

Policy Brief

Implementation of Private Sector's Pension Scheme in Cambodia



Readiness and Its Impact
on Social Welfare



Disclaimer

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Recommendations

Social protection schemes can play a fundamental role in creating more inclusive and sustainable development pathways. In the absence of social protection, people, especially the most vulnerable, are subjected to increased risks of sinking below the poverty line or remaining trapped in poverty for generations.

Moving forward, the government should consider the following recommendations:

- National Social Security Fund (NSSF) and Social Security Regular of Cambodia (SSR) should continue to expand the coverage of the employees that are subject to the pension scheme, at the same time, maintaining trust and efficiency of the management of the scheme.
- NSSF improves existing quality services (information and social security services) and management capacity to sustainably manage the increasing size of the pension in the future.
- SSR should coordinate with other relevant ministries and work closely with employers to mitigate the potential burdens from their co-contribution to the scheme by providing regulatory incentives and support to improve productivity and the business environment.
- SSR provides a regulatory framework for investment opportunities for the pension to effectively channel resources into productive investment, as well as conduct regular monitoring and evaluation of the performance of the pension fund.

1. Introduction

This research on “Implementation of Private Sector’s Pension Scheme in Cambodia: Readiness and Its Impact on Social Welfare” is part of a series of diagnostic studies conducted by the Center for Strategy and Innovation Policy (CSIP) with support from the Australian Department of Foreign Affairs and Trade (DFAT) through The Asia Foundation’s Ponlok Chomnes program and the Social Security Regulator of Cambodia (SSR).

The objectives of this research are to:

- Understand public awareness of, perception of, and reaction to the introduction of the private sector’s pension scheme in Cambodia;
- Assess the readiness of employers and employees on the implementation of the scheme;
- Identify the burden of employers and the additional cost of doing business (especially on the 2% to be paid by employers); and
- Provide policy options for the government to consider which could potentially offset the increased cost once implementing the pension scheme.

2. Methodologies

Two questionnaires were designed to capture the perception and awareness of employers and employees on the topic of social pensions in general and Cambodia’s newly endorsed pension scheme. Specific to employers, the research aims to understand the challenges they are encountering, the cost of doing business when the pension scheme goes into effect, their willingness to pay their contribution, and policy recommendations for the government to consider. Regarding employees, the research aims to understand their perception of retirement, willingness to pay their contribution into the pension scheme, and their expectations of pension pay-outs.

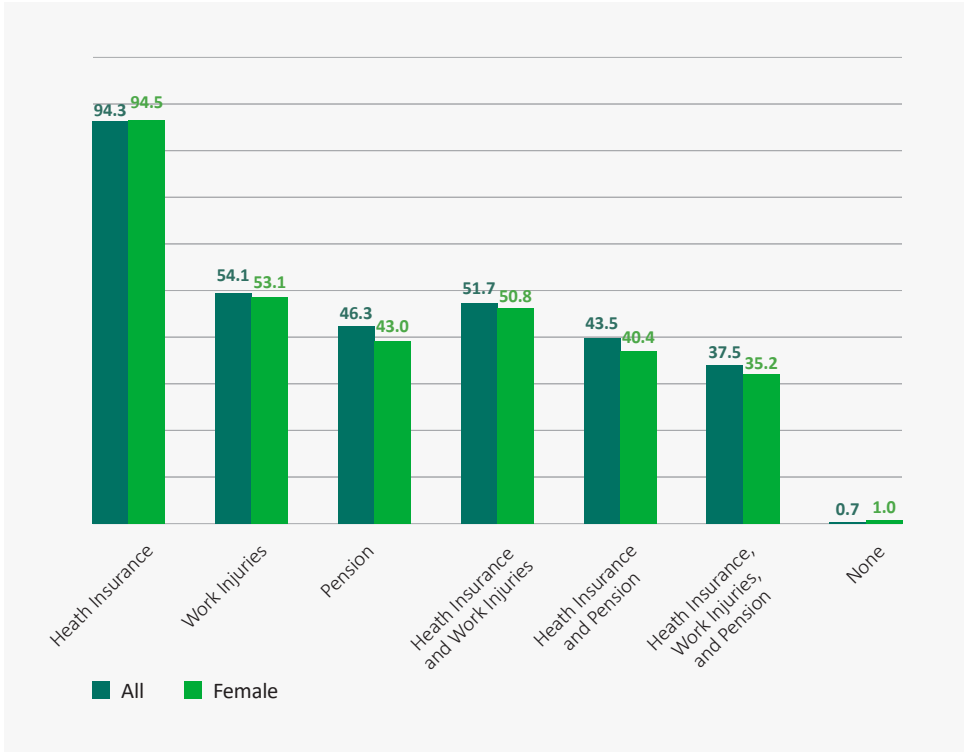
A sample of valid 76 firms (80 surveyed) and 554 employees (600 surveyed) from different sectors were selected for data analyses. A good mixture of gender, sector, and ownership by nationalities was considered when selecting the sample.

The potential impacts of the pension scheme on Cambodia were quantified based on the scenarios of the collected amount of the contribution, its accumulation, and how the balance will be used (invested) in the economy, using the Dynamic Computable General Equilibrium Model for Cambodia and data from Cambodia's Socioeconomic Survey. The model provides empirical evidence on the potential impacts of the implementation of the private sector's pension scheme on the economy from the baseline forecast of the economy from 2022, especially on GDP, employment, and poverty.

3. Perception and Readiness of Private Sector's Pension Scheme for Cambodia Employees' Retirement and their Concerns

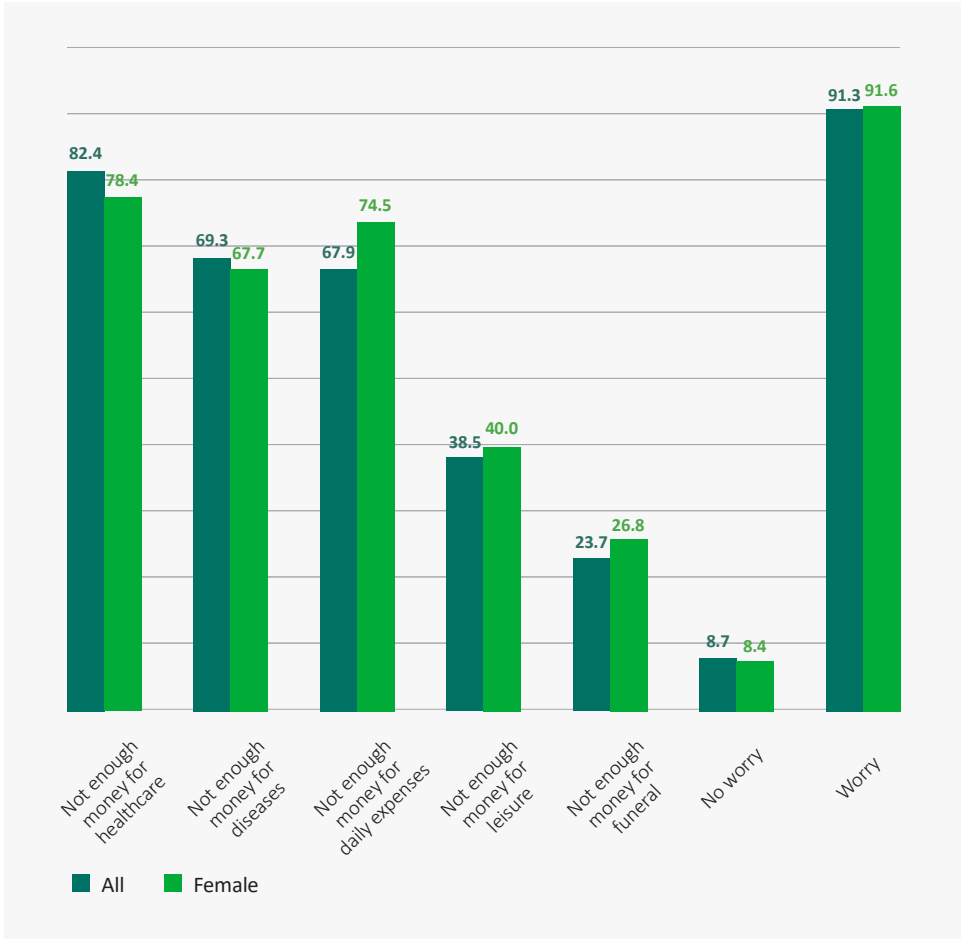
Generally, the surveyed employees report that they are currently being offered a wide range of social security benefits by employers. More than 94% have been provided with health insurance, 54% with work injury coverage, and 46% with a pension. Moreover, more than 37% (and up to 52%) report coverage of some combination of these types of social security schemes, Figure 1. A very small number of employees (less than 1%) report no benefit. Women appear to have slight lower shares of the coverage than the sample's average for most social security benefits.

Figure 1. Employment Distribution with Social Security Schemes



However, the surveyed employees are still worried about their retirement. As shown in Figure 2, more than 91% express their concerns for retirement, with 82% are worried the most on “not having money for healthcare”, followed by 69% on “cost for diseases”, and 68% on “daily expenses”. They are also worried about not having enough income for leisure and additionally for their funerals. Only about 8.7% of employees express little/no worry about their retirement. Higher shares of women are worried about daily expenses, leisure, funeral than the sample’s average, but less for health care and diseases.

Figure 2. What Worries Most for Retirement



Employees' Awareness on Role of Private Sector's Pension Scheme

When looking specifically at the pension scheme, the level of awareness is considerably high across sectors (64%-80%), with an average of 72% of the total respondents, Figure 3. Women have significant lower awareness than the sample's average.

Figure 3. Awareness of the Implementation of the Pension Scheme

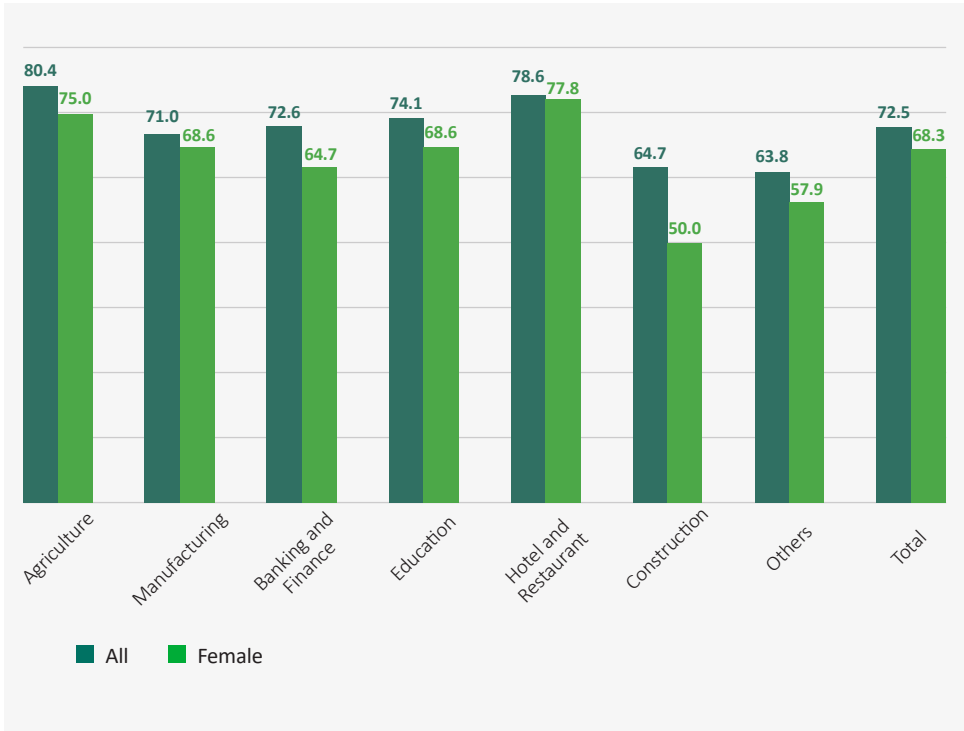
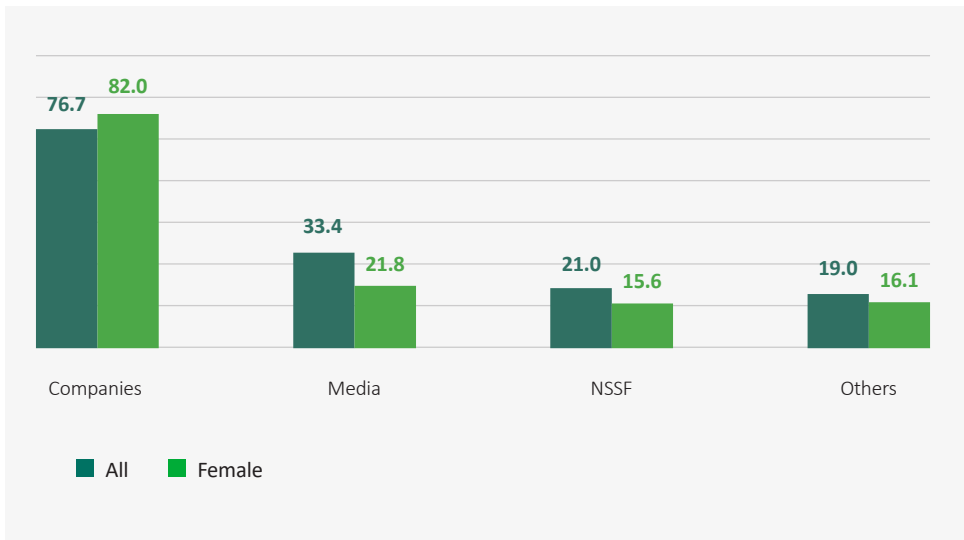


Figure 4. Sources of Information of the Pension Scheme



The main sources of information on the pension scheme are reported to be from companies (76.7%), media (33.4%), the NSSF (21%), and from unions, friends, and families (19%). Higher share of women report receiving information from companies, but lower shares from other’s sources as compared with the sample’s average, Figure 4.

When asking how much they know about the scheme, about 82.7% of the respondents are aware of the mandatory contribution requirement, 35% know the contribution rate, and about 32.5% report that they know the required procedures. Only 2.4% of respondents have little/no knowledge of the pension scheme, Figure 5.

Figure 5. Knowledge of the Private Sector’s Pension Scheme



Importance of the Private Sector’s Pension Scheme, Contribution Rate, Expectations, and Willingness of Employees’ Participation

The survey has also provided information on how much value employees currently place in the pension scheme and its potential impacts on their livelihood. As Figure 6 below illustrates, more than half of the surveyed employees (51.3%) rate the pension scheme as very important, and about 40% rate it as moderately important. Only about 8% of the respondents rate the scheme as not or least important. Higher share of women rate pension scheme the most important than the sample’s average.

Figure 6. Importance of the Pension Scheme

(1: very - 5: least important)

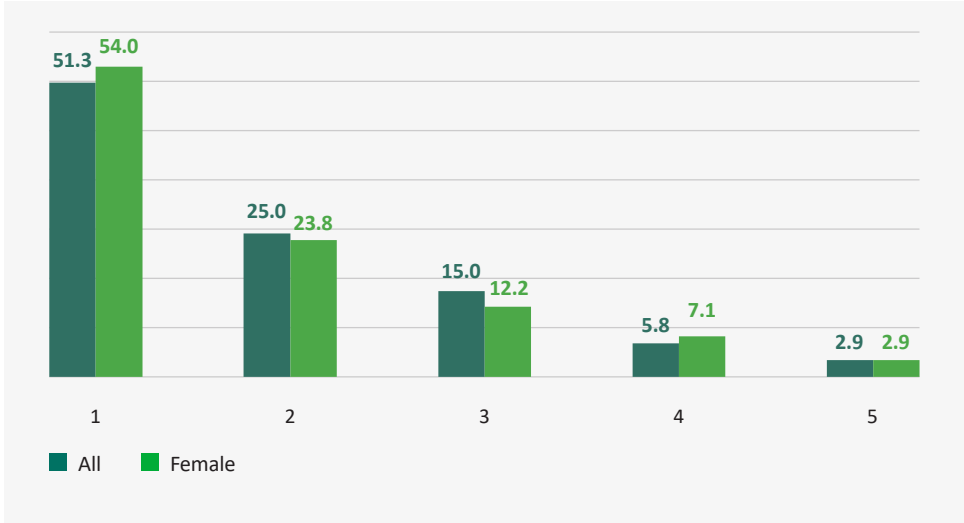
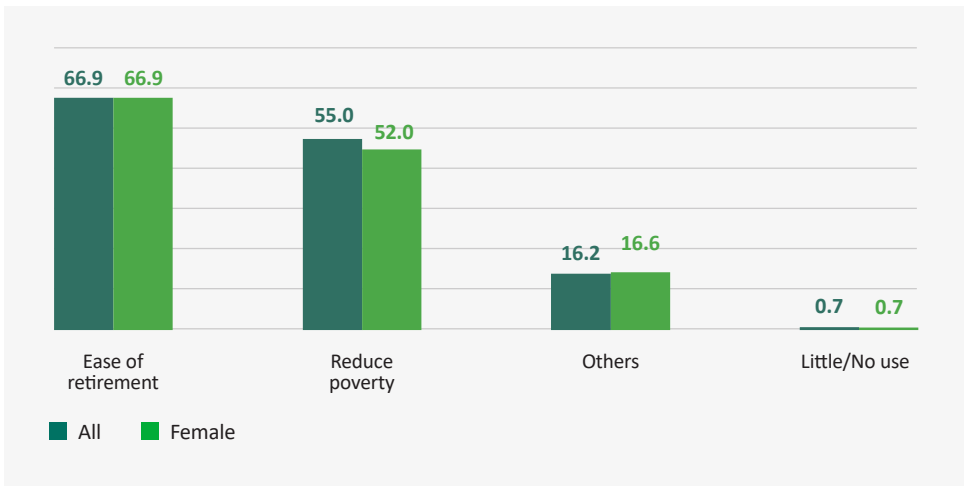


Figure 7. Potential Impacts of the Scheme



Among the potential impacts of the scheme, about 67% of employees surveyed think that the scheme would ease their retirement concerns, 55% think it will reduce poverty, and 16% think it will have other impacts (health risks or other burdens). Less than 1% see little or no benefit, Figure 7. Women report similar trend of the potential impacts of the scheme as the sample's average.

Figure 8. Expected Monthly Payment for Retirement

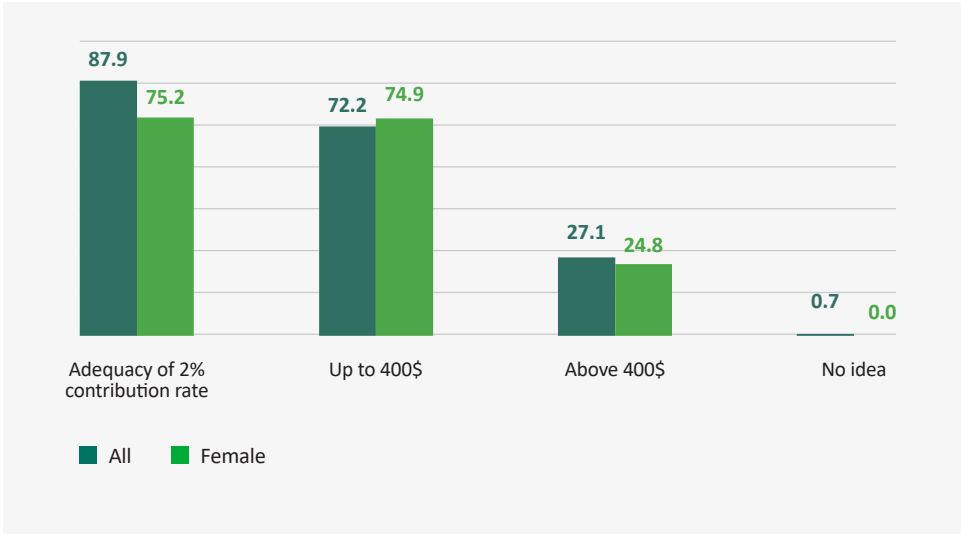
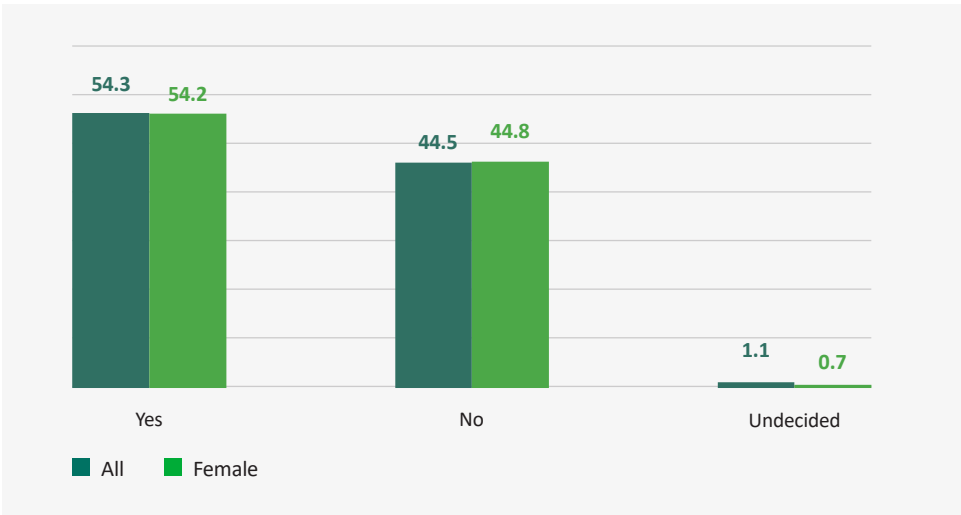


Figure 9. Willingness to Participate in Additional Voluntary Scheme



This survey also highlights the perception of employees on the contribution rate and their expectation for monthly pension payments. More than 87.9% of the respondents view their 2% contribution rate as adequate, and 72% is satisfied with up to 400 USD expected monthly pension pay outs, while 27% expect more than 400 USD monthly payment of retirement pension, Figure 8. Lower share of women view the 2% contribution rate as adequate

but higher share expect monthly payment up to 400 USD.

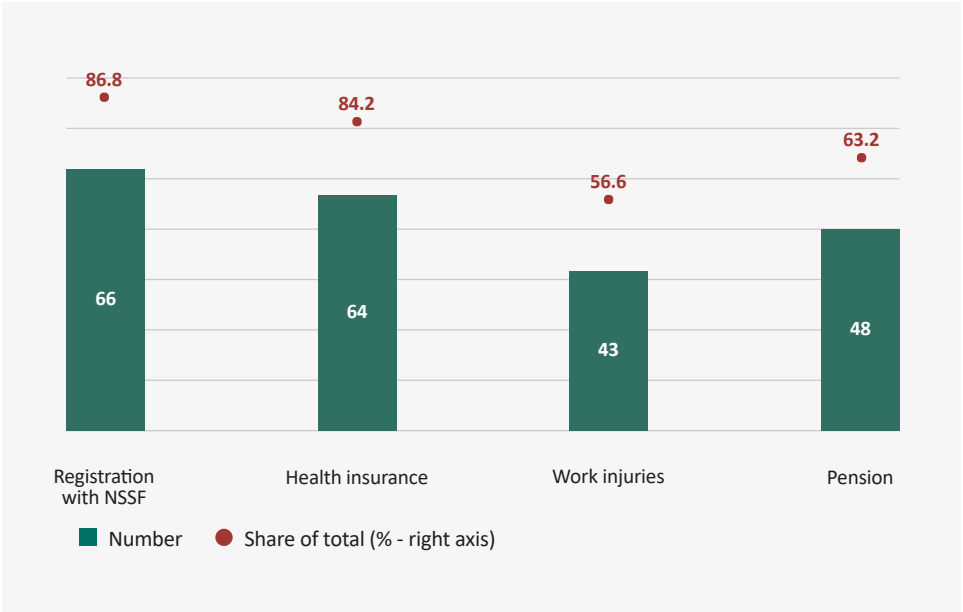
When asking about their willingness to participate in additional voluntary pension schemes if their income is more than 300 USD ceiling of the contributory wage, more than 54% of the respondent express their interest to participate, Figure 9. Women report similar trend of willingness to participate in the additional voluntary scheme.

Perception and Readiness of Employers on Private Sector's Pension Scheme

Employers' Awareness and Implementation of the Private Sector's Pension Scheme

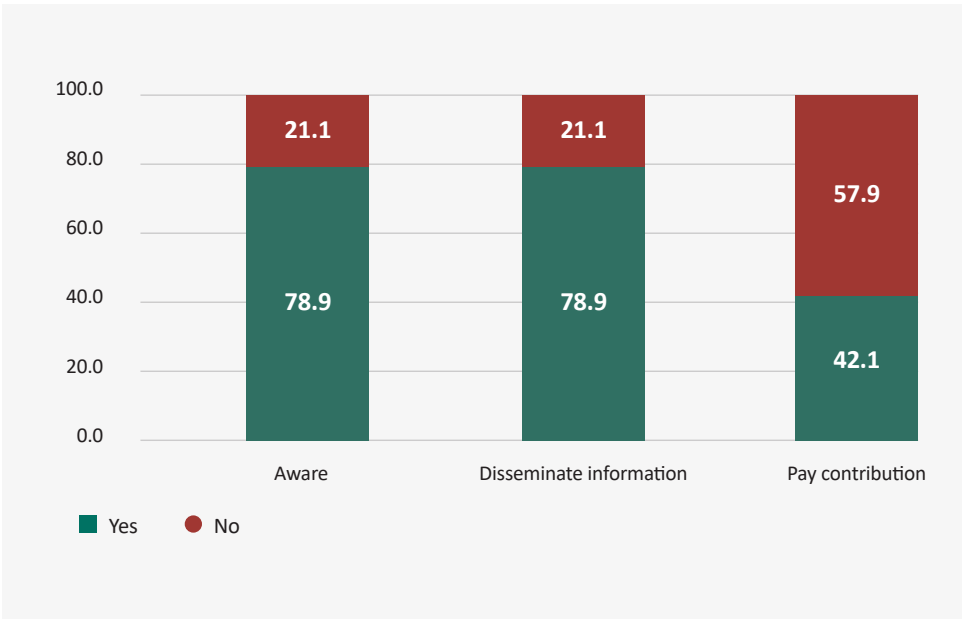
Employers are asked whether they currently provide social security benefits towards their employees. Over 86.8% claim to have registered with NSSF, 84.2% report providing health insurance, 56.6% report providing work injury coverage, and 63.2% report providing pension benefits to employees, Figure 10.

Figure 10. Registered Firms with Social Security Schemes



Additionally, about 78.9% of the respondents report that they are aware of the scheme and have disseminated information to their employees. However, only about 42.1% of the respondents say that they have paid contribution to the pension scheme for their employees, Figure 11.

Figure 11. Firms with Knowledge of the Private Sector’s Pension Scheme



Employers’ Perception on the Importance of the Private Sector’s Pension Scheme

As Figure 12 below shows, more than 54.8% of the responded employers rate the pension scheme as very important, and about 34% of them rate it as moderately important. Only about 12% of the respondents rate the scheme as not or least important.

Figure 12. Importance of the Pension Scheme

(1: very - 5: least important)

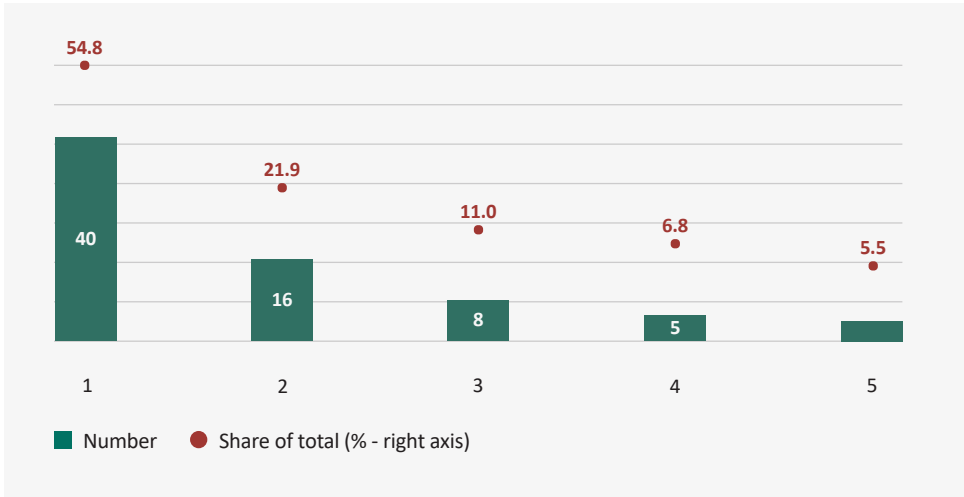
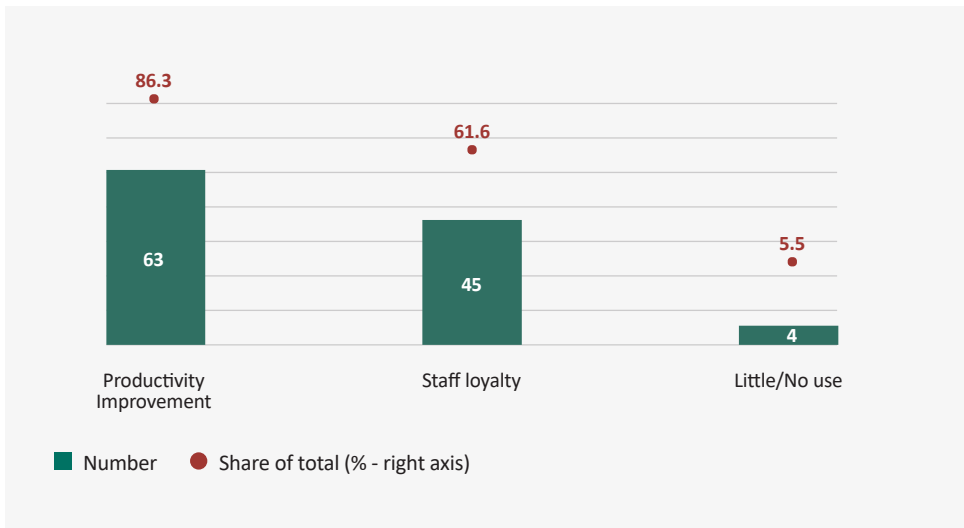


Figure 13. Benefits of Pension Scheme



Employers also note the potential impacts of the scheme. About 86.3% of employees surveyed think that the scheme would improve their firms' productivity and 61.6% see it as an important means to retain staff loyalty. Only about 5.5% of them see little or no benefits, Figure 13.

Cost of the Private Sector’s Pension Scheme and Willingness of Employers’ Participation

It is also important to understand the potential challenges employers may encounter when the pension scheme is operational, especially the cost burdens and employers’ willingness to pay their co-contribution to the scheme.

Figure 14. Firms by Share of Labor Cost

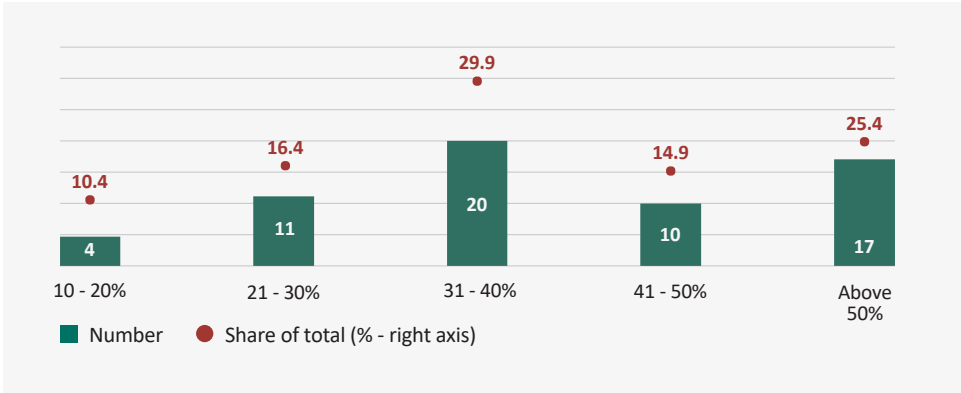
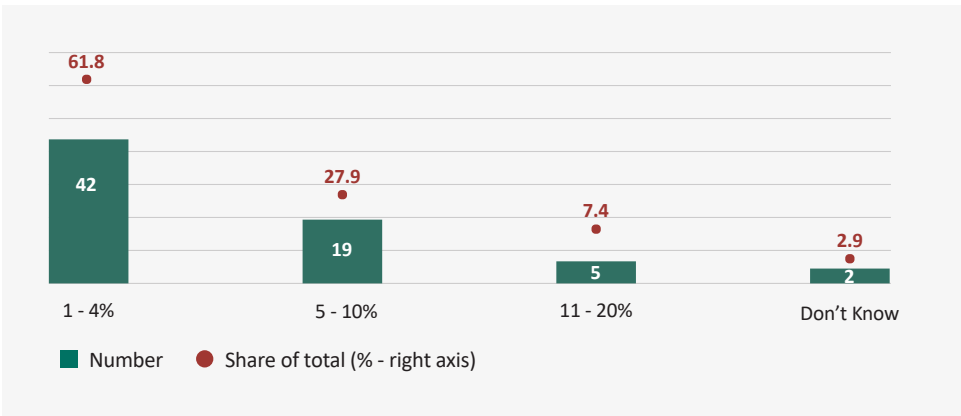


Figure 15. Increase in Operation Cost from Contribution to the Private Sector’s Pension Scheme



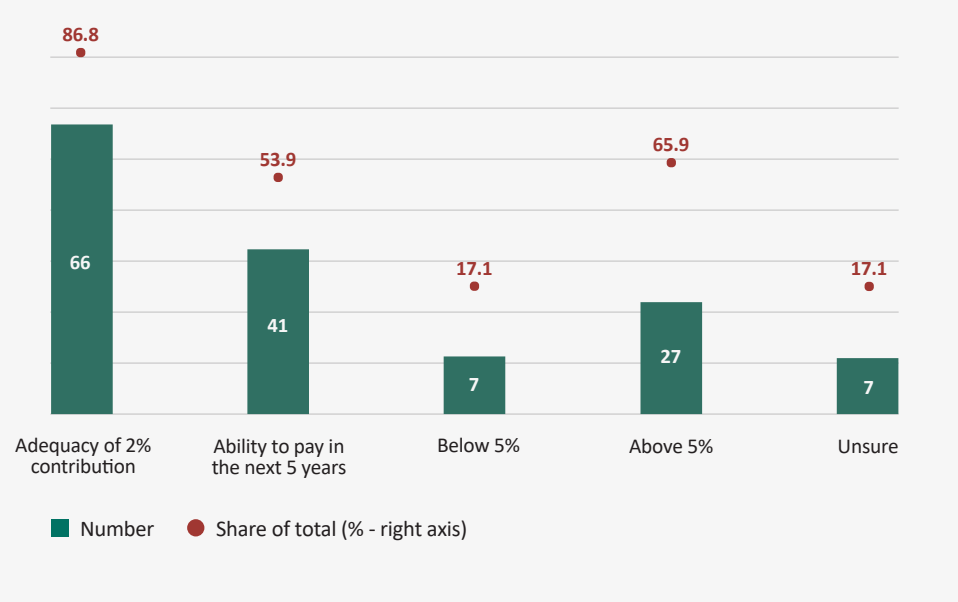
There is a concern about the potential increase in operational costs as a result of employer’s co-contribution to the scheme. About 75% of the resp-

ondents report their labor costs accounted for a half of their operational costs, Figure 14.

About 62% of the employers say that their contributions would lead to about 1-4% increase in their total costs, and around 35% of them appear to overreport the potential increase to their operational cost as being more than 5%, Figure 15.

When asked about pension contributions, around 87% of the respondents agree that their 2% co-contribution rate is adequate, and about 54% of them are willing and able to pay the contribution over the next 5 years. Additionally, 17% are willing to pay below 5%, and 66% are willing to pay above 5% contribution rate, Figure 16.

Figure 16. Adequacy and Ability/Willingness to Pay for Rate of Contribution



4. The Impacts of Private Sector’s Pension Scheme on Economy and Welfare-Macroeconomic Modelling

Estimate of Total Contribution to Private Sector’s Pension Scheme

The estimation of the potential total contribution to the private sector’s pension scheme is based on the number of employees registered

with the NSSF. By the first quarter of 2022, the total number of registered employees was 2.36 million. Based on the government’s sub-decree on 4 March 2021, the minimum contributory wage to the pension scheme is 400,000 riel (or \$100) and the maximum is 1,200,000 riel (or \$300). Using the model projection of employment and NSSF data, the estimation of the average total contribution to the scheme is given in Table 1.

Table 1. Estimation of Total Contribution to the Pension Scheme (million USD)

Year	2022 – 2026	2027 – 2031	2032 – 2035
Average contribution to pension scheme	211.7	571.3	1,178.7

Source: Author’s Estimates and Cambodia’s Dynamic CGE Model

The total contribution to the pension scheme is estimated to be on average USD 211.7 million from 2022-2026, USD 571.3 million from 2027 -2031, and about 1,178.7 million from 2032-2035.

Potential Impacts of Private Sector’s Pension Scheme on Economy and Welfare

The mandatory contribution to the private sector’s pension scheme would withhold some disposable income from households, thus, temporarily reducing aggregate household consumption. At the same time, the savings will inject capital back into the economy through preferable investment channels in new machinery and equipment (investment capital). These investments offset the reduction in household consumption which will lead to increases in GDP from the baseline forecast. The positive impacts come from the purchase of capital goods that would have immediate impacts on the outputs of the machinery, equipment, and construction sectors as well as their suppliers. The new machinery and equipment as well as new facilities would be used to expand industry outputs for the following periods and generate a multiplying effect for the rest of the economy.

Figure 17. Potential Impacts of Private Sector’s Pension Scheme on the Economy and Poverty from 2022 to 2035 (Cumulative Percentage Points from the Baseline)

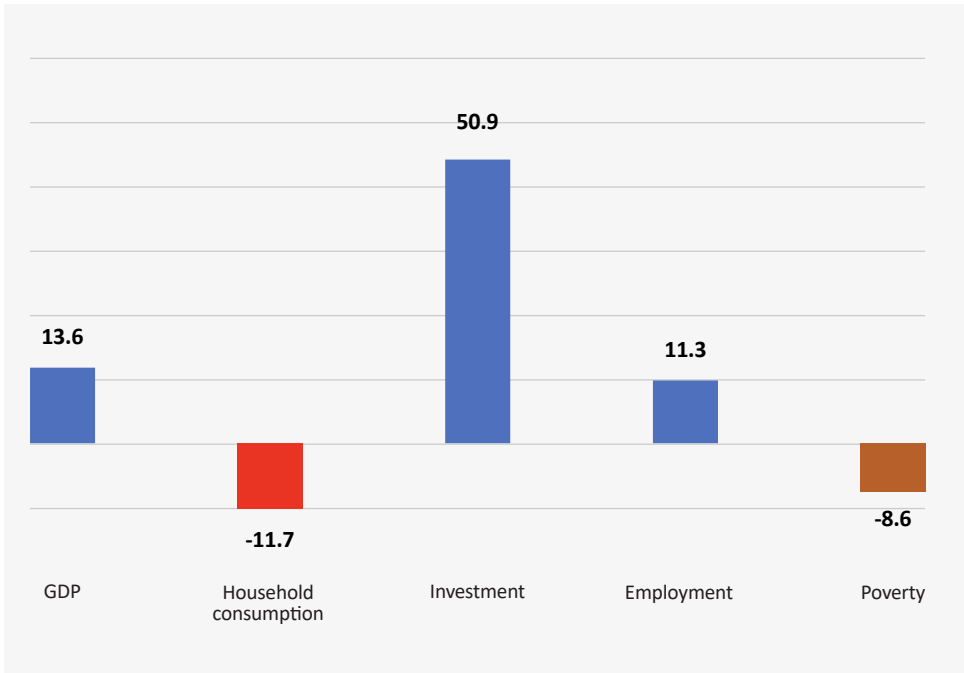


Figure 17 shows the simulated macroeconomic effects. Despite an estimated 18 percentage-point reduction in aggregate household consumption, the 51 percentage-point increase in aggregate investment and capital accumulation from 2022 to 2035 would lead to 13.6 percentage-point cumulative increase in GDP growth above the base year forecast, accompanied by 11.3 percentage point increase in total employment. The positive impacts on GDP growth, employment, and household income would directly impact the livelihoods of the most vulnerable. The potential gains in GDP and income would reduce poverty rates by 8.6 percentage points from the baseline poverty rates over the time period from 2022 to 2035.

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CONTACT US

Center for Strategy and Innovation Policy (CSIP)

National University of Management, St.96 Christopher Howes,
Khan Daun Penh, Phnom Penh, Cambodia

www.csipcambodia.org

