Social Security Benefit Design and Funding Challenges and Reform Options

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Presentation Outline

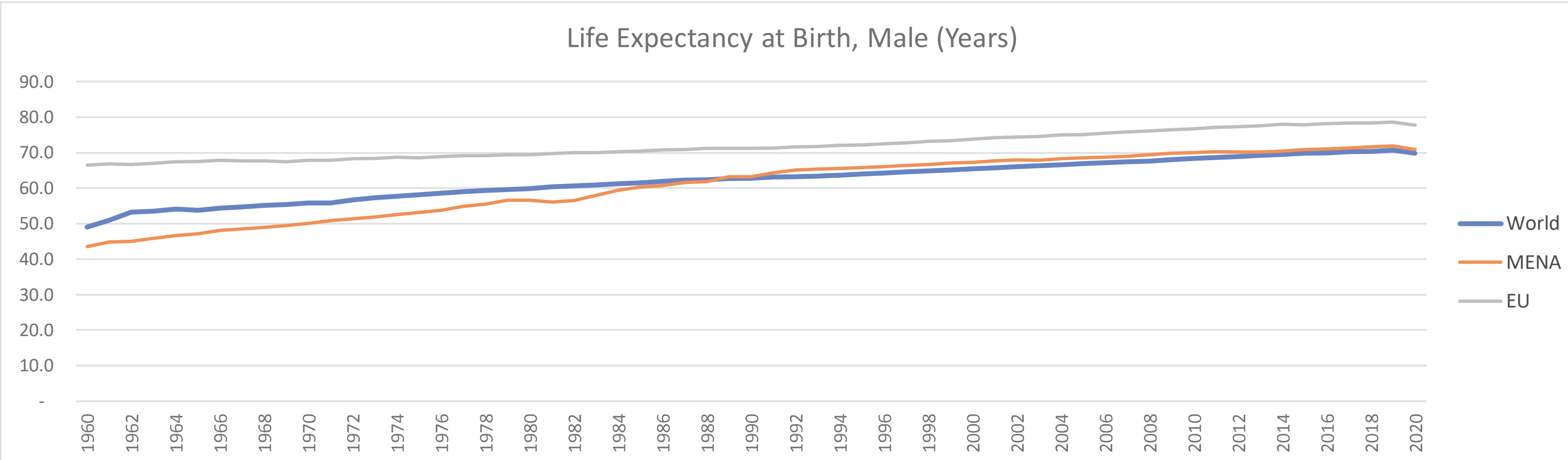
- Actuarial Work for Social Security Pensions
- Demographics and Funding Challenges
- State Pension Scheme Design in the Arab World
- Reform Options

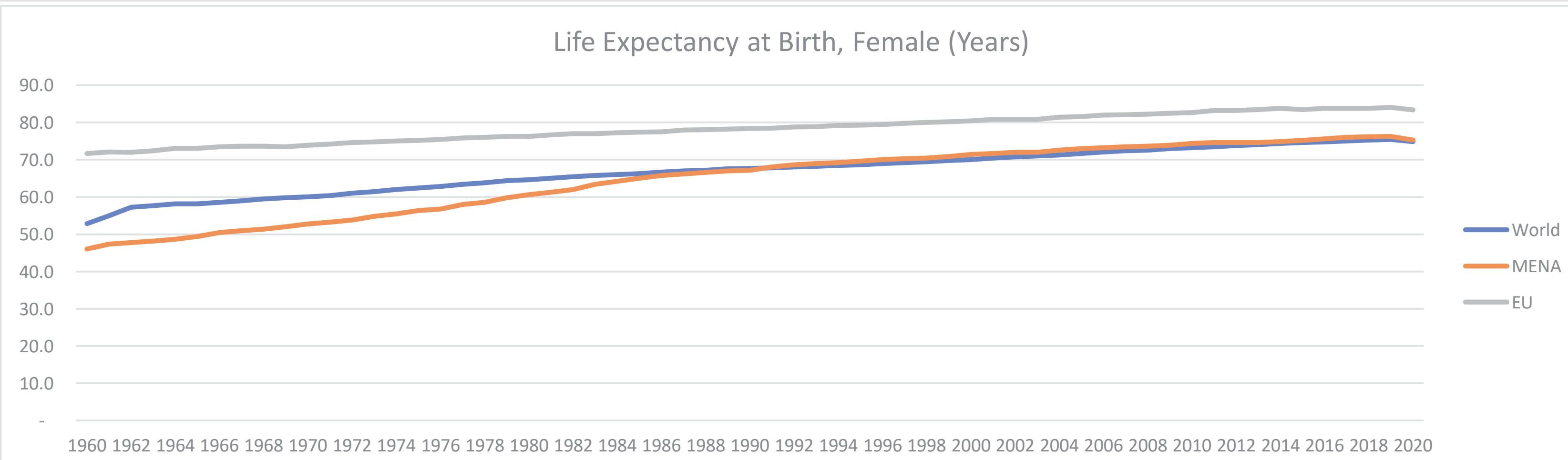
Actuarial Work for Social Security Pensions

- An actuarial valuation should address the following:
  - Inform about the present financial status and likely future financial development of the scheme
  - Assess the financial sustainability of a social security scheme in relation to the benefit provisions and the financing arrangement of the scheme
  - Advise and make recommendations on possible amendment to the scheme's provisions and financial arrangements
- PAYG = (P/C) x (AP/AS)
  - P/C is the system old-age dependency ratio, where P is number of pensioners and C is the number of contributors
  - AP/AS is the average income replacement ratio, where AP is average pensions and AS is average salary
- Partial Funding
- Full Funding

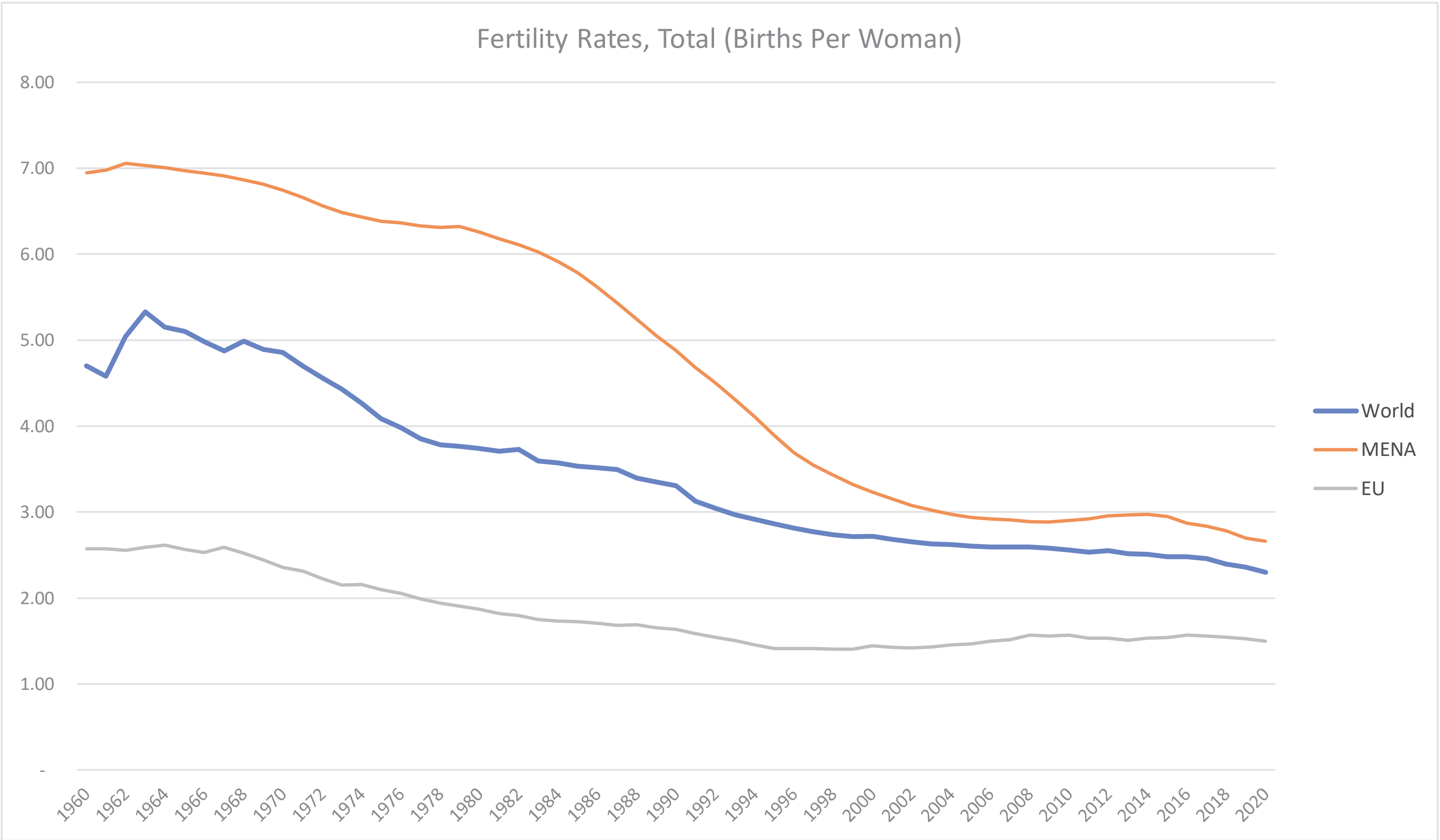
Summary of Factors affecting financial equilibrium

	Income	Expenditure
Economic		
Growth Rate	Contributors and Salaries	Entitlements and number of beneficiaries
Unemployment Rate	Number of Contributors	Number of beneficiaries (in the long-run)
Wage share and Wages	Salaries	Benefit amounts (after a time lag)
Salary Increase/Inflation Rate	Salaries	Benefit amounts
Interest Rates	Investment Income (for partial/full funded schemes)	
Demographic		
Population age structure	Contributors to Beneficiaries	Contributors to Beneficiaries
Life Expectancy	Change in Number of Contributors	Change in Number of Beneficiaries and average length of service
Fertility Rates	Number of Contributors in the long run	Number of beneficiaries (in the long-run)
Scheme-Specific		
Design	Contribution provisions	Pension Formula
	Floors and Ceiling on Earnings	Entitlement Conditions
		Number and amount of benefits
		Benefit levels





Source: World Development Indicators, World Bank



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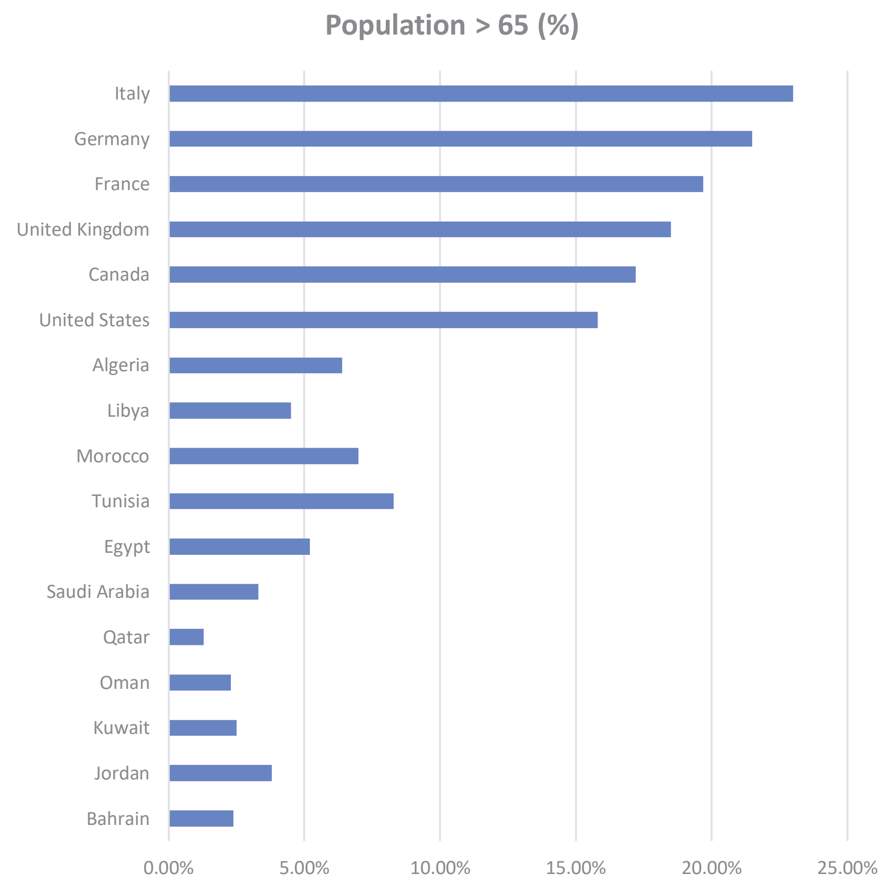
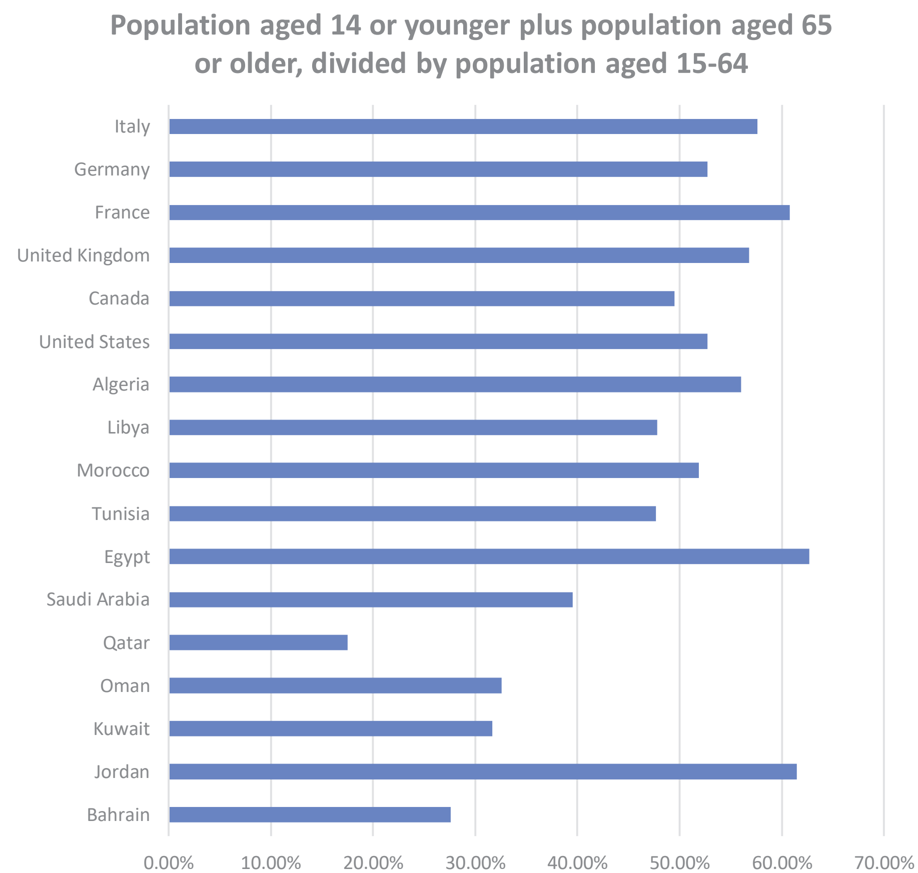
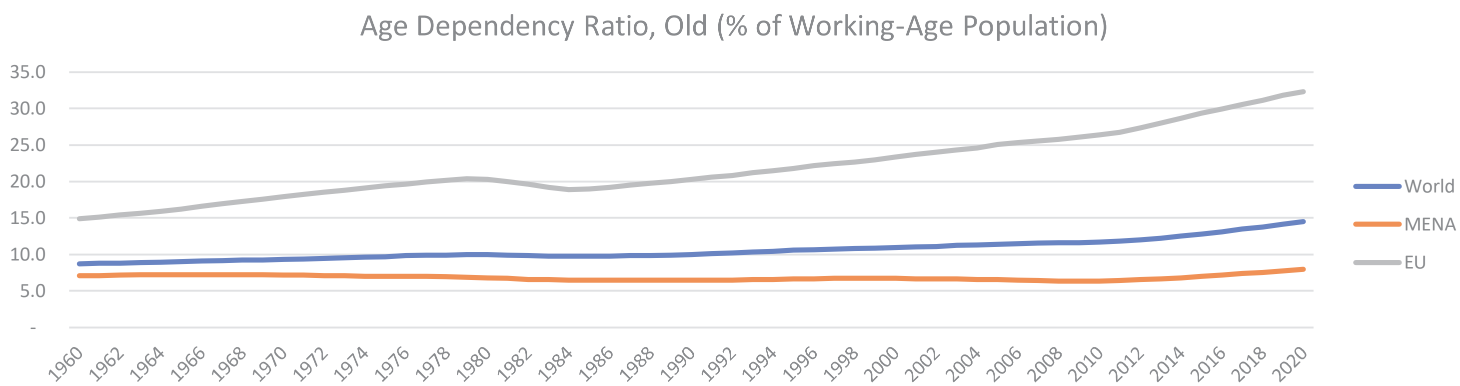
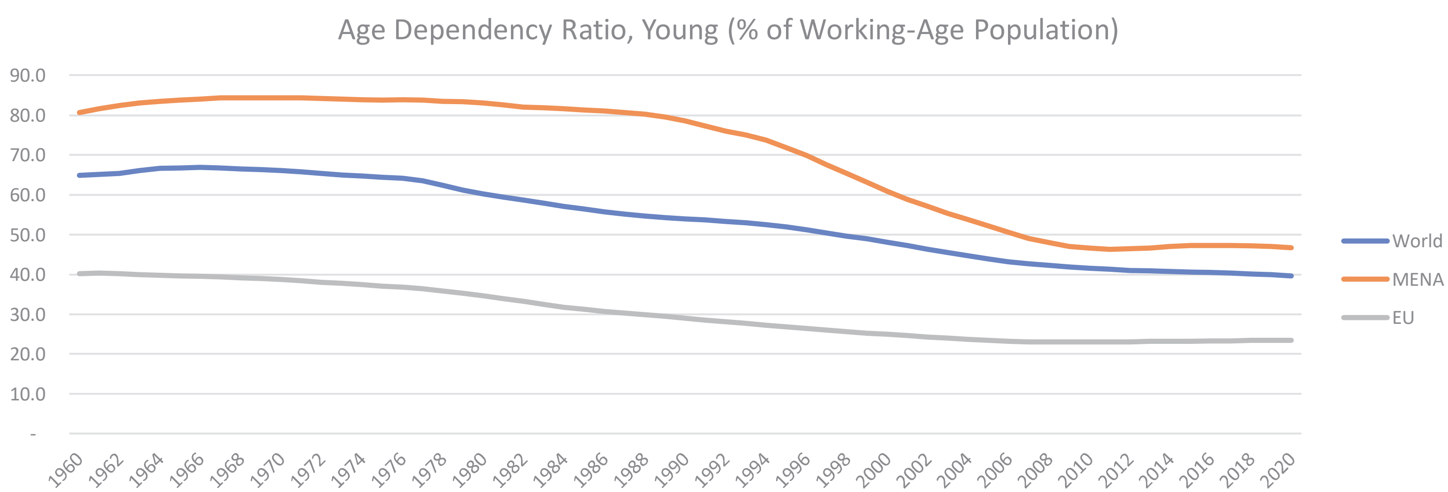




Source: ISSA / ILO





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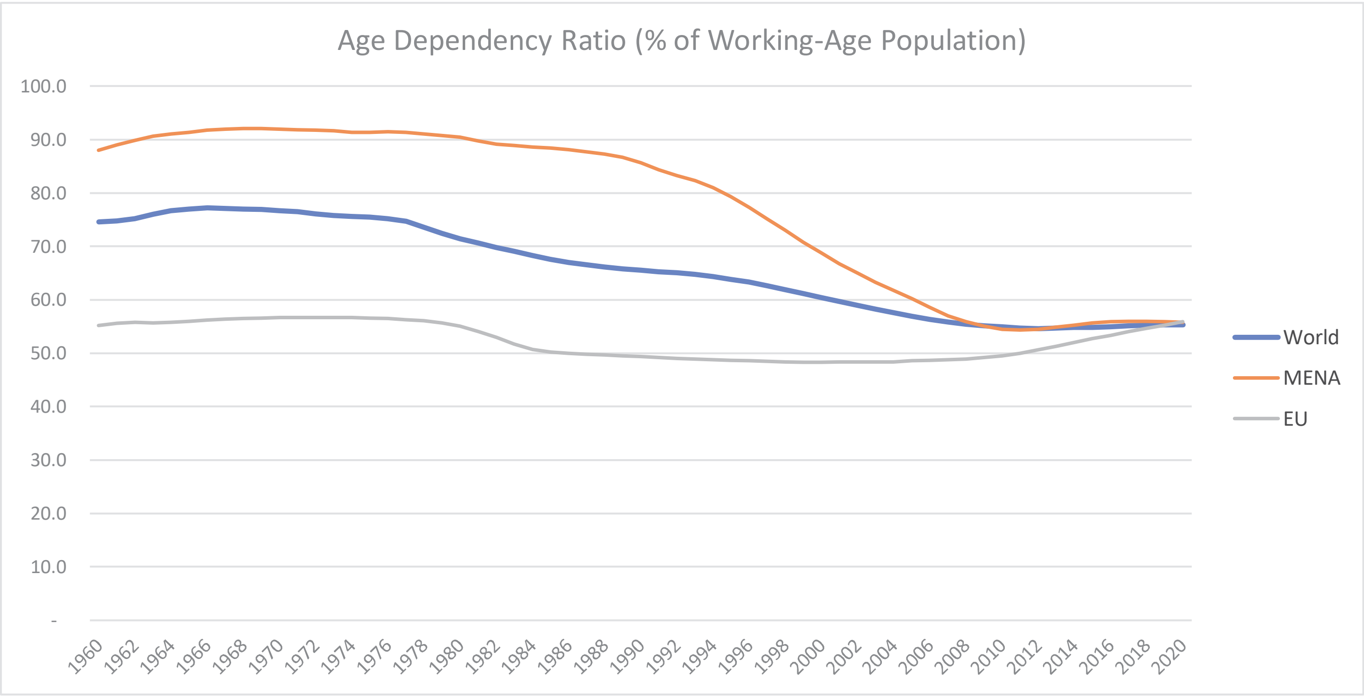

Source: World Development Indicators, World Bank

Saudi Arabia

- Law: Social Insurance Law issued in 1969/ New Law in 2000
- Retirement Age: 60 years men/ 55 women (younger for military)
- Entitlement criteria: 60 men / 55 women with Paid/Credited 120 months contributions
  Any age with 300 months of contribution if no longer covered
- Old Age Pension:
  - Age/Contribution Term: Insured Person: 9% of gross, Employer: 9% of gross, Govt: operating deficit
  - Benefit: 2.5% of average earnings for each year of contribution (max 100%)

Disability Pension: Yes

Survivor Pension: Eligible survivors include the widow(er); a dependent son younger than age 19 (age 26 if a full-time student); a dependent, unmarried daughter; and siblings, parents, grandparents, and grandchildren in certain circumstances.

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United Arab Emirates

- Law: Social Insurance Law issued in 1999 and 2000 in Abu Dhabi
- Retirement Age: age 60 years (men) and 55 (women)
- Entitlement criteria: retirement age with 15 years service and 20 years service for lower ages
  - Abu Dhabi: retirement age or 25 years of service
- Old Age Pension:
  - Contribution Term: Insured Person: 5% of salary, Employer: 15% of salary, Govt: 2.5%
  - Contribution Term Abu Dhabi: Insured Person: 5% of salary, Employer: 15% of salary, Govt: 6%
  - Benefit: 60% of earnings + 2% every additional year in excess of 15 years (max 100%)
  - Benefit Abu Dhabi: 48% of earnings + 3.2% every additional year in excess of 15 years (max 80%)

Disability Pension: Yes

Survivor Pension: Eligible survivors include the widow(er); a dependent son younger than age 21 (age 28 if a full-time student); a dependent, unmarried daughter; siblings and parents.

Oman

- Law: Social Insurance Law issued in 1991
- Cover: Civil Service Employees Pension Fund (government employees)
  Public Authority for Social Insurance (Private-sector or working in GCC)
  Foreign workers, household workers, self employed persons are excluded.
- Retirement Age: 60 years men / 55 years women
- Old Age Pension:
  - Contribution Percentage: Insured Person: 7% of salary, Employer: 10.5%, Government: 5.5% of salary
  - Age/Contribution Term: Men: Age 60 and 180 months paid contributions; Women: Age 55, 120 months
    Early pension: Age 45 - 59 years; contributions: men (240 months), women(180)
  - Benefit: 3% of insured's average wage in the last 5 years of employment for each year of contribution (max 80%)

Disability Pension: Yes

Survivor Pension: Eligible survivors include the widow(er); a dependent son younger than age 22 (age 26 if a full-time student); an unmarried daughter; and siblings and parents.

Qatar

- Law: Social Insurance Law issued in 2002
- Entitlement: Public, selected private or working in one of the GCC countries, Self-employed persons, household and foreign workers are excluded.
- Retirement Age: 60 years men / 55 years women
- Old Age Pension:
  - Contribution Percentage: Insured Person: 5% of gross, Employer: 10% of basic, Government: any deficit
  - Age/Contribution Term: Men: Age 60 or Age 40 with 15 years of contribution
    Early pension: Age 45 - 59 years; contributions: men (240 months), women(180)
  - Benefit: 5% of wage for each year of contribution (max 100%)
  - Early Pension: The above pension will reduce by 2% for each year before retirement age

Disability Pension: Yes

Survivor Pension: Eligible survivors include the widow(er); a dependent son younger than age 21 (age 26 if a full-time student); an unmarried daughter; and siblings and parents.

Kuwait

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- Law: Social Insurance Law issued in 1976 and supplementary system in 1992
- Entitlement: Basic system: Public, Private and oil sector, self employed and military personnel. Supplementary system: monthly earning greater than 1,250 dinars or those with sources of earnings not covered by the basic system.
- Retirement Age: 55 years men and 50 years women
- Old Age Pension: Basic system
  - Contribution Percentage: Insured Person: 5% of earnings, Employer: 10%, Government: 10% of earnings
  - Age/Contribution Term: Age 50 with atleast 15 years of contributions for both men and Women
  - Benefit: 65% of insured last monthly earnings plus 2% for each year of contributions exceeding 15 years, (max 95%)

Disability Pension: yes

Survivor Pension: Eligible survivors include the widow; a dependent son younger than age 26 (age 28 if a full-time student); an unmarried daughter; and siblings, parents and son’s children.

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Bahrain

- Law: Social Insurance Law issued in 1976
- Entitlement: Private-sector or working in one of the GCC countries, voluntary for Bahraini citizens working abroad.
  Foreign workers, household workers are excluded.
- Retirement Age: 60 years men / 55 years women with 10 years of contributions
- Old Age Pension:
  - Contribution Percentage: Insured Person: 6% of earning, Employer: 9% of earning, Government: Nil
  - Age/Contribution Term: Men: Age 60 and 180 months paid contributions; Women: Age 55, 120 months
    Early pension: Age 45 - 59 years; contributions: men (240 months), women(180)
  - Benefit: 2% of insured's average wage in the last 2 years of employment for each year of contribution (max 80% plus an additional 10%)
  - Early retirement Pension: at any age with 20 years of contributions (men) and 15 years (women)
    max 20% reduction if retirement age is less than 45 years

Disability Pension: Yes

Survivor Pension: Eligible survivors include the widow(er); a dependent son younger than age 22 (age 26 if a full-time student); an unmarried daughter; and siblings and parents.

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Egypt

- Law: Old: 1950 (social assistance) and 1955 (provident and insurance fund) / 1975 (civil servants and public and private sector employees), 1976 (self employed), 1978 (migrant workers), 1980 (coverage extension), and 1980 (alternative insurance).
  New: Law No. 148 of 2019

- Retirement Age: 60 years with atleast 10 years (increasing to 15 years from 2025) of contributions, increasing to 65 years by 2040

- Old Age Pension:
  - Contribution Percentage: Insured Person: 9% of covered earnings plus 1% of base earnings for lump-sum benefits (DC), Employer: 12% of covered earnings plus 1% of base payroll for lump-sum benefits (DC)
  - Benefit: 2.2% of insured's career average earnings for each year of contribution (max 80% of maximum base earnings)
  - Early retirement Pension: Any age with atleast 20 years (increasing to 25 years from 2025) of contributions (actuarial reduction factor applied on early retirement)

Disability Pension: Yes

Survivor Pension: Eligible survivors include the widow(er); a dependent son younger than age 21 (age 26 if a full-time student); unmarried dependent daughters; dependent parents and dependent siblings (under certain conditions)

Benefit Structures Summary

- Low Retirement Ages
  - 50 to 60 years for males compared to 65+ in Europe
- Very high rate of benefit accruals
  - 2% to 3% compared to much lesser in Europe
- Pensions capped at a very high level
  - Up to 100% in some cases
- Pensions payable from younger ages without any actuarial reduction
- Generous survivorship pensions
  - Children included to fairly high ages; unmarried daughters; sons to 21 or 26 if still going through education; other dependents.

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Reform Options

- Rationalize the Design
  - Reduce the benefit accrual rate
  - Increase the normal and minimum retirement ages
  - Introduce or apply early retirement reduction factors based on actuarial equivalence
  - Tighten the eligibility conditions by increasing the number of years of required contributions, including minimum age/service criteria
  - Reduce the maximum amount of benefit payable, as absolute amount or through a maximum cap on the number of years of eligible service
- Increase contributions
- Increase funding ratio of schemes (through state capital injection) to increase investment income

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Thank You