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STUDY OF STRATEGIES FOR ESTABLISHING A NATIONAL WEALTH FUND FOR SUSTAINABLE PENSION

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Abstract

Thailand faces significant challenges in addressing the financial security and well-being of its aging population. With the demographic transition to a super-aged society imminent, this paper explores the potential of establishing a Sovereign Wealth Fund (SWF) to provide sustainable pensions for senior citizens. This study integrates demographic analysis, financial strategies, and theoretical frameworks such as Life-Course Theory to propose a model and strategy for a national pension fund. The findings underscore the importance of economic stability, comprehensive

healthcare policies, and an age-friendly environment to address the multifaceted needs of the elderly population.

Keywords:
Strategy, Wealth Fund, Pensions, Senior Well Being

1. Introduction

The demographic transition towards an aging society began primarily in developed countries, driven by advancements in modern medical technology, improvements in nutrition, increased childhood survival rates, socioeconomic development, and enhanced public health measures. Collectively, these factors have contributed to increased longevity and a growing senior population on a global scale. In contrast, developing countries have experienced a significant transformation from high fertility and high mortality rates to low fertility and low mortality rates. Consequently, these nations now account for the largest proportion of the aging population worldwide (Zainab et al., 2021; Lamnisos et al., 2021; ESCAP, 2016).

This demographic transition presents a series of challenges, particularly characterized by a decline in mortality rates that outpaces the decline in fertility rates. This phenomenon results in a substantial increase in the number of young dependents, which can hinder economic growth and adversely affect the labor market due to a reduced influx of young individuals entering the workforce. Therefore, it is imperative to implement policies aimed at retraining, reskilling, and upskilling older workers to facilitate their continued employment. Additionally, the elderly population requires access to comprehensive healthcare, as well as economic, social, cultural, and

other aged-care services (Lamnisos et al., 2021; Kotschy and Bloom, 2023; Harasty and Ostermeier, 2023; Vasoo, 2023).

The demographic challenges faced by various countries highlight the diverse strategies employed to manage population dynamics. For instance, Australia and Singapore have adopted immigration as a key mechanism to bolster their labor forces in response to low fertility rates (McDonald, 2016). In contrast, nations such as Greece and Cyprus are confronted with the pressing need to reform their social and health policies to address the implications of an aging population (Lamnisos et al., 2021). This contrast underscores the importance of tailored approaches in policy formulation, as evidenced by Singapore's focus on enhancing healthcare and community support services for its elderly citizens, which serves as a model for other countries grappling with similar demographic shifts (Vasoo, 2023).

The demographic transition towards an aging society presents both challenges and opportunities that necessitate thoughtful and adaptive policy responses. As countries navigate the complexities associated with an increasing elderly population, it is essential to recognize the unique circumstances and needs of each nation. By learning from successful strategies implemented in Singapore and Australia, while addressing the specific social and health policy reforms required in places like Greece and Cyprus, we can create a more inclusive and supportive environment for all age groups. Ultimately, fostering a society that values the contributions of older individuals while ensuring their well-being will not only enhance the quality of life for seniors but also promote sustainable economic growth and social cohesion for future generations. Globally, populations are aging at an unprecedented rate, driven by declining fertility and increased life expectancy. In Thailand, the proportion of the population aged 60 and above is expected to reach 31.4% by 2040, categorizing the nation as a super-aged society. Despite this demographic shift, Thailand's existing pension infrastructure is insufficient to ensure financial security for its elderly citizens, particularly for the 55% of informal workers without adequate social security coverage.

The current study seeks to address these challenges by proposing a model for a Sovereign Wealth Fund (SWF) to support a sustainable pension system. SWFs, funded by state revenues and managed strategically, have been effective in stabilizing economies and supporting long-term social initiatives in various countries. Thailand can draw lessons from these global examples to develop its own model tailored to its demographic and economic context.Therfore,

The principal objectives of the study were as follows.overeign Wealth Funds (SWFs) have emerged as critical players in global finance, representing government-owned investment vehicles funded by surplus revenues such as those from commodity exports or trade surpluses. While their origins trace back to the 1950s, SWFs have gained prominence over recent decades due to their substantial assets and influence on global financial stability. This article synthesizes insights from multiple studies to provide an overview of SWFs' impacts on firms, markets, and economic stability.

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2. Literature Review

A theoretical literature has emerged on when, and why, governments in resource-exporting countries should establish an SWF. The literature has focused on natural resources, rather than other sectors, because of the large economic rents they generate.3 The first question that resource exporting governments face is how to capture rents through taxation, which has been studied in an extensive literature that is beyond the scope of this review (Daniel et al. 2010). Once the government has captured the rents, the next question is how to use them for the greatest benefit of the nation and its citizens.

In this section, we outline how recent academic literature has found that SWFs are crucial for harnessing the benefits of natural resource rents, if they are tailored to the country’s level of development. In doing so, we draw on related reviews of the literature (van der Pole & Venables 2011, 2017; van den Bremer & van der Ploeg 2013; Venables & Wills 2016; Wills 2018). In the appendix, we present the basic theoretical structure used in this literature (based onWills 2018). Generally, the literature has found that developed countries should set up a future generations fund to transform a temporary windfall into a permanent one. In contrast, developing countries should focus on repaying debt and investing domestically,while making use of a temporary parking fund to avoid issues that arise from investing too quickly. This recommendation

recognizes that governments face a hierarchy of needs and thus must repay debt and invest domestically before saving abroad.All countries should save extra in the interest of precautionary savings. Stabilization funds can be a useful tool for temporarily smoothing changes in government

spending, especially when monetary policy is constrained,4 but they should not replace necessary fiscal tightening when resource prices fall.

2.1 Life-Course Theory and its Application to Retirement Planning

Life-Course Theory provides a comprehensive framework for understanding how individuals manage their lives and the influences shaping their experiences. This theory posits that experiences and choices throughout different life stages significantly impact future outcomes, including retirement planning, savings behavior, and pension utilization. Events such as education, career selection, marriage, and health behaviors are interconnected and can have cumulative effects over time.

Education: Higher education levels often lead to better job opportunities and higher earnings, enhancing individuals' capacity to save for retirement. Additionally, education contributes to financial literacy, influencing how individuals plan and allocate resources for the future.

Career Choices: The type of career a person pursues impacts their income potential and job security. Careers offering employer-supported pensions or defined benefit plans encourage greater retirement savings. Conversely, career disruptions caused by family obligations or health challenges can lead to irregular saving patterns.

Marriage: Marital status plays a crucial role in financial decision-making and retirement planning. Married individuals often combine resources, which can lead to increased savings. However, divorce or the loss of a spouse may necessitate adjustments to financial plans and retirement strategies.

Health Behaviors: An individual’s health status and lifestyle choices directly affect life expectancy and healthcare costs during retirement. Those with healthier lifestyles may incur lower medical expenses, leaving more funds for retirement savings.

Life-Course Theory emphasizes the importance of a holistic perspective when analyzing the sustainability of pensions and demographic trends. It suggests that policies aimed at improving retirement outcomes should consider the diverse experiences and decisions made throughout an individual’s life, as these factors collectively influence financial readiness for retirement.

2.2 Components of Life-Course Theory and its Implications for Retirement Security

Life-Course Theory offers valuable insights into how policies and interventions can better assist individuals throughout their lifespans in achieving retirement security. It also allows for the examination of empirical variables influencing the development of sustainable sovereign

wealth funds (SWFs) for pensions.Life-Course Theory emphasizes the importance of understanding an individual's life within the context of historical, social, and cultural influences. Key components of the theory that provide insights for policies aimed.

2.3 Overview and Purpose of SWFs

SWFs serve diverse purposes, such as stabilizing government revenues during commodity price fluctuations, promoting intergenerational equity, and achieving higher returns on foreign exchange reserves. Examples include the Norwegian Government Pension Fund Global and the Abu Dhabi Investment Authority, which have established benchmarks for effective SWF operations. Key objectives of SWFs can be categorized as:

Stabilization Funds: To cushion economies against commodity price shocks.

Intergenerational Savings Funds: To ensure resource wealth benefits future generations.

Strategic Investment Funds: To foster long-term growth through investments in infrastructure, technology, and education.

2.3.1 SWFs and Firm-Level Impacts

Research highlights the significant positive impacts of SWFs on firm performance and valuation. A study analyzing SWF investments in over 8,000 firms globally between 2002 and 2007 found that firms with SWF ownership experienced improved valuation, better operating performance, and enhanced international expansion. These effects are attributed to improved monitoring and the long-term investment horizon of SWFs, enabling firms to secure capital more effectively.

The operational improvements often include higher Return on Assets (ROA) and Return on Equity (ROE), signifying better resource utilization and profitability. Moreover, the presence of SWFs as shareholders often enhances corporate governance practices by aligning management's goals with long-term value creation.

2.3.2 SWFs and Financial Stability

SWFs contribute to financial stability by providing liquidity during crises and reducing market volatility. For instance, during the 2008 financial crisis, several SWFs injected capital into distressed financial institutions, reinforcing confidence in global markets. Their large-scale investments often act as counter-cyclical stabilizers, mitigating the adverse effects of economic downturns.

However, concerns about the potential destabilizing effects of SWFs persist. These include a lack of transparency in their operations and fears of politically motivated investments. Critics argue that investments driven by geopolitical goals rather than economic rationale could lead to inefficiencies and undermine the stability of financial markets.

2.3.3 Natural Resource-Based SWFs

Natural Resource-Based SWFs (NR-SWFs) play a critical role in managing resource wealth. These funds mitigate "Dutch disease," ensuring that resource windfalls are transformed into sustainable economic growth. Theories suggest developed countries should prioritize future generation savings, while developing countries should focus on debt repayment and domestic investment. Case studies, such as Norway's fund, illustrate the effectiveness of long-term, offshore investments in achieving these goals.

For resource-rich developing nations, NR-SWFs also offer a pathway to diversify economies heavily reliant on commodities. By channeling resource revenues into infrastructure, education, and health, these funds can address structural challenges and build resilience against external shocks.

3. Case Studies of Successful SWFs

Norwegian Government Pension Fund Global: Established in 1990, this fund is often regarded as the gold standard for SWFs. Its governance framework emphasizes transparency, ethical investment practices, and intergenerational equity. Managed by the Norges Bank Investment Management, it invests in a diversified portfolio of global equities, fixed income, and real estate, ensuring steady growth over time.

Alaska Permanent Fund: Created from oil revenues, the Alaska Permanent Fund focuses on providing long-term benefits to Alaskans. A portion of its earnings is distributed as annual dividends to residents, promoting economic inclusivity while maintaining a robust savings structure.

Abu Dhabi Investment Authority: As one of the largest SWFs globally, this fund exemplifies strategic diversification. Its investments span various asset classes and market impact Large scale investments by SWFs can influence asset prices, creating market distortions. Managing these impacts requires careful strategy and timing.

Domestic Pressures: In some cases, political pressures may influence SWF investment decisions, diverting funds toward non-viable projects or populist objectives.Global Relations: Geopolitical tensions can arise when SWFs acquire significant stakes in strategic industries abroad, prompting protectionist measures by host countries.

4. Policy Recommendations

To maximize their benefits, SWFs should adopt the following strategies:

Strengthen Governance: Adhering to international standards, such as the Santiago Principles, can enhance credibility and mitigate political risks.

Diversify Investments: A balanced portfolio across asset classes and geographies reduces exposure to sectoral and regional risks

Focus on Sustainability: Integrating Environmental, Social, and Governance (ESG) criteria into investment decisions ensures long-term value creation.

Enhance Transparency: Regular disclosure of investment strategies and performance builds trust among stakeholders and reduces fears of hidden agendas.

5. Future Trends and Innovations

As global challenges evolve, SWFs are likely to adopt innovative approaches, including:

Green Investments: Many SWFs are increasing their focus on renewable energy projects and sustainable infrastructure, aligning with global climate goals.

Technological Integration: Leveraging artificial intelligence and data analytics for investment decisions can enhance efficiency and returns.

Collaboration: Joint ventures between SWFs can pool resources and expertise for large-scale projects, fostering international cooperation.

6. Empirical Evident

The theoretical literature provides prescriptions for the settings where funds are likely to maximize welfare, but how successful have NR-SWFs been in practice? This section evaluates the empirical literature on NR-SWFs to synthesize findings.10 We focus our attention on three broad areas: (*a*) the effect of funds on intergenerational wealth transfers, (*b*) political institutions and economic development, (*c*) and economic volatility. These areas roughly align with the theoretical objectives of NR-SWFs described in Section 2. However, in practice, funds may be

established for multiple purposes or their objectives may shift over time, so aligning all empirical research on wealth funds cleanly into the objectives outlined in Section 2 proves challenging.We begin in the following subsection by briefly discussing a related literature that examines the determinants and structure of SWFs more generally.

6.1. Determinants of Wealth Funds

As discussed by Eldredge (2019), establishing an SWF requires two conditions to be met. The first is capability. Establishing a fund that generates significant benefits—via saving, smoothing, or investment—requires significant capital that many states lack. Establishing a fund also requires necessity to save for future generations, smooth the effects of outsized economic shocks, or invest locally. On the basis of these criteria, Eldredge (2019) argues that "middle powers" (medium sized) countries that may be relatively vulnerable to international market fluctuations, but also small enough to benefit from an SWF) are more likely than other countries to establish a fund.To establish SWFs than are democratic ones. Interestingly, Carpantier & Vermeulen (2018) also show that, while natural resource rents increase the probability of establishing a fund, this effect exists only in democratic countries. A speculative interpretation of this observation is that, because natural resource funds can be embezzled by autocratic regimes, they are managed more responsibly in democracies. The key point is that establishing anSWF requires both capability and necessity.This literature argues that, in addition to being a middle-power economy, natural resource wealth, dependence on volatile commodities, strong political institutions, and lack of domestic investment opportunities all increase the probability of establishing a fund.

6.2. Intergenerational Wealth Transfer

As described in a straightforward objective of some resource funds is rent transfer from resources exploited today to future generations. We did not identify any publications concerned exclusively with evaluating the performance of funds in this regard. While some literature does characterize the size and longevity of funds as positive features, and these have direct implications for intergenerational savings goals, it is difficult to evaluate this goal in isolation from other targets.The success of funds for the purpose of wealth transfer will be determined largely by the quality of governance. In theory, this principle is sound, but whether institutions are able to identify domestic investment opportunities with returns that exceed those achievable in global markets is an empirical question, one for which we did not identify significant literature.

6.3. Political Institutions and Local Development

Some of the most resource-rich—and certainly the most resource-dependent—countries in the world are also some of the poorest.12 There is good empirical evidence that natural resources (especially) so-called point resources, such as fossil fuels and minerals) cause corruption and degrade the quality of political institutions (Ades & Di Tella 1999, Leite & Weidmann 1999, Treisman 2000, Bhattacharyya & Hodler 2010, Vicente 2010, Arezki & Br□ckner 2011, Tsui 2011, Brollo et al. 2013, Caselli & Michaels 2013, Caselli & Tesei 2016, James & Rivera 2021), for two main reasons. The first is that natural resource–extracting firms tend to earn large rents. Public officials then seek out these rents by accepting bribes in exchange for relevant tax cuts, deregulation,or protection from foreign or domestic competition. The second, less obvious mechanism is that resource-dependent governments tend not to tax their constituents (Bornhorst et al. 2009, and taxation may be necessary for robust democratic representation (Moore & Rakner 2002, Ross 2004, Collier & Hoeffler 2005a,Herb 2005).13 An NR-SWF provides a possible solution to these political and economic problems.To the extent that the funds aremanaged in prudent and transparent ways, they can help keep resource rents out of the hands of corruptible politicians and state officials. The question of whether such funds are successful in bringing about desired political and economic change is an important one, but also one that has received especially little attention in the empirical literature.

7. Conclusion

Researchers are increasingly recognizing that mass consumption is a short-term economic strategy that cannot be sustained at the macroeconomic level indefinitely. This does not imply abandoning traditional models but rather questioning whether the welfare state, as we know it, is the sole solution to the internal challenges countries face or if alternative ideas should be considered. The same logic applies to poor countries, which cannot escape poverty through increased consumption alone. The way out of poverty lies in saving and investing.Discussions about welfare in Europe often consider asset redistribution (e.g., Wolff, 1987). Some welfare states in Asia, particularly Singapore, are built on principles of asset accumulation rather than income transfers (International Social Security Association, 1965; Asher, 1991; Sherraden, 1995). Economic development discussions in “developing” countries often focus on land, business development, savings, and other asset-oriented concepts (e.g., Geertz, 1962; Chandavarkar, 1985; Sherraden and Ruiz, 1989). In the United States, there has been a long-standing interest in small

business development (e.g., Light, 1972; Friedman, 1988; Balkin, 1989). More recently, small enterprise development has gained momentum as an anti-poverty strategy, evolving into a social movement in certain regions. In addition, academic discourse and policy development in the U.S. have increasingly focused on asset-based policies, including subsidized savings accounts for long-term goals such as education and homeownership (Sherraden, 1988; 1990a; Johnson and Sherraden, 1992).Sherraden (1991) proposed that if asset ownership yields positive outcomes, then welfare and broader social policies should promote asset accumulation. Such policies recognize the need for individuals, families, and nations to balance income and consumption with saving and investing. Asset building would become the foundation of social policy, enabling multiple social and economic goals—particularly higher education, homeownership, small business development, retirement security, and even health improvements—to be achieved, even for the poorest families, through asset-building programs.

Individual Development Accounts (IDAs) are optional accounts that receive income and offer tax benefits in the name of each individual, starting from birth (Sherraden, 1988, 1989, 1990b, 1991a, 1991b). IDAs are similar to Individual Retirement Accounts (IRAs) but are designed for more diverse purposes and include subsidized deposits for the poor. Regardless of their intended purpose—be it housing, education, training, self-employment, retirement, or others—assets accumulate in these long-term accounts. Federal and state governments and/or private organizations match deposits for the poor. Creative program designs and collaborations between public, private, and non-profit sectors, along with the account holders themselves, may be possible. The following general approaches could be considered for IDAs:

Sherraden (1991) concludes that income-based welfare states will face significant changes in the coming decades. The direction of these changes is difficult to predict. An increasingly prominent issue in social policy will be a focus on not just income and consumption but also on saving and investment. If widely implemented, IDAs could become a new domestic policy framework emphasizing asset-building and ownership. Eventually, this new policy would serve as a counterbalance to income-based welfare states, and individual development accounts or other asset-based domestic policies might evolve into investment-oriented policies. These could enhance individual potential, strengthen families, promote active citizenship, and support economic growth. By the 21st century, such policies could play a role similar to what the Homestead Act represented in the 19th century.

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