

OECD/IOPS MENA WORKSHOP ON PENSION REGULATION & SUPERVISION

Overview of main features of pension systems in the MENA region Challenges for development

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Chairman

Board of Trustees



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- 1. Introduction**
- 2. MENA Countries – general demographic and financial characteristics**
- 3. MENA Schemes – overview of main characteristics**
- 4. Briefing of specific countries – Oman, Bahrain, Lebanon, Jordan, Cyprus, Egypt, Morocco, Algeria, Djibouti, Iran, Saudi Arabia, Tunisia, W Bank**
- 5. Comparison (fragmentation, replacement & coverage)**
- 6. Further Details of Lebanon**
- 7. Challenges**



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Do you view the development and managing of Retirement Benefits is as sophisticated as?



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Or are you in the dark ages?



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**Regulations & Supervision
Should take into consideration all
Long Term Benefits after Retirement:**

- Pension
- Long Term Care
- Healthcare
-



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MENA Retirement Benefit Schemes Demographic and Financial Characteristics

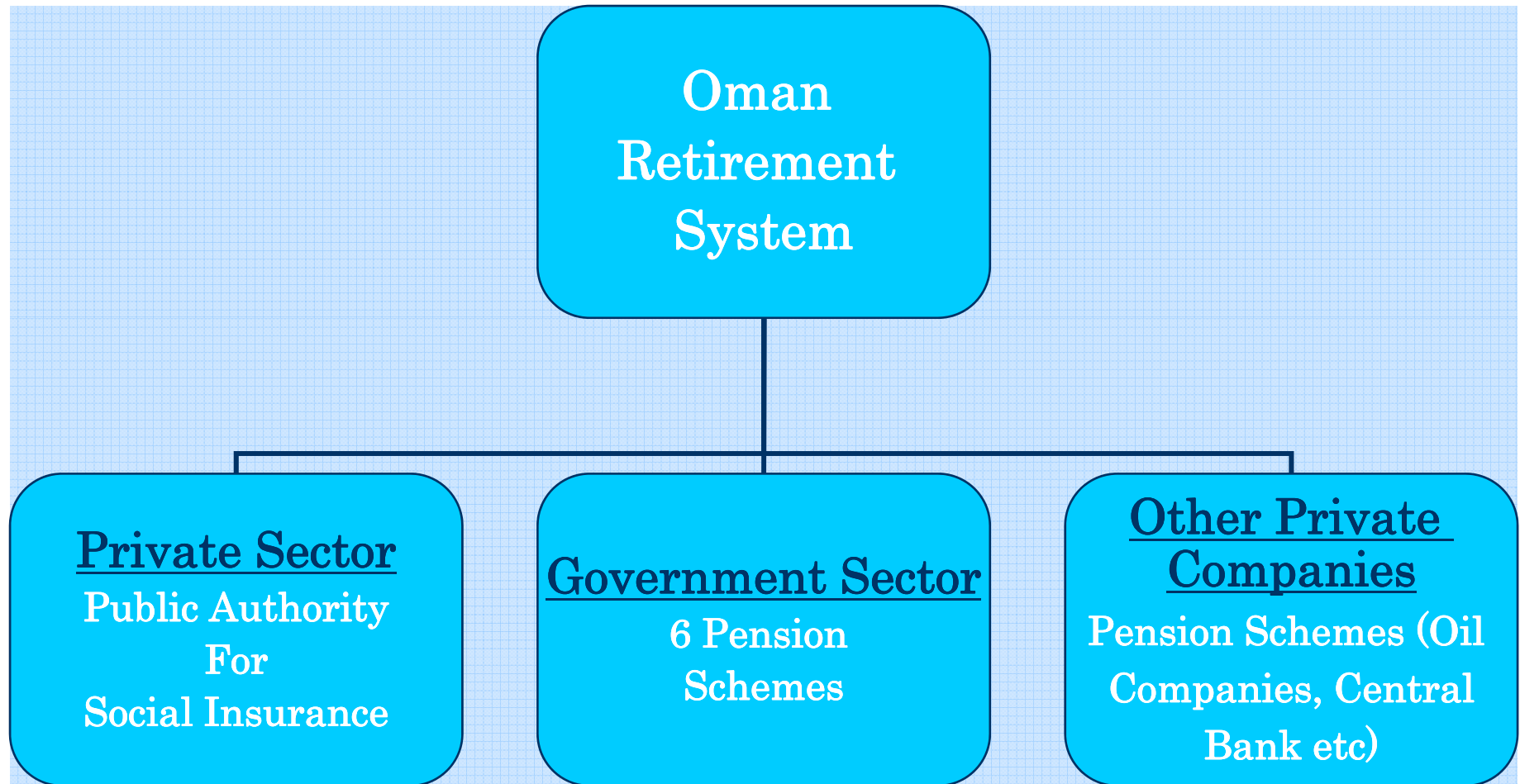
- **MENA countries**
 - **young populations**
 - **expansion of working population**
 - **increase in women participation (yet flexible rules)**
 - **low inflation rates**
 - **slow development of financial sector (insurance sector, debt/equity markets)**
 - **Primitive tax regimes**
 - **Unemployment vs early retirement**



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MENA Retirement Benefit Schemes

Sultanate of Oman



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MENA Retirement Benefit Schemes

Sultanate of Oman

Public Authority for Social Insurance – PASI

- Defined benefit scheme – benefit based on the average salary for the last 5 years
- Objective: provide insurance against old age, disability and death
- Target an overall retirement benefit that replaces around 75% of pre retirement income
- PASI – adopted parametric reforms in 2005 aiming to reduce benefit/contribution inequality and to maintain long term financial sustainability
 - contribution rate increase
 - minimum early retirement age and higher penalties
 - use of average salary of last 5 years
 - minimum/maximum pension
 - ceiling on salaries



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MENA Retirement Benefit Schemes

Sultanate of Oman

Government Pension Schemes

- Civil Service, Ministry of Defense, Royal Guard, Internal Security Services, Royal Court, Oman Police
- Defined benefit schemes - final salary
- Objective: provide insurance against old age, disability and death
- Target an overall retirement benefit that replaces around 75% of pre retirement income
- New regulatory independent authority will be set up for all 6 pension schemes
- Single Board of Directors
- Single Investment Authority



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MENA Retirement Benefit Schemes

Sultanate of Oman

Occupational Pension Schemes – private sector companies (oil companies, Central Bank etc)

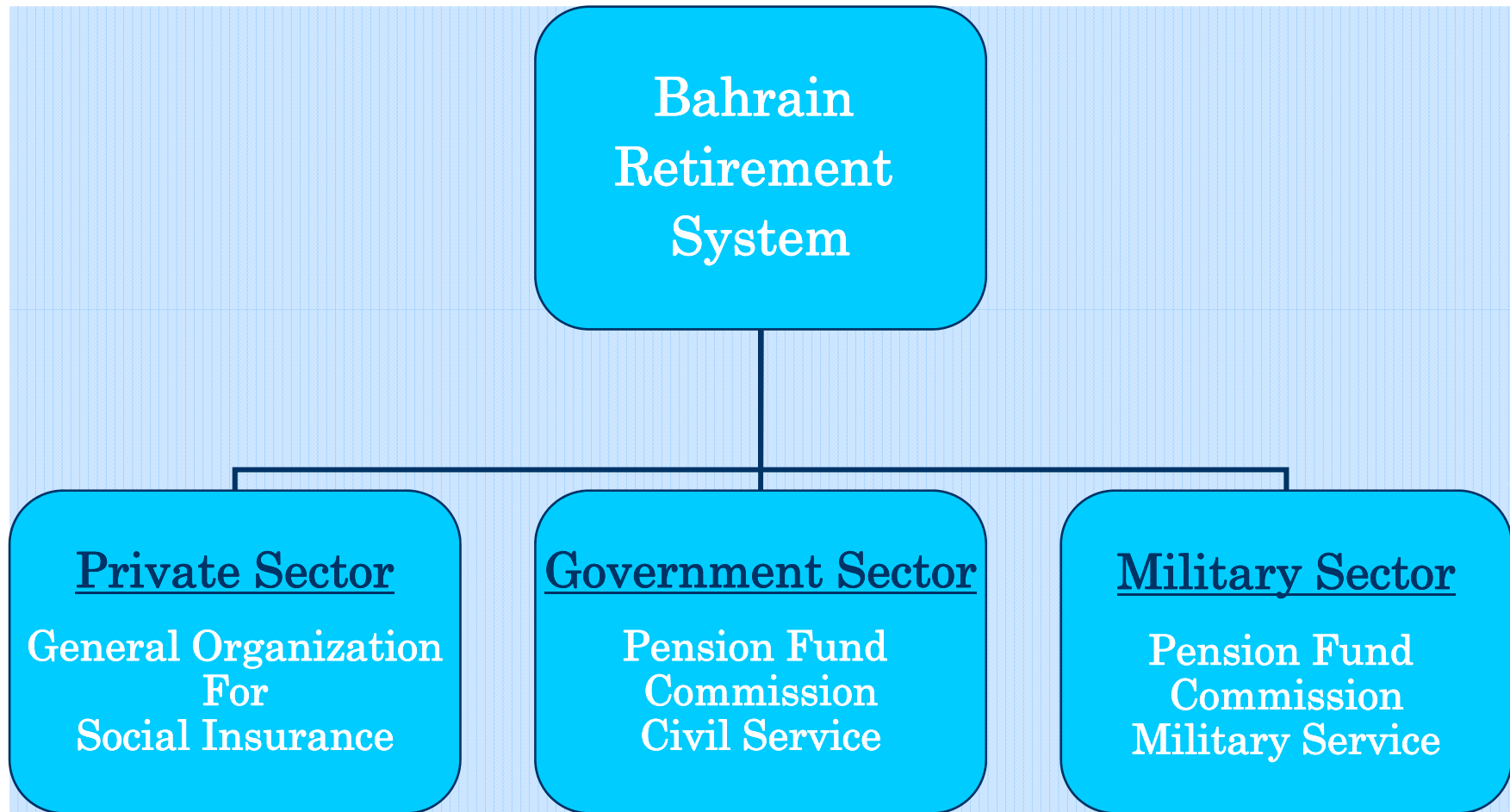
- Defined benefit schemes - final salary schemes
- Objective: provide insurance against old age, disability and death
- Target an overall retirement benefit that replaces around 75% of pre retirement income
- Some schemes operate as top up schemes, over and above PASI benefits
- Under some regulations from PASI



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MENA Retirement Benefit Schemes

Kingdom of Bahrain



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MENA Retirement Benefit Schemes

Kingdom of Bahrain

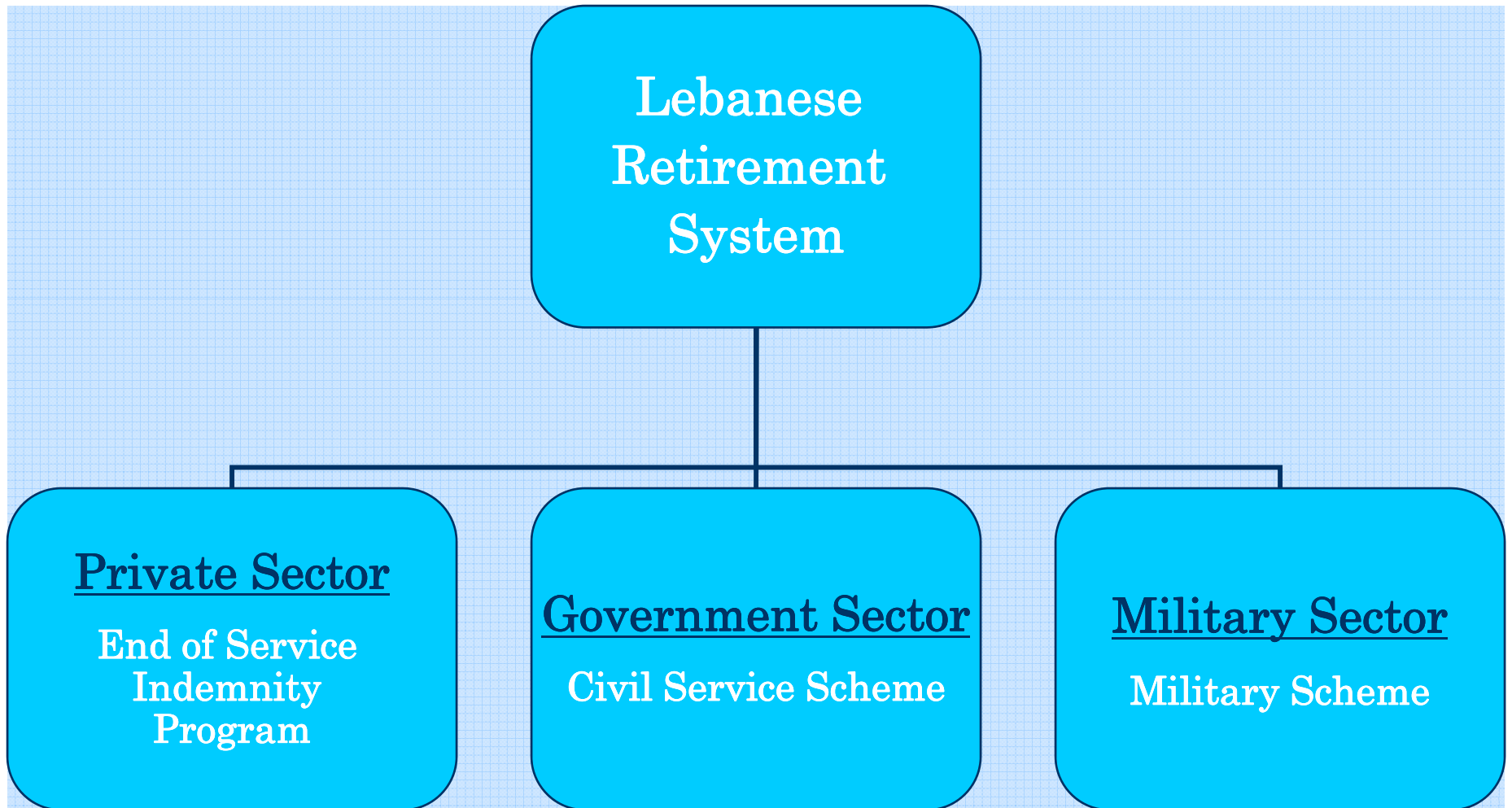
- Defined Benefit Schemes One Organization SIO previously
 - GOSI – Private Sector
 - PFC – Civil Service
 - PFC – Military Service
- Defined benefit schemes – benefit based on final or average salary
- All 3 schemes under the umbrella of the Audit General Office
- Objective: provide insurance against old age, disability and death
- Target an overall retirement benefit that replaces around 75% of pre retirement income



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MENA Retirement Benefit Schemes

Lebanon



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MENA Retirement Benefit Schemes

Lebanon

- Defined Benefit Schemes – Government run
 - Civil Service
 - Military Service
 - Parliament Members
 - Judges
- Defined Benefit Schemes – Privately Run
 - Engineers
 - Doctors
 - Lawyers
 - Others
- Provident Fund – private sector (end of service benefit commuted into pension, in the works!!!!)



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MENA Retirement Benefit Schemes

Jordan

- Social Security Scheme for all
 - Social Security Corporation of Jordan
- Defined benefit scheme – benefit based on average salary for the last two years
- Previously operated Civil Service and Military Service Schemes which have now closed for new entrants (year 1995 and 2002 respectively)
- All new entrants joined SSCJ
- Defined Benefit Schemes – Privately Run
 - Engineers – 75,000
 - Doctors – 15,000
 - Lawyers – 20,000
 - Others



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MENA Retirement Benefit Schemes

Jordan

SSIU –Social Security Investment Unit

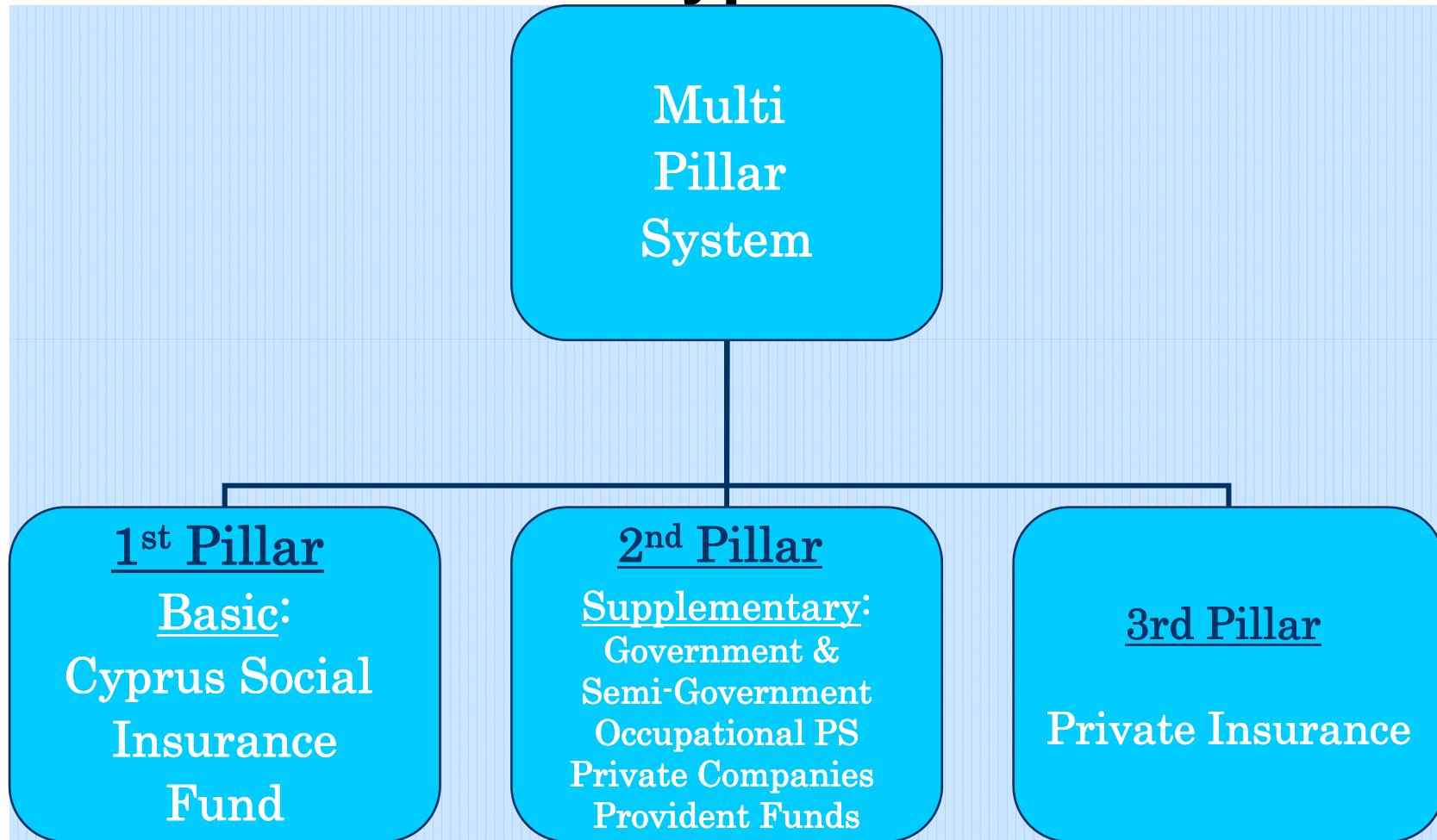
- Creation of SSIU – separate entity responsible for investments
- Tripartite structure (government, employees, private sector)
- SSIU prepared a statement of investment policy that follows internationally accepted principles and practices; long term investments, diversification
- The statement also emphasized the importance of forbidding speculative investments and investment practices such as short selling, complex derivatives etc



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MENA Retirement Benefit Schemes

Cyprus



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MENA Retirement Benefit Schemes

Cyprus

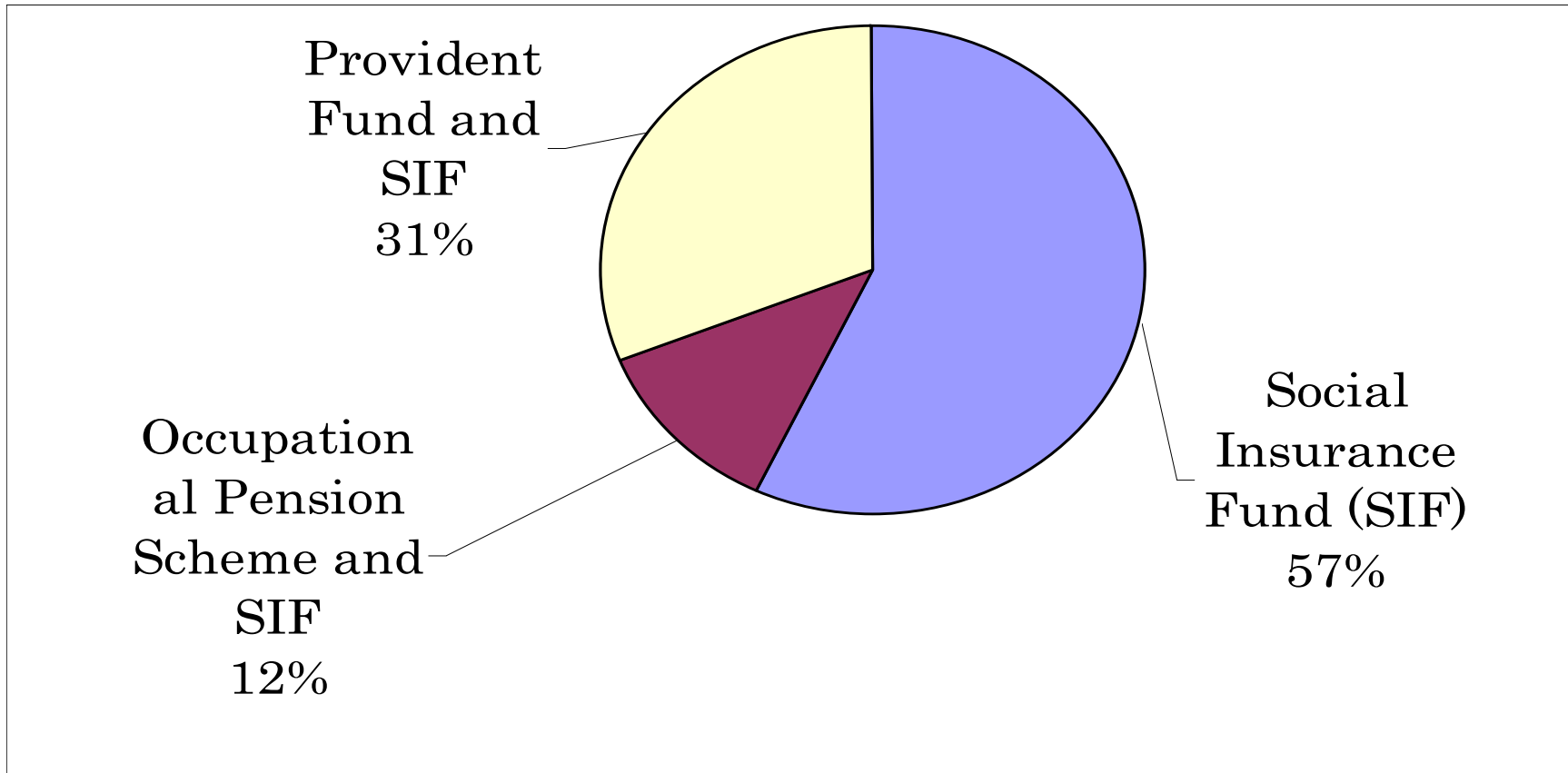
- All workers are covered by the Social Insurance Fund (SIF) (basic and supplementary benefits)
- More than 60 occupational pension schemes for government and semi-government employees with benefits over and above the SIF Benefits
- Special pension schemes for specific categories i.e. lawyers, doctors – over and above
- More than 2,000 provident funds with benefits in the form of lump sums – over and above



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MENA Retirement Benefit Schemes Cyprus

Proportion of Workers covered by each component



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MENA Retirement Benefit Schemes

Cyprus

Supervision and Regulation of Cyprus Retirement System

- EU Directive 41/2003 adopted by the Cyprus Government
- Formation, Registration, Operation and Supervision of Pension Schemes
- Operation
 - Governing Body (responsibilities and suitability)
 - External Advisors (Actuary, Accountant, Investment, Legal)
- Supervision
 - Investment Restrictions
 - Statement of Investment Principles
 - Reporting to members
 - Funding regulations



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MENA Retirement Benefit Schemes

Egypt

- 6 different mandatory pension schemes for the following categories
 - civil servants
 - workers in public and private enterprises
 - self-employed
 - casual workers
 - workers abroad
 - military
- Defined benefit schemes usually based on the final salary
- There are also more than 600 voluntary employer sponsored additional benefits



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MENA Retirement Benefit Schemes

Egypt

- Problems faced by the pension schemes in Egypt
 - financially unsustainable due to inequality between benefits and contributions
 - generous benefits and high contributions reduce incentives for private savings
 - the high level of social security contributions increase the cost of labor, discourage job creation and reduce the competitiveness of the economy
 - non-equal treatment - the pension payments are very different depending on which scheme a worker participates in
 - the system treats high income workers more favorably than middle or low income workers
- Subsidization of schemes by the Government



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MENA Retirement Benefit Schemes

Egypt

- Problems faced by occupational pension schemes
 - low funding rates
 - the funds do not operate under an effective set of funding standards
 - incomplete regulatory framework
 - low coverage rates



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MENA Retirement Benefit Schemes

Morocco

- 3 schemes for the following categories
 - CNSS for private sector workers (Caisse Nationale de Securite Sociale)
 - RCAR for contractual workers
 - CMR for Civil and Military Servants (Caisse Marocaine de Retraite)
- Defined benefit schemes based on the final salary (CMR) on the average salary of the last 8 years (CNSS) and on the career revalued average (RCAR)
- Occupational pension schemes also exist in Morocco. Some occupational plans of public enterprises closed down and were integrated into RCAR



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MENA Retirement Benefit Schemes

Morocco

- RCAR is a funded pension arrangement
- CNSS and CMR operate on a pay as you go basis with some buffer used to mitigate unexpected demographic and macroeconomic fluctuations
- Morocco is the exception of the MENA schemes in the area of regulation
- The Insurance Regulator in Morocco also monitors the mandatory pension plans



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Other countries in brief

- **Algeria:**
No formal assessment yet of the financial situation of the pension schemes.
Work in progress with ILO.
- **Djibouti:**
Parametric reform in 2002, included gradual reductions in accrual rates in private-sector and public-sector schemes, and the introduction of a progressive tax on pensions on all schemes (including military). Now considering merger.
- **Iran:**
Assessment of civil servants and private-sector workers pension schemes completed. High in the policy agenda. Several proposals under consideration. Multisectoral commission in place. Debate open to civil society.



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Other countries in brief

- Saudi Arabia
 - Two major efforts took place in the Kingdom in the past few years, parametric reform of the private sector scheme GOSI, and the portability rules between the public and private schemes.
- Tunisia:

Several studies conducted, including options to cover special categories of workers (agricultural sector, domestic service). Integrated reform program still have to emerge. Political commitment?
- West Bank and Gaza:

Focus on the regimes for civil servants. Reform proposal recently approved and under implementation. It includes increasing the level of funding of the system. Multi-year plan for increasing institutional capacity under preparation.



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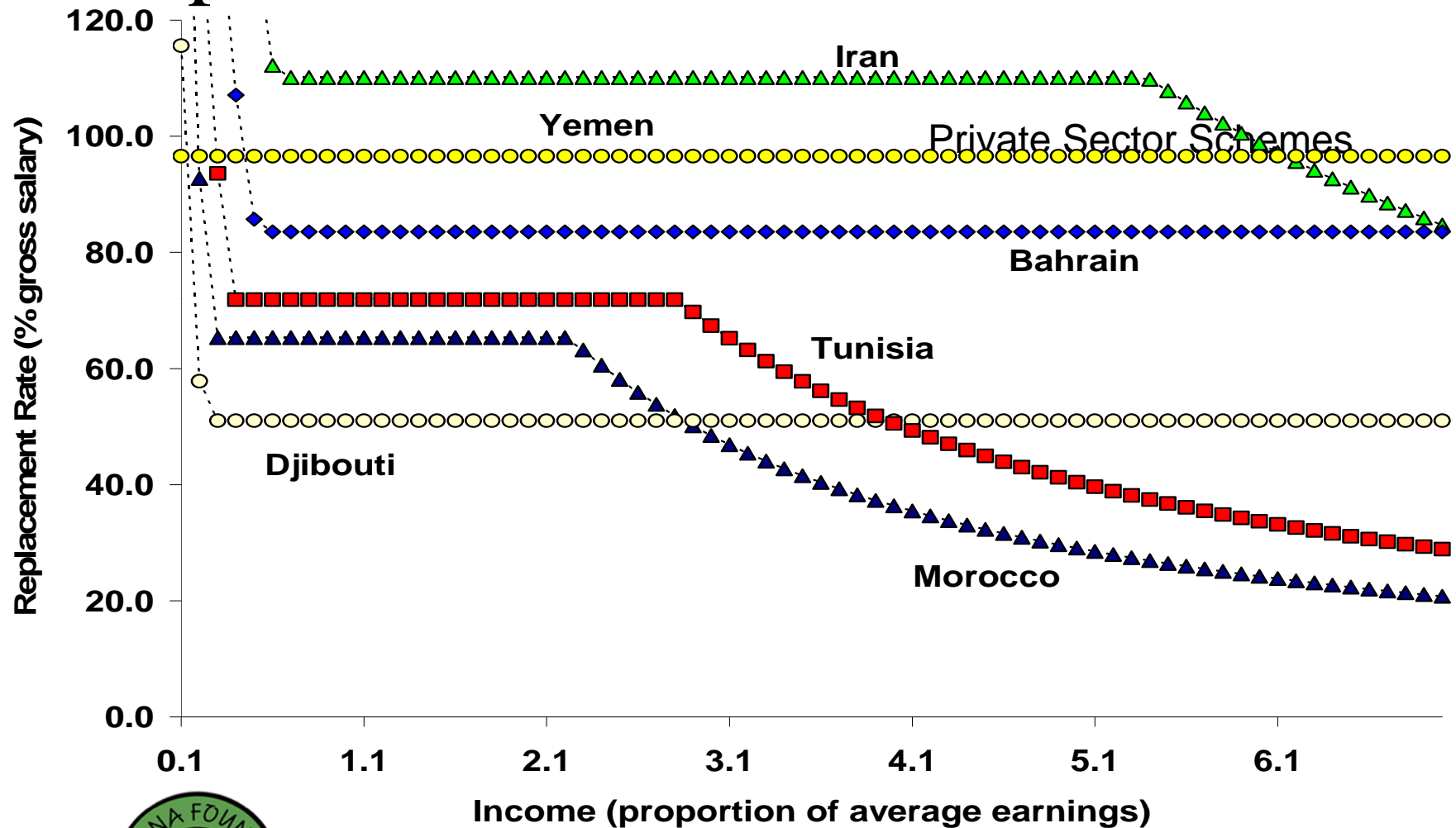
Thus we have Fragmented Dual Systems

Country	Number of schemes	Integrated regimes for civil servants and private sector		Contractual workers in		Workers in SOEs join	Scheme for self-employed, others
				Public S. join	Military join		
Algeria	2	YES		General	General	General	1 separated
Bahrain	2	NO		Public sector	Public sector	Public sector	Not covered
Djibouti	3	NO		Private sector	Own scheme	Private sector	Not covered
Egypt	4	YES		General	General	General	3 separated
Iran	2	NO		Public sector	Own scheme	Private sector	1 integrated
Jordan	3	YES		General	General	General	Not covered
Lebanon	2	NO		Private sector	Public sector	?	Not covered
Morocco	3	NO		Own scheme	Public sector	Contractual W.	Not covered
Tunisia	5	NO		Public sector	Public sector	Public or Private	3 separated
WBG	3	NO		?	Own scheme	?	Not covered
Yemen	3	NO		?	Own scheme	?	Not covered
TOTAL	32						



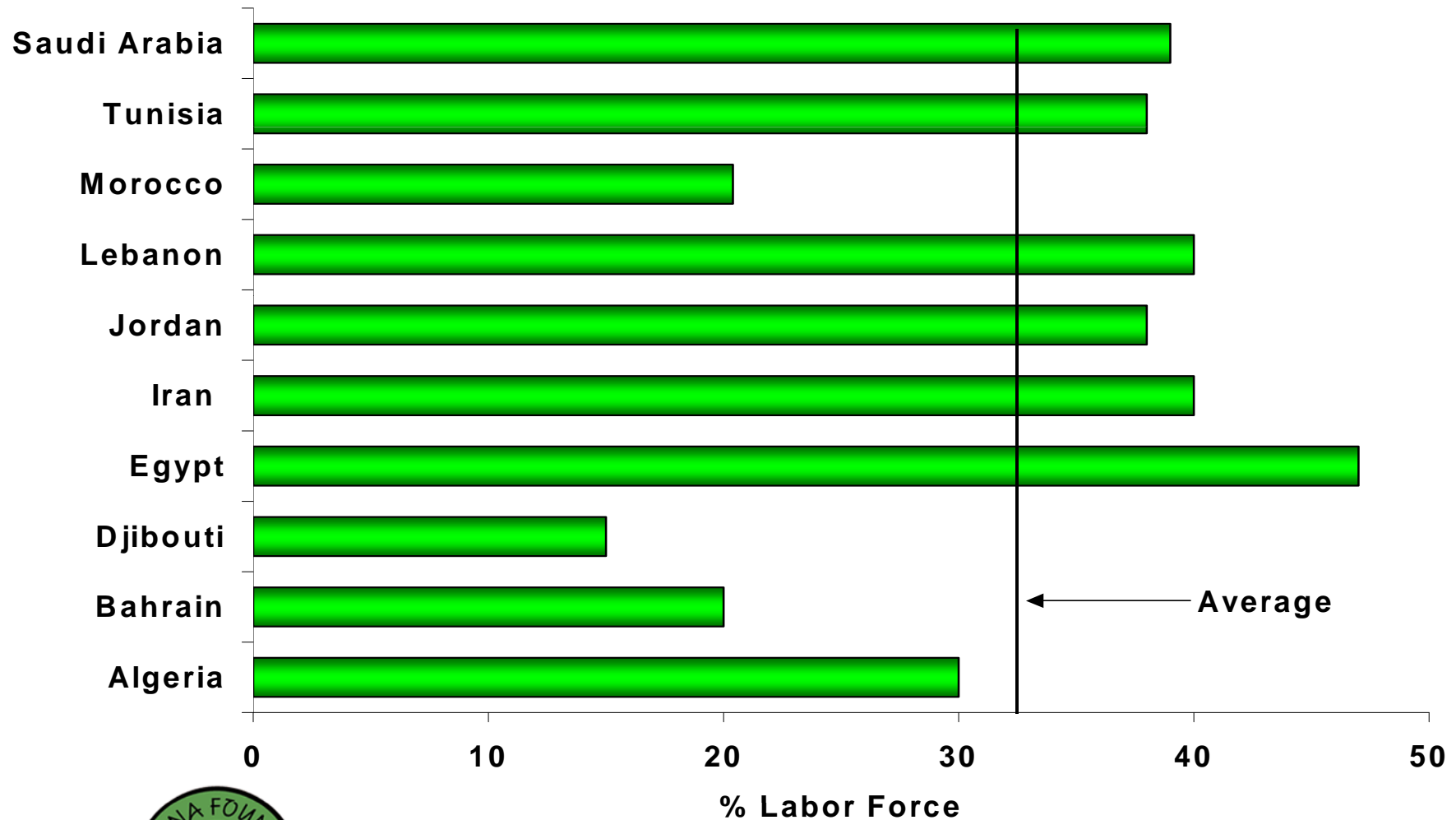
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Large variation in patterns of income replacement in Mandated Schemes



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Coverage rates are modest (mostly wage-earners)



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Lebanon

2008

Civil	40,000	2.35%
Military	70,000	4.12%
Private Sector (nssf)	480,000	28.24%
Engineers	28,000	1.65%
Doctors	11,000	0.65%
Lawyers	10,000	0.59%
Universities Acc	4,000	0.24%
7 Others	7,000	0.41%
Retirement Provisions	650,000	38.24%
With No Provisions	1,050,000	61.76%
Total work force	1,700,000	



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MENA Retirement Benefit Schemes Challenges

- **Countries with more than one social security scheme should converge to a unique pension system – benefits:**
 - economies of scale, flexible labor force, equitable pension system
- **Lack of formal supervision regulation both in the case of social security schemes and for occupational pension schemes. This is required in the following areas:**
 - funding and investment rules
 - asset segregation, asset diversification, investment limits
 - transparency and information disclosure
 - proper governance rules



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MENA Retirement Benefit Schemes

Challenges

- Main risks – local capital market (non transparent)
- Tax
- Generosity
- Public Schemes (should they be considered occupational)
- Education awareness: within funds – general public
- Optimum cover
- Cpi for retirees
- Mortality tables
- Annuity market
- Financial Strength Ratings (level of funding- expense - Non financial – supervision)
- CPI – for retirees



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Thank You!



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