

# IOPS COUNTRY PROFILE: EGYPT



## DEMOGRAPHICS AND MACROECONOMICS

GDP per capita (USD)	3020
Population (000s)	102,774
Labour force (000s)	31,441
Employment rate	92.3
Population over 65 (%)	4.3
Dependency ratio <sup>1</sup>	64

Data from 2019 or latest available year.

1. Ratio of over 65-year-olds / labour force.

World Bank, various sources.

## EGYPT: COUNTRY PENSION DESIGN

### STRUCTURE OF THE PENSION SYSTEM

#### Public pensions

- Government Employees Pension Fund
- Pension Fund for Military Personnel
- Public and Private Enterprises Employees Pension Fund. The fund manages also special schemes for employers and self-employed, individuals working abroad and casual/informal sector workers
- A number of social assistance programmes exist for special groups of population

#### Private pensions: (voluntary occupational)

- Voluntary occupational pension plans, known as private pension funds

Source: OECD Global Pension Statistics

## **EGYPT: THE PENSION SYSTEM'S KEY CHARACTERISTICS**

### **PUBLIC PENSION**

In Egypt, the National Authority for Social Insurance implements the mandatory social insurance system that covers the workforce in both the public and private business sectors and Egyptian workers abroad.

In addition to this, the Armed Forces Insurance and Pensions Department implements the insurance and pension's law and provides insurance and pension benefits for members of the armed forces.

Social insurance aims to compensate and provide benefits to the insured or their beneficiaries in case of retirement, disability, death, injury, illness or - unemployment. Such risks lead to interruption of income, in which circumstances, social insurance intervenes to compensate the insured or their beneficiaries (in the event of death), according to the circumstances, for the loss of income as a result of the realization of one of these risks.

The compensation provided by social insurance in the event that one of these risks is realized is either in cash compensation or in in-kind compensation. The monetary compensation is mainly offered in retirement (lump sum compensation) or bonus/wage compensation in case of sickness and injury ... etc., while the in-kind compensation is offered as part of treatment and medical care if the risk of disease or infection is realized.

Egyptian public pension schemes operate as defined benefit schemes financed largely on a pay-as-you-go principle. The government according to the pooling principle (i.e. the pension funds of the three schemes are pooled together) manages the public pension schemes. All pension reserves and accumulated surpluses are deposited and invested through National Investment Bank (which finances most of the government investment programmes).

On 22 August 2019, the new law for social insurance was published, and this law established a single rule for calculating pensions for all categories of the country's workforce.

### **Coverage**

The public pension system provides coverage to almost all types of workers in the public and private sectors. The coverage rate is estimated to be more than 80 percent of the employed population, representing one of the highest levels among developing countries.

### **Contributions**

According to the new law, the insurance contribution rate for workers in the government, public and private sectors will decrease, whether for the insured persons or the employer. The executive regulations of the law set the annual minimum wage for participation

12000 EGP (1000 EGP / month), while the annual maximum subscription wage is 84000 EGP (7000 EGP / month).

## Benefits

The new law will raise the pension age up to 65 years, starting in 2030 by raising the age by one year, and increasing every two years until it reaches 65 years in 2040.

The law has set new conditions for eligibility for early retirement exit, including that the total value of the early retirement pension owed to the member should not be less than 65% of the minimum contribution wage, in addition to other conditions.

The new law enacts an increase in the minimum wage for insurance contributions by 15% annually for a period of 7 years starting from January 2021. Further increase is foreseen according to the rate of inflation.

The new law introduced an additional pension, allowing the insured person to contribute with the part of the wage that exceeds the maximum wage for insurance contribution purposes.

## OCCUPATIONAL VOLUNTARY

### Overview

Voluntary occupational pension plans have been established in Egypt since 1975 known as 'Private Pension Funds'. In addition to pension payments, Private Pension Funds could provide a range of other benefits (retirement, loss of livelihood, illness, marriage disbursement, disability, decease of a member, etc.) in accordance with funds internal rules approved by the Financial Regulatory Authority (FRA).

All schemes have to obtain license from the FRA in order to operate in Egypt. Private pension schemes are established with no capital requirement and operate under the terms of internal rules set in line with the established regulations. The private pension funds should be fully funded.

The private pension schemes are managed by the board of directors, who are elected amongst scheme members at the Annual General Assembly. In case an employer, partly or fully finances the pension scheme, the employer can also nominate, in line with the fund charter, members of the board.

In addition, almost all trade unions in Egypt may sponsor occupational plans which provide flat-rate pensions (and under certain condition lump sum payments) to adherent members after the attainment of retirement age. The amount of pension paid varies among trade unions depending on resources accumulated (contributions paid and investment income) and the number of adherent members. The eligibility condition for trade union pension is regular contributions made on behalf of members until the attainment of retirement age.

The Private Pension funds in Egypt practice the following financial activities:

- (1) Revenue collection, the most important of which are: membership fees, contributions, investment returns, donations and subsidies, and contributions made by the employer.
- (2) Payment of obligations to the beneficiary members, the most important of which are:
  - a) Insurance or compensatory benefits, grants and pensions in accordance with the provisions of the articles of association.
  - b) Paying the various general and administrative expenses related to the fund's administrative activity, including wages, rent, professional fees (the fees of the auditor / actuary) and other expenses.
- (3) Investing the surplus funds of the fund in various fields in accordance with the provisions of the law and the statute of the fund, the decisions of the general assembly and the decisions of the board of directors.

### Coverage

Membership in pension funds is open and restricted only to the employees belonging to the same occupation or company.

### Contributions

It refers to the sums paid by the pension funds members and employer contributions, to finance the benefits.

Contributions are considered the main component in financing the funds and are determined by actuary review.

There are many ways to pay the contributions of members, the most important of which are:

- Deduction of a specified percentage of the basic salary;
- Deduction from annual profits or incentives payable;
- The contribution of the employer.

### Benefits

#### Benefits are paid mainly in a the following forms

##### 1) Defined Benefits Pension Funds:

Provide the employee with a **specific lump-sum cash benefit** based on a formula that considers such factors as years of employment and salary during employment.

##### 2) Defined Contribution Pension Funds:

Provide the employee with a **specific lump-sum cash benefit** based on the total employer (if exists) and employee contributions and any gains or losses on fund's investments. All investment profits and losses are passed on fund participants.

##### 3) Health care benefits Pension Funds:

Provide the employee with a **specific health care benefits** with a max. range of the total employer (if exists) and employee contributions paid to the fund and any gains or losses on fund's investments.

#### 4) Mixed between social benefits and defined benefits Pension Funds:

Provide the employee with a **specific lump-sum cash benefit** upon retirement, death, disability, marriage, death of relatives, and any social benefits approved by the FRA.

#### 5) Mixed between periodic pensions and defined benefits Pension Funds:

Provide the employee both with a **specific lump-sum cash benefit and periodic pension** upon retirement, death, disability based on a formula that considers such factors as years of employment and salary during employment.

### **Taxation**

- The contributions to Pension Funds are exempted from taxes.
- Revenue from securities, loans and deposits of all kinds allocated to are exempted from taxes
- Real estate owned by funds is exempt from taxes imposed

### **MARKET INFORMATION<sup>1</sup>**

#### **Number of funds:**

The number of funds operating in 2020 reached 749 pension funds, as compared to 733 pension funds in 2019.

#### **Number of members:**

The number of members in 2020 reached 4.9 million, compared to 4.8 million member in 2019.

#### **Total assets:**

Total assets in 2020 amounted 88.9 billion EGP, compared to 77.5 billion EGP in 2019.

#### **Total Fund Money:**

In 2020, reserves amounted to 83.4 billion EGP, compared to 72.2 billion EGP in 2019.

#### **Total contributions:**

Total contributions in 2020 amounted to 8.8 billion EGP, compared to 7.7 billion EGP in 2019.

#### **Total benefits:**

Total insurance benefits paid in 2020 amounted to 8.5 billion EGP, compared to 7.8 billion EGP in 2019.

#### **Total investments:**

In 2020, total investments amounted to 75.8 billion EGP compared to 66.9 billion EGP in 2019.

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<sup>1</sup> According to the annual report of the FRA (2019).

**Net income from investments:**

Net investment income in 2020 amounted to 10.1 billion EGP compared to 8.7 billion EGP in 2019.

**POTENTIAL REFORM**

Over the past years, the Egyptian government has embarked on the pension reform process aiming to improve public pension funds' performance and reinforce the administration and management capacity of private pension industry, as well as strengthen supervisory control over pension schemes. Recently draft legislations, relating to insurance and private pension funds, have been elaborated by relevant authorities and are currently awaiting the approval by the Parliament.

**KEY LEGISLATION**

1. Law no. 54 for 1975 for Private Pension Funds.
2. Executive regulation of law no. 54 for 1975 and its amendments in 2005 and 2015.
3. The internal Regulations of the pension funds.
4. President of the Republic's Decree No. 192 of 2009 for the Statute of the Financial Regulatory Authority
5. The FRA board of directors' decision number (101) of 2015 concerning the governance rules for private pension funds.

**KEY REGULATORY AND SUPERVISORY AUTHORITIES**

- National Social Insurance Authority, responsible of managing the pension and insurance system of both public (including government) and private sector's subscribers.
- The Financial Regulatory Authority (FRA), responsible for licensing, supervision and control of the private pension funds, [www.fra.gov.eg](http://www.fra.gov.eg)