to continue working into old age, it is crucial to support the elderly population.

Therefore, the Royal Government of Cambodia pursue one of the more ambitious outcomes planned in NSPPF: establishment of the Family Package as part of the wider integration agenda. NSPPF envisages the Family Package as a package of integrated benefits that comprehensively addresses life cycle risks for poor and vulnerable families and children. The package is intended to integrate all existing and planned social assistance benefits in the country – CT-PWYC, Cash Transfer for Children from Poor Households in Primary and Secondary Schools, Cash Transfer for Persons with Disabilities and the planned Cash Transfer for Elderly People – and will introduce a Cash Transfer for Persons Living with HIV/AIDS.

Through the family package, the Cash Transfer for the Elderly will increase the family's income, which could result in a gradual reduction of the aforementioned issue. The Royal Government of Cambodia has approved the Family Package, which will soon be implemented.

## Future perspective

### Multi-tier Pension

The steps toward establishing a multi-tiered pension system have begun, beginning with the design of a contributory pension for members of the NSSF and the incorporation of a cash transfer for Elderly People living in the poor and vulnerable households within the forthcoming Family Package. There is still more work to be done to expand coverage (extending coverage to those assessed as living in a non-poor household and who are not eligible for an occupational pension). The urgency of establishing a clear direction for constructing a comprehensive, multi-tiered pension system in Cambodia is increasing.

The Multi-tiers pension system in Cambodia could be divided into three tiers:

- Tier 1: The foundation tier of the system financed from the state budget revenue, especially for elderly from poor and at-risk households.
- Tier 2: Mandatory contribution pension in a form of occupational pension, managed by the Government
- Tier 3: Voluntary contribution pension scheme managed by private sector

For the development of social protection system in general and in particular the pension system, the Royal Government of Cambodia will adhere to the approach that if it is a contributory in nature, they will move toward universality, and if it uses tax-based finance, it will be targeted. Thus, it is quite obvious that Tier 1 will not be going to be a universal social pension, but it could be a mean-tested social assistance in a form of allowance similar to the Cash Transfer for Elderly People in the Family Package. Meanwhile, in Tier 2, with the existing schemes for private and public workers shall be continue and improve, a new pension scheme for self-employed people shall introduced to fully cover all the population. In addition to the two tiers, the voluntary pension schemes managed by private sectors should also be considered to give more options to people.

## References

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