Developing a Private Sector Pension System in the West Bank and Gaza Strip

The Portland Trust
August 2007

Executive Summary

Creating a vibrant private sector-led economy in Palestine.

The case for developing a private sector pension system in the West Bank and Gaza Strip.

Rationale

The absence of a modern and dynamic pension system in Palestine has forced the Palestinian workforce to seek alternative solutions such as personal savings and family support for their retirement needs.

Over the past three years, the public sector has developed a comprehensive reform plan for public pension systems. However, the same is not true of private sector establishments that have, if anything, immature pension schemes.

The Portland Trust commissioned a feasibility study to review the status of existing pension and provident fund schemes in the West Bank and the Gaza Strip, to analyse international experience, and to recommend appropriate structures for Palestine.

We believe that immediate steps should be taken to develop a well-managed private sector pension fund.

The evolution of pension systems

Over the past few decades, private pensions have expanded worldwide, playing a central role in retirement income. For developing countries, private pensions are attractive because they create high-income replacement rates and mobilize capital that develops financial markets and encourages economic growth.

Pension reform has been driven primarily by growing economic and demographic pressures. The systems need to adjust to real trends of an ageing population, early retirement issues, and ensuring that benefits are extended to workers at risk of poverty and those in the informal sector.

Traditional pension models include Pay-as-you-go schemes, Defined Benefit schemes and Provident Funds. The study analyses each in detail and uncovers the common problems of these older systems such as high evasion rates, early retirement and their unsustainable nature in an ageing population. By the early 1980's, countries started moving toward a multi-pillar system, consisting of two mandatory pillars and one voluntary one for workers who would like to augment their income in old age. Pensions featuring this type of contribution history, supplemented by a safety net scheme, now dominate most developed countries. In many developing countries in Latin America and the Middle East, mandated contributory schemes have been introduced; others use the provident fund model or still depend largely on non-contributory pension schemes.

Pension policy reforms have resulted in three adaptations to the multi-pillar system model: The OECD Model; Chile's Pension Savings Account Model and the Notional Account System. The study analyses each adaptation in some detail.

The Palestinian "social security system"

The lack of a comprehensive social security system, partly due to historical and political circumstances, has driven Palestinians to seek alternative arrangements for their retirement needs.

Public Pension Systems

The Palestinian National Authority administers three public pension systems – one for the West Bank, one for Gaza and one for the security forces. These schemes cover civil servants, local authorities and the military, approximately 15% of the workforce. These schemes are all defined-benefit and do not allow for capital accumulation for investment and economic growth. A large implicit pension debt is recognised by the PNA who have established a National Pension Committee to assess possible scenarios for reform. The new draft law of public pensions that was adopted in 2005 proposes an integrated defined-contribution scheme with a basic pension guarantee.

Private Pension Plans

A questionnaire undertaken by The Portland Trust suggests that if a reputable pension fund were established for the private sector in Palestine, it could attract a large number of institutions.

Currently, a few companies apply a system of compulsory compensation which offers a lump sum payment to an employee upon termination. A few establish reserve funds for severance pay liability and some organisations have immature provident funds (a number of the provident funds at the universities, banks and insurance companies have sizeable assets). Although the provident funds remain flawed, they can serve as a useful basis for developing modern private pension schemes.

Pension reform in Palestine

The plethora of socio-political and economic constraints in Palestine has rendered the existing pension systems outdated, fragmented and unsustainable. That being said, it is essential to develop a private pension scheme that will complement existing pension funds.

The questionnaire suggests that an organisation would be most willing to participate in a scheme that offered a funded pension, a defined contribution scheme and a privately managed and conservative investment portfolio.

As such, a multi-pillar system could be a suitable option. This system comprises five basic elements: 1) a non-contributory element that provides a minimal level of protection; 2) a contributory element that seeks to replace some portion of income; 3) a mandatory earnings related element; 4) voluntary arrangements to encourage additional retirement benefits; and 5) an informal intra-family element.

In the long-term comprehensive multi-pillar pension reform will be required but in the short-term the focus should be on creating the mandatory earnings-related pillar.

The following issues must be addressed to develop an operationally sound scheme: financing the system on an advanced-funded basis and through individually-defined contribution accounts; addressing the importance of an appropriate level of choice and political insulation; allocating responsibilities between the public and private sectors; setting the level of minimum guaranteed retirement income; organisational issues and managing the set up of the fund.

Proposed model

The study concludes that appropriate reform is required to develop an advanced-funded, private-managed, and individually-defined contribution scheme. The most appropriate model for the Palestinian context is an industry wide pension fund that is jointly managed by worker and employer representatives and where the responsibilities are privatised but the public sector remains responsible for policy.

Allocation of responsibilities

The study proposes that the government should set the pension policy, the worker and employer manage the fund, the private sector collect contributions and manage assets and that the application process for investment professionals should be open to domestic and international applications.

Asset allocation

The study recommends that the board will be tasked with deciding the appropriate asset allocation model for the pension fund to ensure maximum return for the contributors. The allocation will be reviewed periodically to allow for appropriate adjustments as the economic and political situation evolves.

Next steps and recommendations

As global experiences illustrate, private pension funds positively impact the main economic indicators such as GDP, employment and prices, and play a key role in ensuring sustainable economic growth. A private pension system in Palestine can be expected to make a significant contribution to developing the Palestinian financial markets, stimulating economic growth and securing the well-being of the elderly.

This pre-feasibility study is intended to stimulate interest from the private sector to advance pension fund reform. Key issues which will need to be considered in a more detailed analysis include pension fund supervision and the role of the capital markets authority, issues around legal recognition, investment criteria and regulations and the identification of appropriate fund managers. A dynamic simulation income model that forecasts future economic trends and the impact of a private sector pension fund would also be a useful tool.

The study recommends a two-step process for the private sector. The first is to bring together between five and ten Palestinian business owners to champion the concept. The Portland Trust will organize a workshop for these businessmen to exchange ideas and develop an initial/pilot fund. The second step requires a more stable political environment and the benefit of time as legal reform and recognition will be needed to develop a scheme that fully integrates the private sector.

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Abbreviations and Acronyms

AFPs	Pension Fund Administration companies ("Administradoras de Fondos de Pensiones")
DB	Defined Benefit
GDP	Gross Domestic Product
GIPC	Gaza Insurance and Pension Corporation
IPO	Initial Public Offering
Jawwal	Palestine Cellular Telecommunication Company
MOF	Ministry of Finance
OECD	Organization for Economic Co-operation and Development
PAYG	Pay-as-you-go
PCBS	Palestinian Central Bureau of Statistics
PF	Pension Fund(s): the pool of assets forming an independent legal entity that are bought with the contributions to a pension plan for the exclusive purpose of financing pension plan benefits. The plan/fund members have a legal or beneficial right or some other contractual claim against the assets of the pension fund. Pension funds take the form of either a special purpose entity with legal personality (such as a trust, foundation, or corporate entity) or a legally separated fund without legal personality managed by a dedicated provider (pension fund management company) or other financial institution on behalf of the plan/fund members.
PNA	Palestinian National Authority
PSA	Pension Savings Account
UNDP	United Nations Development Program
UNICEF	United Nations International Children's Emergency Fund
UNRWA	United Nations Relief and Works Agency for Palestine Refugees in the Near East
UNSCO	United Nations Special Coordinator
UNTSO	United Nations Truce Supervision Organization
WBGS	West Bank and Gaza Strip

Introduction

The absence of a modern and dynamic pension system in Palestine has forced the Palestinian workforce to seek alternative solutions for their retirement needs. They have traditionally depended on personal savings, family resources and other means of informal support. These kinds of mechanisms make little contribution to capital accumulation for investment.

Over the past three years, the public sector (including ministries, public departments,and security forces) has developed a comprehensive reform plan for public pension systems.

This is not true of private sector establishments which have immature pension schemes. They typically provide a lump-sum payment to departing employees, thereby restricting the utilization of available capital for investment opportunities. The goals should be to develop a solution for the retirement needs of the Palestinian people whilst assisting in the creation of a more advanced financial market and stimulating investment and economic development.

Structurally poor provident funds do exist at some universities, non-governmental organizations, large companies, and small and medium sized businesses. These are established through defined employee and employer contributions and are not based on defined benefit plans.

The Portland Trust decided to undertake a pre-feasibility study to review the status of existing pension and provident fund schemes in the West Bank and the Gaza Strip, looking at international examples, and suggesting models that could be implemented in Palestine. The end goal is to develop a scheme that has a positive impact on the Palestinian people, the Palestinian economy and the Palestinian social security system.

Comprehensive pension reforms are necessary for both the public and private sectors in the long term. This study suggests that immediate efforts should be focused on developing a well-managed private sector pension fund.

Objectives of the study

1. Review relevant aspects of international pension and provident schemes;
2. Review current arrangements for pension and provident schemes in the public and private sectors in the West Bank and Gaza Strip; and
3. Develop a model for a private sector pension or provident scheme that will benefit employees and employers in the West Bank and Gaza Strip.

Methodology

Levant used the following methodology:

1. Reviewed a number of international studies and publications related to pension and provident funds and analyzed data collected by the World Bank and the Organization for Economic Co-operation and Development (OECD);
2. Developed a questionnaire to better understand the nature of pension funds or other pension systems used by private and semi-public institutions in Palestine;
3. Conducted phone and in-person interviews with over 30 companies and institutions in the private and semi-public sectors (see Annex 2). The interviews addressed the following issues:
   a. Existing pension/provident schemes, the management models used and the number of employees benefiting from the schemes;
   b. Accumulated assets, accumulated liabilities, asset allocation and investment;
   c. Willingness to participate in private sector pension funds;
   d. Recommendations for developing a pension system.
4. Interviewed several economists and financial and investment experts.

The Evolution of Pension Systems

A pension or a steady payment to a worker, who has retired because of age, illness, or disability, was previously thought of as charity, but is currently viewed as the social responsibility of an employer or the state. In the early 19th century, the French government and then the British (1834) made special provisions for superannuated public servants. In 1891, Denmark launched cash transfer programs through a means-tested scheme for people over the age of 60. Later, in Germany, a small flat pension financed by a tax on the tobacco monopoly, was paid to workers at age 65. This new type of pension connected benefits to workers contributions, and they assisted in financing the scheme. In the 20th century, the "Bismarckian" pension scheme spread across the globe.[1]

The traditional pension models

Traditional pension schemes include pay-as-you-go, defined benefit, and provident funds. Pay-as-you-go (PAYG) is the traditional model for social security. The United States has adopted this system, along with almost all developed nations. In PAYG systems, individual contributions to the social security fund are immediately spent on the current generation of retirees. Therefore, they are generally very attractive to countries with young populations and few retirees. Yet PAYG plans require high payroll taxes as the population ages. They also build a large implicit pension debt, and do not encourage investment.

Defined benefit (DB) schemes depend on years of contributions from wages. They are problematic because they encourage early retirement and often provide distorted redistribution to high earners.

Provident funds place contributions into a fund run by the government. Using a defined contribution (DC) scheme, provident funds return to workers their contributions plus interest. Return rates are often low and administrative costs high with money being used inefficiently by the state.

The main feature that distinguishes these traditional social pensions from other pension schemes is that their eligibility criteria do not require a history of contributions; instead, they are cash transfers. Common problems with these systems include their high evasion rates, early retirements, and their high burdens as life expectancies improve and birth rates decrease.

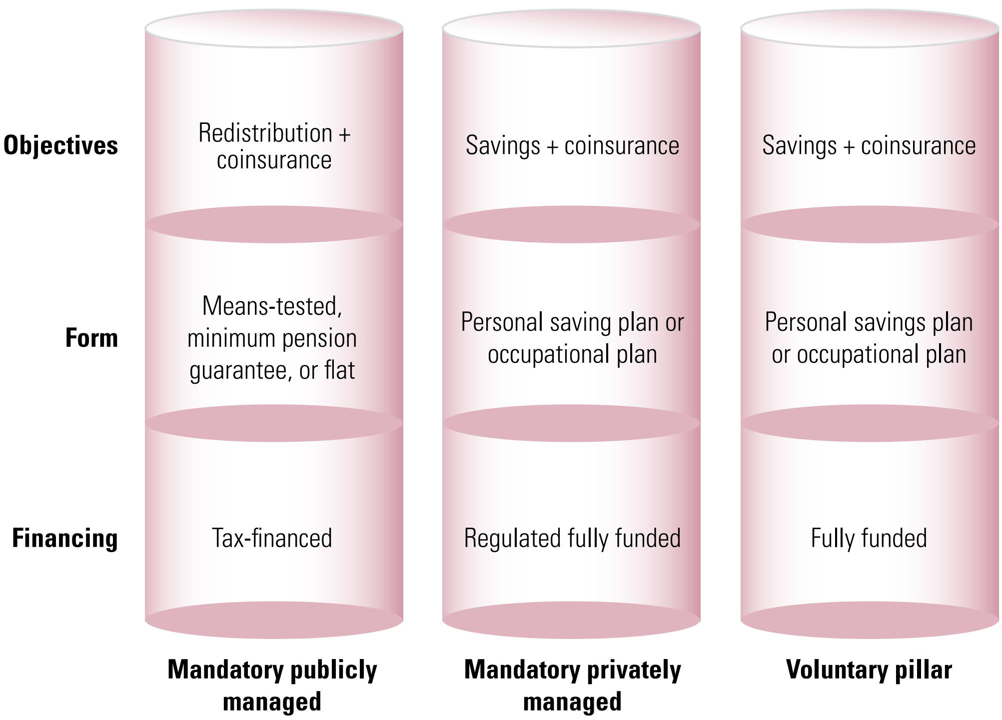
1 Palacios, Robert and Sluchynsky, Oleksiy, 2006.

The multi-pillar system

In 1981, countries started moving toward the multi-pillar system, consisting of two mandatory pillars and a voluntary one. The first mandatory pillar is a publicly managed, tax-financed arrangement designed to provide a social safety net for low wage earners. The critical second mandatory pillar, which handles retirement savings, is a defined contribution scheme as opposed to a defined benefit scheme. The third pillar is voluntary for workers who would like to increase their savings in order to augment their income in old age.

The second mandatory pillar sets aside individual contributions until retirement. This component introduces the concept of pre-funding, which prevents over-budgeting and increasing payroll taxes, as well as averting intergenerational income transfers. It also stimulates investment and economic growth. In addition, it introduces the concept of defined contribution - retirees receive set benefits that correlate with their contribution. This is vital because “the smaller the tax element, and the closer the link between benefits and contributions, the smaller the incentive for evasion” (World Bank, 1998). Hence, defined contribution could decrease the possibility of evasion, which “is a big problem in many countries … [and sometimes involves] up to 50 percent of the labour force” (World Bank, 1998).

Figure 1: The pillars of income security for the old



Source: World Bank: Averting the Old Age Crisis (Oxford University Press, 1994)

Pensions featuring contribution histories now dominate old-age security in most developed countries and are supplemented by a safety net scheme. In many developing countries in Latin America, the Middle East, Africa and Asia, mandated contributory schemes of social insurance have been introduced. However, some countries, such as India and Sri Lanka, have continued to use the provident fund model. Several others depend largely on non-contributory pension schemes.

Table 1: Countries with multi-pillar systems

1981-1985	1986-1990	1991-1995	1996-2000	2001-2005*	
				Slovakia	30
				Lithuania	
				Russia	
				Estonia	
				Croatia	
				Romania	
				Latvia	
				Kosovo	
				Bulgaria	
				Macedonia	
				Dominican Rep.	20
			Hong Kong	Hong Kong	
			Sweden	Sweden	
			Poland	Poland	
			Hungary	Hungary	
			Kazakhstan	Kazakhstan	
			El Salvador	El Salvador	
			Costa Rica	Costa Rica	
			Mexico	Mexico	
			Bolivia	Bolivia	
		Uruguay	Uruguay	Uruguay	10
		Argentina	Argentina	Argentina	
		Colombia	Colombia	Colombia	
		Peru	Peru	Peru	
		Australia	Australia	Australia	
		Denmark	Denmark	Denmark	
	Netherlands	Netherlands	Netherlands	Netherlands	
	UK	UK	UK	UK	
Switzerland	Switzerland	Switzerland	Switzerland	Switzerland	
Chile	Chile	Chile	Chile	Chile	1

Source: World Bank, 2005

* - Some countries have not yet implemented the system

Emerging models of the multi-pillar system

Since the 1990s, most pension policy reforms have been implemented in Latin America, Europe, and Central Asia. In other regions, comprehensive reform in this area has been recognized as necessary but remains limited. Each country has adapted the multi-pillar system to fit specific needs. These adaptations have resulted in the emergence of three models: The OECD Model; Chile's Pension Savings Account (PSA) Model; and The Notional Account System.

The OECD Model

By early 2004, 10 out of 28 countries in Europe and Central Asia (among them Australia, Switzerland, Denmark, Netherlands, and the United Kingdom) had introduced what might be called a multi-pillar pension system. In the past, these countries applied public pension plans that were built on Defined Benefit schemes. They were however, faced with the challenge of an ageing population. As such, their systems have faced persistent fiscal pressures and a shortage in benefits coverage (only half of the labour force at that time was covered by employer-sponsored plans). In order to resolve this shortage, employer plans were made mandatory in order to accommodate the uncovered workers. This change led, in turn, to maintaining the system in order to eliminate transitional processes and costs.

Today, however, these countries have shifted from Defined Benefit to Defined Contribution schemes, where pension benefits depend on contributions and investment returns, and the employer and/or the union trustees choose an investment manager for the company or the occupational group as a whole. A key advantage of this model is that it keeps administrative costs low. In some of these countries, individuals can choose the most convenient pension schemes and also the best investment portfolio.

Chile's Pension Savings Account (PSA) Model

This model has been followed in Latin/South America & Eastern/Central Europe. Previously, public pensions promised generous income replacement rates at retirement, but faced problems of evasion. Upholding the system required high payroll taxes at a rate exceeding 25%. For that reason, the pension system was exchanged with a newly-funded system with Defined Contributions. In this system, employees choose the investment manager directly, and the state imposes numerous regulations to manage risk.

Under Chile's Pension Savings Account (PSA) model, 10% of an employee's wages are deposited monthly in his individual PSA. A worker may contribute an additional 10% of his or her wages as voluntary savings, which is then tax deductible. An employee may choose one of the private PSA companies which engage in pension activities. Employees are free to change from one manager to another within the PSA and make investment decisions. A separate government entity, a highly technical "AFP Superintendence," provides oversight. If a retiree that has contributed for 20 years has retirement benefits below the minimum legal pension, the state covers the shortfall. Retirees with less than 20 years of contribution history can apply for a welfare-type pension.

In 2004, 12 Latin American countries passed legislation stipulating multi-pillar reforms[1] and introduced a mandatory funded pillar. Most of these countries created a single pension system to cover the formal labour market.

The Notional Account System

This model is found in Sweden and is based on a previous PAYG pension fund. The notional account system is an attempt to combine the advantages of the defined contribution system and the link between benefits and contributions, while avoiding transition costs. In this model, individual accounts show accumulation levels but no money sits in those accounts. The funded portion is very small and the tax-paying public remains central to the social security system.

Pension supervision

Over the past 20 years, private pensions have become a global phenomenon playing a central role in retirement income. For developing countries, private pensions are attractive because they create high-income replacement rates and mobilize capital that develops financial markets and encourages economic growth. Private pension systems share extensive regulatory and supervisory systems so that they function efficiently and provide a high level of security.

Pension supervision is the process of implementing a pension system and enforcing compliance with its regulations. The activities of pension supervisors fall under six primary categories: licensing, monitoring, communication, analysis, intervention, and correction. The depth and intensity of supervision activities are associated with the level of economic development, depth of capital markets, the legal framework, and the number of funds supervised. Generally, supervisory approaches range from the very intensive, pro-active and directive approach of Chile to the reactive, exception-based tack of the United States. Figure 2 shows the relationship between supervision elements and the environment within which they operate.

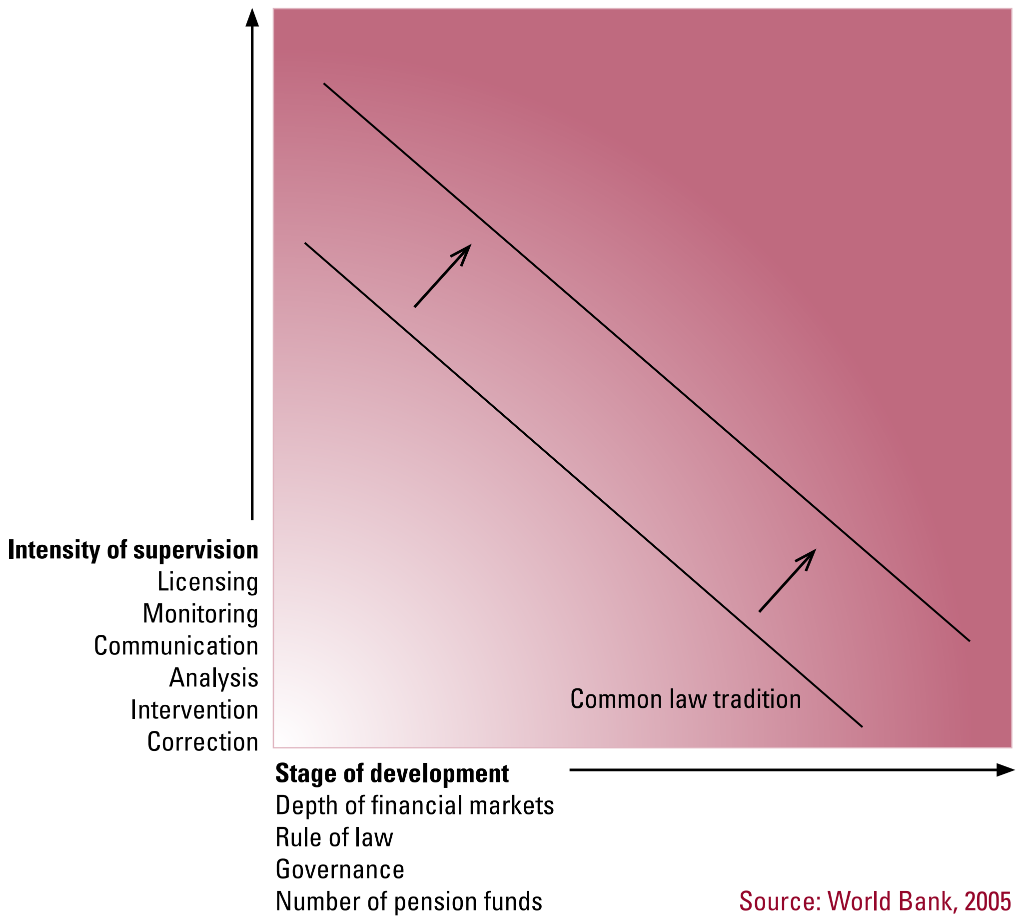
According to the Richard P. Hinz and Anca Mataoanu study, "Pension Supervision: Understanding International Practice and Country Context" (2005), the relationship between supervision elements and environmental factors suggests the following working hypotheses:

1. There are patterns and relationships that characterize pension supervision;

1 Palacios, Robert and Sluchynsky, Oleksiy, 2006.

2. There is a relationship between the economic development of a country and the intensity of pension supervisory activities;
3. Countries with a large number of supervised entities rely on other methods to facilitate voluntary compliance, based on governance and risk management tools;
4. Underlying legal systems and traditions are linked to the intensity of pension supervision;
5. Governance and the strength of the rule of law are important determinants of whether it is appropriate to rely on the market to implement pension supervisory activities; and that
6. Mandatory pension systems require more pro-active, intense supervision.

Figure 2: Intensity of supervision



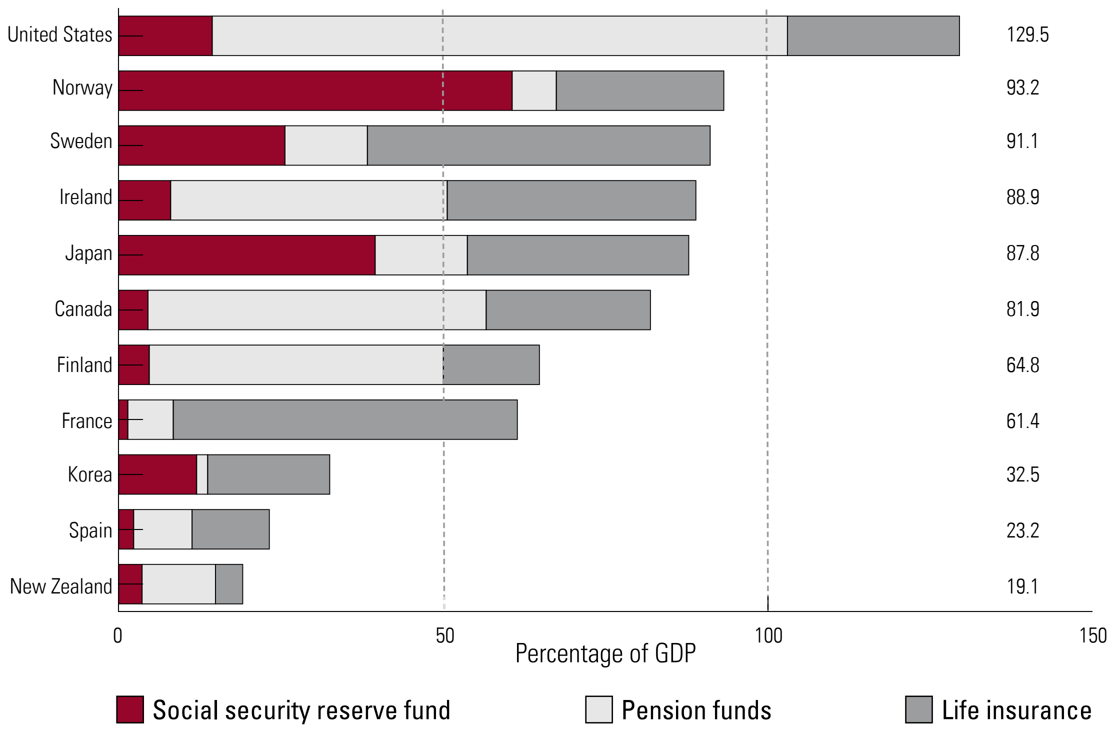
Source: World Bank, 2005

Worldwide Pension Review

Assets accumulated in pension arrangements

In 2004, assets accumulated in OECD pension funds, including the majority of funded pensions and life insurance companies, totalled US$24.5 trillion or 108.7% of their GDP and grew by US$3.3 trillion or 1.5% of GDP (see Annex 1, Table 1). For the same year, by adding the asset accumulation for retirement in PAYG public pensions, one observes that the United States has the greatest number of assets accumulated in retirement schemes and life insurance policies (more than 120% of its GDP). Norway (93% of GDP) ranks second. Next are Ireland and Sweden with financial pension assets representing around 90% of their GDP, followed by Japan (see Figure 3). Generally, in the last ten years, pension funds for OECD countries have grown significantly, from US$9.28 trillion in 1994 to US$24.5 trillion in 2004. These are rising at a growth rate of 10.2% per annum. In addition, the ratio of total pension fund assets from OECD countries to GDP rose from 81.9% to 84.1% in 2004 compared to 2003. (See Annex 1, Table 3).

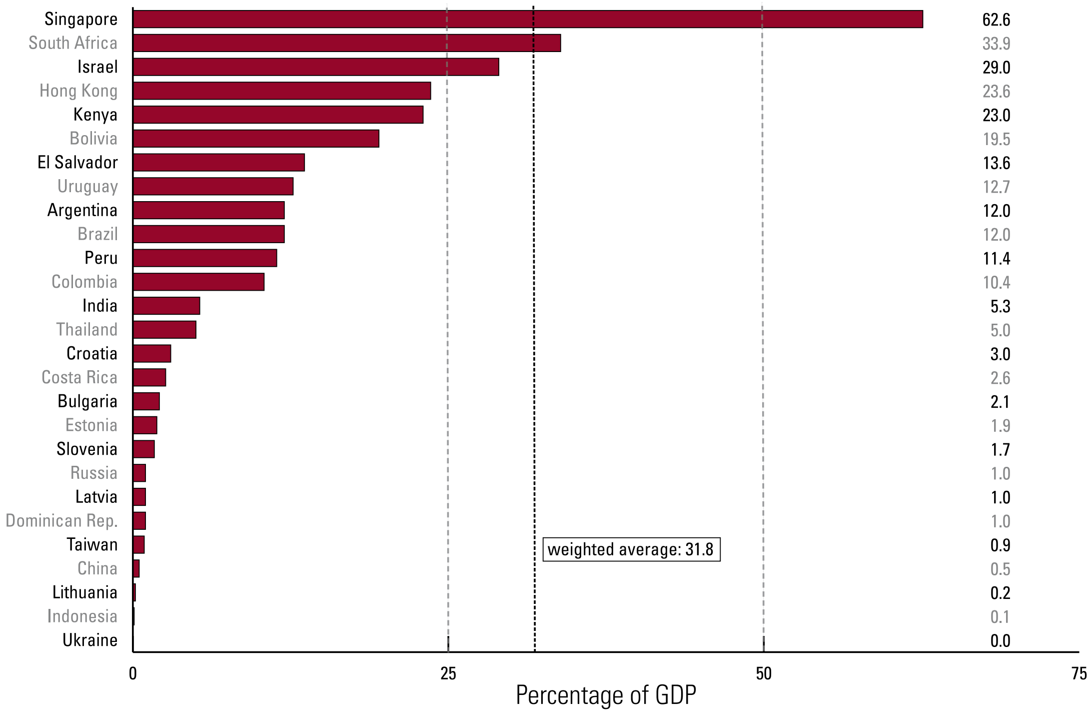
Figure 3: Consolidated pension and life insurance assets in selected OECD countries (2004)



Source: OECD Global Pension Statistics

In Latin America, Asia, and Eastern Europe, the majority of countries are non-OECD members (based on 24 selected countries). In 2004, the weighted average of accumulated pension fund assets reached approximately 32% of these countries' GDP (combined). Only three countries are above the weighted average: Chile, Singapore, and South Africa. Countries in Eastern Europe have introduced rapidly growing pension funds over the last five years. In addition, pension fund growth continued unabated in Asia. Outside Asia, Latin America and Eastern Europe, only a few countries such as Kenya (23% of GDP), South Africa (33.9% of GDP) and Israel (29% of GDP) have large pension fund systems.

Figure 4: Pension fund assets in selected non-OECD countries (2004)



Source: OECD compilation

Pension systems

Almost half of the OECD countries have mandatory or quasi-mandatory funded pension systems. The other half of these countries have voluntarily funded pension systems. The main types of funded pension systems are occupational or employer-based plans, and the financing vehicles are not-for-profit entities or contractual funds. In Mexico, Poland, and the Slovak Republic, employees distribute funded pension plans to retail investors. Here, mandatory personal plans are rising and replacing occupational arrangements (see Annex 1, Table 2). In all Eastern European countries except Lithuania, the funded pension system is mandatory for new entrants into the labour force. In Asia also, mandatory funded pension systems are the common system.

In Latin America, most countries have mandatory, fully-funded individual accounts. In Brazil, pension funds are open pension funds and mostly employment-based. Recently, the countries in the region allowed members to have choices in their portfolios under a "multi-funds" model. In 2002, Chile successfully introduced a five-portfolio model, followed by Peru, where a three portfolio arrangement was introduced in 2005.

Asset allocation

Cash and deposits, as well as bills and bonds issued by public administration, corporate bonds, loans, shares, land and buildings, mutual funds, unallocated insurance contracts, and other investments are included in the asset portfolio of pension funds. Funding gaps, combined with changes in regulatory and/or accounting principles, are driving pension funds to re-allocate investment portfolios to match their liabilities, and achieve high returns. The result has been growing allocations into bonds, high equity investments, and alternative investments. A move towards greater international diversification of pension fund portfolios was also observed in 2004. The allocation by investment vehicles varies widely across both the OECD and non-OECD countries (see Annex 1, Tables 4 and 5); nonetheless, the general trends are as follows:

- Bills and bonds rank first in asset allocation, ranging between 85% and 97% in some countries.
- More than one-third of all investments are allocated towards equity in the Netherlands, United Kingdom and United States.
- Mutual funds dominate the investment strategy in Belgium and Canada.
- Cash and deposits, loans, and real estate account for a relatively small proportion of total assets.
- European countries that started implementing the International Accounting Standard 'IAS19'–which requires pension fund liabilities to be measured with discount rates based on corporate bond yields – will have increasing exposure to bonds and decreasing exposure to equity.
- In some countries (mainly Canada and Mexico), a relatively-low proportion of investments are made abroad, because of investment limits and currency-matching requirements; however, these rules are being relaxed in a few cases.[1]

In most Asian and Latin American countries, pension fund portfolios are conservative. Cash and deposits are the major asset class in Brazil, Thailand and Indonesia, accounting for 44.2%, 70.9%, and 41.4% of total assets respectively. Investment in equities is likely to be much lower than that in developed countries. In Latin America, pension assets are allocated mostly in state securities and bank instruments. Yet, there are some exceptions: Peruvian pension funds invested over 45% of their assets in the corporate sector and Chilean pension funds invested nearly 30% of their assets in the foreign sector (see Annex 1, Tables 3 and 4).

1 For example, Canada eliminated the 30% quantitative limit on foreign investment in February 2005, while in Mexico, foreign investments are now allowed up to 20% of total assets.

Cash flows

Cash flow in most pensions comes from contributions (see Annex 1, Table 5). Pension contributions have grown from 18% to 130% of GDP between 2001 and 2004, and are expected to increase further. However, benefit payments are likely to increase over the next few years. Social security reserve funds experienced low to stable growth in 2003-2004 and have hardly kept up with the GDP growth rate (see Annex 1, Figure 1).

Pension coverage in Asian countries

Almost 60% of the world's population lives in Asia and the average old-age dependency ratio is currently 10%. This is expected to grow to 24% by 2050. Asian countries range from having highly industrialized to emerging market economies. Countries like Singapore have almost universal pension coverage whereas countries like China and India still have pension coverage for only a minority of the population. In general, most Asian countries depend on expanding funded pensions to secure retirement income for the elderly.

Worldwide Pension Reform

Overview

Pension reform is driven by the growing burden of an ageing population and the state of the economy. Workers have not been saving enough for their retirement needs which has led to poverty in old-age and family pressure. This phenomenon has also led to political pressure to reward retirees who have made contributions to existing pension schemes.

Today even the United States, Europe and Asia are faced with growing demographic and economic pressures on their pension systems. This is driven by ageing populations; a greater number of women in the workforce with intermittent careers, lower wages and longer life expectancies than men; an increase in part-time work and self-employment; and often a lack of pension coverage. According to the new World Bank Report 2005, most public pension schemes were not designed to cover the benefit levels that have resulted from recent demographic and economic changes.

These challenges are driving pension reform all over the world. The reforms need to adjust to the real trend of an ageing population, to encourage workers to delay their retirement, and to extend benefits to workers at risk of poverty in old age and those in the informal sector by promoting voluntary and funded systems.

Early pension systems were built on a one-size-fits-all model that overlooked economic stability and the specific needs of aging populations. In principle, social pensions were available at all coverage and benefit levels but, in practice, they tended to cluster into two, very distinct categories. The first category is the expansive scheme that pays out pensions to all citizens above a certain age or applies income tests that exclude only a minority of the elderly. The second is the safety net program directed towards the poor.

Introducing or expanding a social pension program should take into consideration at least three criteria: the role of social assistance; relative poverty rates of the elderly; and coverage of mandated schemes. Generally, "the higher the coverage of mandated schemes, the weaker the argument for core social pensions, although complementary programs may still be justified".[1] For developing countries seeking to reform their systems, an alternative model is the multi-pillar system.

The main objective of pension systems is social protection. Pension systems should provide adequate, affordable, sustainable, and robust retirement income. Pension systems should

1 Palacios, Robert and Sluchynsky, Oleksiy, 2006.

recognize that pension benefits are claims against future economic output and should therefore support economic growth and development and avoid capital and labour market distortions.

Reform options include:

- Parametric reforms that keep the system as it is but change system parameters, such as contribution rates, retirement ages, vesting periods, early retirement rules and retirement benefits;
- Notional defined-contribution reform that changes only the structure of benefits;
- Market-based approaches that are fully funded and privately managed (DC or DB);
- Public pre-funding that is publicly managed (DC or DB); and
- Multi-pillar reform that coordinates diversified systems.

The World Bank supports multi-pillar schemes with certain funded elements when appropriate. The World Bank's perspective on pension reform is based on a five-pillar structure rather than the three-pillar structure of the OECD. According to the new World Bank Report 2005, the suggested multi-pillar pension system should be composed of a combination of five basic elements:

0. A non-contributory or "zero pillar" (in the form of a demo-grant or social pension) that provides a minimal level of protection;
1. A "first-pillar" contributory system linked by varying degrees to earnings and seeking to replace some portion of income;
2. A mandatory "second pillar" that is essentially an individual savings account but can be constructed in a variety of ways;
3. Voluntary "third-pillar" arrangements that can take many forms (individual, employer-sponsored, defined benefit, defined contribution) but are essentially flexible and discretionary in nature; and
4. Informal intra-family or intergenerational sources of both financial and nonfinancial support to the elderly, including access to health care and housing.

Table 2 summarizes the World Bank multi-pillar schemes, describing each pillar target group, characteristics, method of participation, and method of funding. Pension systems that incorporate many of these elements, "depending on country preferences, level of transaction, and cost of services" are better able to deliver retirement income because they

- Deal with multiple objectives;
- Address economic, political, and demographic risks;
- Address, in a flexible way, main target groups in the population; and
- Consider funding limits in some circumstances.

Table 2: The pillars of income security for the old

Pillar	Target group			Main criteria		
	Lifetime poor	Informal sector	Formal sector	Characteristics	Participation	Funding or collateral
0	•••	••	•	"Basic" or "social" pension: at least social assistance (universal or means-tested)	Universal or residual	Budget or general revenues
1			•••	Public pension plan, publicly managed (defined benefit or national defined contribution)	Mandated	Contributions, with some financial reserves
2			••	Occupational or personal pension plans (fully funded defined benefit or fully funded defined contribution)	Mandated	Financial assets
3	•	•••	•••	Occupational or personal pension plans (partially or fully funded defined benefit or fully funded defined contribution)	Voluntary	Financial assets
4	•••	••	••	Access to informal support (family), other social programs (health care), and other individual financial and non-financial assets (home ownership)	Voluntary	Financial and non-financial assets

Note: the number of dots denotes the importance of a given pillar to that sector.

Source: World Bank

Design and implementation issues

Key issues in designing new systems are target replacement and contribution rates, public vs. private pillars, the design of private pillars, the choice of investment managers, administrative costs, risk reduction tactics, the design of public pillars, protecting low-wage earners, and covering workers outside the contributory system.

There are three options for organizing the private pillar:

1. Retail market (Latin America): direct relationship between worker and fund manager – highest cost due to marketing and fragmentation but greatest choice for workers.
2. Group market through employer plans (OECD): employer and/or union select the group – less marketing and lower costs but less choice for workers.
3. Institutional market (Kosovo, Bolivia): captures benefits of group plans for small accounts – results in small contributions into large blocs, a small number of fund managers in a competitive bidding procedure – is cheapest because it cuts down on marketing costs, increases economies of scale and bargaining power but gives workers less choice.

Public benefit and safety net. On the other hand, there are four types of public benefit and safety net schemes: 1) minimum pension guarantee, 2) flat benefit, 3) broad-based means test, and 4) progressive earnings.

Risk. To reduce risk, four steps should be taken: 1) portfolio diversification, 2) provide portfolio options but avoid options that are extremely risky, 3) provide public and private guarantees, and 4) combine public and private pillars.

Constraints. In more developed countries, the inherited system typically imposes constraints on the choices available. By contrast, developing countries are usually far less constrained by an inherited pension system but, as they lack financial markets as well as the capacity to implement and administer new systems, they also face constraints. *Undertaking successful and sustainable pension reform entails three main phases: commitment building; coalition building; and implementation.*

The Palestinian "Social Security System"

Due, in part, to the political circumstances and the history of Palestine, a comprehensive and enduring social security system never existed. At the time of the British Mandate, an occupational pension system was implemented by large organizations. These were mostly public sector organizations under the British Mandate rule and, later, Jordanian in the West Bank and Egyptian in the Gaza Strip. During the British Mandate, railway, post and telegraph employees, all considered government employees working under the same union, achieved some pension rights that improved their service conditions somewhat. Later, under Jordanian rule of the West Bank and Egyptian rule of Gaza, some private institutions implemented individual systems of pensions/provident funds, and social insurance. Some of these systems were part of the national systems implemented in Jordan and Egypt at the time "public sector employees in the West Bank were considered as Jordanian public servants." After the Israeli occupation of the West Bank and Gaza in 1967, a new reality emerged whereby some public sector employees in the West Bank continued to be counted as Jordanian Civil Servants such as the religious affairs employees and some of the teachers while some others fell under the umbrella of the Israeli Civil Administration.

The absence of modern and dynamic pension schemes in Palestine has forced the Palestinian workforce to seek alternative solutions for their housing, education, healthcare and retirement future needs. Palestinians have depended on personal savings and family resources. These kinds of mechanisms make little contribution to capital accumulation for investment and economic growth. Pension schemes have been developed for Palestinian workers in the public sector, but not in the private sector. Currently, there are unsatisfactory public pension systems and a poor provident funds structure for part of the private sector.

Public pension systems

The Palestinian National Authority (PNA) administers three public pension systems. Two different civil servant pension systems exist for the West Bank and Gaza, and a third for the security forces. These schemes cover civil servants and local authorities – approximately 160,000 public sector employees or 15% of the working population. Since June 2001, newly-hired civil servants participate in the Gaza scheme regardless of their location. All three public pension systems are defined-benefit unfunded or partially funded schemes that do not allow for capital accumulation nor enable investments in the local economy.

The Gaza civil servant pension system, which was initially set up in 1954 and was based on Egyptian law, has a pension fund and it is better-off financially and institutionally than the other two systems. In the Gaza scheme, often referred to as the "10% scheme", workers contribute 10% of wages while the employer (the government) contributes 12.5%. There are currently 29,000 workers contributing to the Gaza scheme, which has accumulated assets of about US$ 250 million held by the Gaza Insurance and Pension Corporation (GIPC). In 2001, GIPC paid roughly US$ 16 million to 5,000 pensioners.

The West Bank civil servant pension system is based on Jordanian civil law number 34 of 1959, which implements a problematic PAYG plan. In this scheme, commonly referred to as the "2% scheme," workers contribute 2% of wages while the employer contributes nothing. In 2001, around 35,000 workers contributed approximately US$3 million and 7,500 pensioners received a total of US$ 13 million. The deficit was paid for from the government budget. Needless to say this scheme is unsustainable.

The third public pension system, the security forces system, covers PNA security forces and operates on a PAYG plan. The security forces system mimics that in Gaza. In 1999, the security forces system did not reinvest the US$ 53 million held in surplus from proceeding years. There are currently few pension payments, but, as older members of the security forces begin to retire, pension payments are expected to grow.

The following table summarizes the characteristics of public pension systems prior to reform.

Table 3: Characteristics of public pension systems prior to reform

	West Bank scheme	Gaza scheme	Security forces scheme
Age	60 years	60 years	60 years
Vesting period	40 years	15 years	15 years
Social security contribution rates	Worker - 2% nominal contribution on wages Employer - 0%, but pays all benefits when due	22.5%: Government - 12.5% Worker - 10%	22.5%: Government - 12.5% Worker - 10%
Income measure	Basic salary	Last wage	Basic wage
Maximum replacement rate	70%	70%	None
Pension indexation	Ad hoc periodic adjustment	Ad hoc periodic adjustment	Ad hoc adjustment
Minimum pension	No	No	No

Reform of public pensions

The PNA is aware of the existing problems within the pension system. Pension reform has been motivated by the crises in the civil service and military pension schemes. In 2001, an in-depth assessment of pension schemes recognized their large implicit pension debt.

A negative balance in public pension cash flow is projected within three to five years, and the Palestinian Authority will then be unable to fulfil its obligations to pensioners. A National Pension Committee was established, and their assessment suggested possible scenarios for reform. The draft law of public pensions (a new draft law was developed and adopted by the Palestinian Legislative Council in 2005) proposes a multi-pillar system, with defined-benefit, defined-contribution, and citizens pension components–to be managed by a new independent institution. The pension reform proposed an integrated defined-contribution scheme with a basic pension guarantee. The model suggested:

1. Establishing an Independent Palestinian Pension Authority (PPA) that complies with the following rules: remains market-oriented; safeguards the welfare of participants; sets investment guidelines; establishes performance benchmarks; and hires a custodian and asset manager;
2. Unifying the existing Public Pension Systems into one Public Pension System under the PPA;
3. Unifying existing Public Pension laws–Law No. 8 of 1962 implemented in the Gaza Strip (10% system), and Law No. 34 of 1959 implemented in the West Bank (2% system), and Security Forces Pension Law (2004), and the compensation system of the Palestinian National Fund;
4. Carrying out a pension valuation every three years and adjusting pension parameters in accordance with the law. Structuring Ministry of Finance (MOF) transactions (defaults in contributions will be converted to explicit debt from the MOF to the pension system with interest);
5. Providing links to the private sector through citizen pensions and the potential incorporation of private-sector pension initiatives; and
6. Operating based upon a three-pillar system: Defined Benefits (DB) which is compulsory, Defined Contribution (DC) which is voluntary, and Basic Citizen Pension:
    a. Contributions – DB: 9% government, 7% employee; DC: 3% government, 3% employee;
    b. Benefits – DB: 2% for every service year, based on the average monthly salary of the last three years; DC: 6% plus accumulated return; and
    c. Eligibility for Pension – obligatory retirement age is at 60 years, with a minimum of 15 years of service.

Private severance/pension plans

A questionnaire was developed for the purpose of this study. The questionnaire sought to collect data on existing pension/provident funds or plans and their characteristics, including accumulated assets, accumulated liabilities, employer's contributions, employee's contributions, and payment of benefits. In addition, the survey collected opinions regarding the willingness of companies to participate in private pension funds. The findings of the survey are summarized below:

1. Some companies apply a system of compulsory compensation (Palestinian Labour Law No. 7, year 2000) which is a legally-defined benefit for all private sector employees, and offers a lump sum payment to an employee when he/she leaves his/her job.
2. A few companies establish reserves for severance pay liability, but the vast majority do not. These compensation benefits are non-transferable and are paid from the company's cash flow upon termination. Therefore, funds are not mobilized for investment.
3. Some private pensions exist in the form of provident funds. Structurally poor provident funds exist at some universities, large companies, medium and small size businesses, business unions and associations, and some nongovernmental organizations. Most private organizations with provident funds are motivated by their desire to maintain employee loyalty and a low turnover rate.
4. It was found that all the existing private sector provident funds are immature and share the following characteristics:
    a. They are voluntary and not universally available;
    b. They are established through defined employee and employer contributions and are not defined benefit plans. As a result they do not suffer from insolvency problems;
    c. Contributions vary widely but are not sufficient to generate savings for retirement;
    d. Deposits into the provident funds are not carried out in a timely fashion. On many occasions, they are simply accounting entries;
    e. They collect contributions from workers and provide a lump-sum payment rather than monthly or annual retirement payments;
    f. They make payments when worker-employer relations break down, regardless of the reason rather than paying pensions out when employees reach retirement age;
    g. They are not portable. Employees cannot transfer their provident funds to another institution when they move from one job/employer to another;
    h. They vary widely in terms of investment policies. The accumulated assets of these provident funds are invested either in low-interest banking accounts or in risky investments. Most of the significant funds are invested outside Palestine, in the UK, the US, and in Arab countries. In some cases, provident assets are not utilized or are misused (for financing company operations);
    i. In most cases, a committee that includes employees and employers representatives manages the provident fund. Such committees typically lack experience in investment and tend to be dominated by the employer;
    j. Many of these provident funds have not formed a tracking system for individual accounts;

k. The impact of accumulated assets on the local economy is negligible. A very small amount of the assets are invested in the local capital markets. Also, provident funds that exist at UN agencies, local banks, and foreign banks are invested abroad. Other provident funds' assets are deposited using the local banking system and are mostly deposited in overseas banks.

Some provident funds at universities, companies and private organizations have sizeable accumulated assets. The following are examples of existing provident funds:

1. In the West Bank and Gaza, there are eight universities and each has a provident fund. The Ministry of Higher Education has set the contribution rate at 8.1% (2.7% for employees and 5.4% for employers) for university provident funds but the actual rate varies across universities. According to one estimate, the sum of accumulated assets of provident funds at all universities probably exceeds US$15 million. Based on the interviews conducted, the provident fund at Bethlehem University has accumulated assets of US$1,000,000 deposited in a British Bank in London with an interest rate of 1-2%, covering 285 out of 300 employees. The scheme that is used is based on a defined contribution of 6% for employers and 3% for employees. In the last five years, the university paid out to its eight retired employees an estimated US$200,000. Another example is the provident fund at Hebron University. It has accumulated total assets worth US$1.4 million and that is used to finance the university's current expenditures, covering 142 out of 240 employees. The scheme is based on a defined contribution of 6% from employers and 3% from employees.
2. Banks and insurance companies have the most developed provident funds. The provident fund at the National Insurance Company covers all employees (145) and has an accumulated asset base of over US$3.5m that is invested in the Palestinian and Jordanian stock markets, as well as foreign governmental bonds. The scheme is based on a defined contribution rate of 15% (employer 5%, employee 10%) for the first five years, after which it increases to 22.5%(employer 7.5%, employee 15%). An employee's provident fund committeemanages the fund.
3. The provident fund at The Arab Bank branch in Palestine has accumulated assets of US$8.6m It is invested in long-term bonds, money exchange, and long-term deposits, and also holds shares of newly-established firms. The fund covers all the banks employees (820) and is based on a defined contribution rate of 15% (employer 10%, employee 5%). An employee's provident fund committee is managing the fund.
4. The voluntary provident fund at Palestine Cellular Telecommunication Company - Jawwal has accumulated assets of US$2.1m that are invested in Palestinian and Jordanian securities. It currently covers 675 out of 705 employees. The scheme has a defined contribution rate of 6% for the 1st year (2% employee, 4% employer), 13% for the 2nd year (5% employee, 8%employer), 20% for the 3rd and 4th years (8% employee, 12 % employer), 24% for the 5th and 6th years (10% employee, 14% employer), and 25% for the 7th year and after (10% employee, 15% employer). An employee's provident fund committee manages the fund. In the last five years, Jawwal's provident fund paid about US$ 1.3m to retired employees.

5. The provident fund at the Jerusalem District Electricity Co. has accumulated assets of NIS 40 million that are invested in long-term bank deposits (savings accounts) and covers all 510 employees. The scheme has a defined contribution rate of 14.5% (7% employee, 7.5% employer). An employees provident fund committee is managing the fund.
6. Many non-governmental organizations also have provident funds. The average contribution rate is 13% (8% employees, 5% employer), and most of the accumulated funds are deposited in banks. A provident fund committee, including employee's representatives and administrative members, manages the fund.
7. In the West Bank, a number of business associations have pension schemes. Lawyers, doctors, and engineers associations which were established before 1967 and maintained links to their Jordanian counterparts have defined contribution and defined benefits pension schemes that are managed by the association's main offices in Jordan. Pension benefits are paid at the retirement age of 65 or after early retirement due to illness or disability.
8. UN agencies including UNRWA, UNTSO, UNSCO, UNDP, and UNICEF have centrally - and independently- managed provident funds that cover all employees working for the UN agencies. The contribution rate is 22.5% of the basic salary, of which employees are required to contribute 7.5% and the agency 15%.

These private provident funds remain insufficiently developed, but can serve as the basis for developing modern private pension schemes. Based on interviews conducted with 14 select private companies and institutions, it is clear that most of these organizations would be willing to participate in a newly established private pension scheme. They are more likely to participate in a pension system with the following characteristics:

1. Funded pension;
2. Defined contribution;
3. Average contribution rate of 16% (7% employees, 9% employers);
4. Privately-managed;
5. Benefits comprising of retirement income and heath insurance. Other benefits, such as education and housing, could be voluntarily subscribed to;
6. Preferred investments range from a conservative selection and a combination of investments in the local and foreign markets. Due to the political and economic risks in Palestine, companies prefer to invest pension funds in low-risk portfolios abroad, and do not want to support local business development projects; and
7. Pension activity regulated and controlled by the government.

In conclusion, if a sound, trusted, reputable pension fund were to emerge, using the proper methodology and managed privately for the private sector in Palestine, it could attract most of the institutions interviewed, which have accumulated assets of more than US$25m.

Pension Reform in Palestine

For Palestinians seeking to reform their outdated public old-age insurance systems, the inherited system typically imposes some constraints on choices. Of greater significance, however, is the plethora of socio-political and economic constraints in Palestine. These include political uncertainty, economic weakness, small-scale private enterprises and a small number of public companies, a limited range of banking services, an unprofitable insurance sector with limited services, immature financial markets and an unsatisfactory history of being able to implement and administer new systems. Since existing public systems are fragmented, unsustainable, have low coverage rate, and lack coverage for employees in the private sector, a multi-pillar pension system could be a suitable option.

The multi-pillar pension system is comprised of five basic elements: 1) a noncontributory element that provides a minimal level of protection, 2) a contributory element that seeks to replace some portion of income, 3) a mandatory-earning related element that scales pension benefits to earnings and contributions and provides an individual savings account, 4) voluntary arrangements that encourage additional retirement benefits, and 5) an informal intra-family element. This multi-pillar design is able to deliver retirement income effectively and efficiently compared with other systems and is able to address economic, political, and demographic risks.

In the long-term, comprehensive multi-pillar pension reform is required to cover the public, private, and informal sectors. In the short-term, however, this paper will focus on developing the mandatory earnings-related pillar.

Motives for reforming earnings-related retirement programs are diverse. They include: 1) broadening coverage, 2) improving benefits, 3) adjusting pensions to a market economy, 4) insulating pensions from political interferences, 5) improving quality of service, 6) dealing with the costs of an ageing society, 7) promoting economic development, and 8) enhancing the financial market. Approaches to managing the program vary in the roles they allot to the state and social partners and the importance they give to workers choice and the division of private and public sector responsibility. Mandatory earnings-related programs could be either publicly - or privately - managed and financed on either a pre-funded or PAYG basis.

Introducing funded, individual accounts into the Palestinian pension system necessitates careful consideration of the Palestinian context. In other words, one needs to understand the institutional environment in which the pension system will operate in order to evaluate the chances of success of an earnings-related model. Equally important is the need to determine the most important objectives for reform. These steps will shape the role of the private sector in managing the mandatory earningsrelated pillar. Addressing the following issues illustrates how the model might be constructed with operational consistency and integrity:

- Financing the system on an advance-funded basis and individually-defined contribution accounts;
- Addressing the importance of choice and political insulation, and the minimization of government contingent liabilities;
- Allocating responsibilities between the public and private sectors;
- Setting the level and structure of minimum guaranteed retirement income for the population as a whole, and for pension participants in particular;
- Considering available realistic organizational arrangements, and
- Managing and financing the transition to advance funding.

The following analysis aims to address the issues and will discuss systemic reforms and evolved private management models: in particular the Palestine earnings- related pension model, the minimum pension, and finally, the construction of a Palestinian private pension model.

Systemic reforms

This section discusses the systemic reforms that are needed for the construction of a Palestinian private pension model which would take into consideration all the abovementioned issues.

Defined Benefit

A Defined Benefit plan is primarily an insurance program against loss of income. The amount of the benefit is determined using a mathematical formula that is based on pay, age, and service of the member when the benefits are due. The employer is responsible for the benefits regardless of the actual cost of the promised benefits. The provision of funding is the main weakness of a defined benefit plan.

A defined benefits pension fund in the West Bank and the Gaza Strip appears an unsatisfactory model. Most firms in the West Bank and the Gaza Strip are small and there is little motivation to improve on the low participation rates that typically motivate firms to set up defined benefits pension funds. In addition pension management and administration costs are high. The uncertain economic environment does not lend itself to a defined benefits pension plan as company closure is a constant threat.

Defined Contribution

A Defined Contribution plan is primarily a savings accumulation program through deferred compensation and investment earnings. The employer is responsible for contributing the amount promised to each member's account.

Compulsory severance compensations and immature provident funds could evolve into real pension funds. A systemic reform proposal introducing advance-funded, privately-managed, and individually-defined contribution accounts would be the most appropriate choice, as it would take into consideration the present political and economic environment and would have a positive impact on the Palestinian economy.

<u>Advance Funding</u>

Advance Funding of pensions decreases the contribution rate, distributes the costs of financing, increases the workers' claim on future benefits, increases national savings, and improves efficiency of capital markets. However, to make the shift from PAYG financing, advance funding will involve transition costs and slow phase-in.

<u>Private Management</u>

Private Management of pensions insulates investment decisions from political interest, improves quality of service, increases operating efficiency and provides workers' choice. However, private management of pensions often involves high marketing costs and requires effective regulation.

Therefore, the Defined Contribution approach, together with private management and advance funding, allows for competition among fund managers, eases competition on investment strategies, and reinforces political insulation. Nonetheless, a defined contribution approach involves greater risk for workers, contingent liabilities for the government, and difficulties in providing annuities.

Systemic reform could be made mandatory and/or facilitated through tax incentives. The tax incentive approach is more reasonable at present due to political and economic uncertainties. However, imposing the mandatory approach will expand pension coverage. The most encouraging tax policy is referred to as "E-E-T." The pension contributions are tax exempt and investment returns on pension assets are tax exempt, but retirement income is taxable at the same tax rate as other income when paid out to pensioners.

When tax payments on pension contributions are deferred, employee income is more likely to go down a tax bracket and therefore he/she is more likely to agree to higher contribution rates. In the same way, when the employer's contribution is taxdeductible, which reduces pension costs of providing the pension, he/she will be more likely to provide these benefits.

Finally, when they receive their retirement benefits, employees should be obliged to receive schedule withdrawals or buy annuities. Tax benefit should be granted to employees who buy annuities. Eventually, the purchase of annuities should be mandatory, but in the meantime it can be encouraged through tax benefits. Furthermore, annuities should be bought in groups or the price of an individual annuity may be unaffordable.

Private management models

A number of individual account models have evolved globally that demonstrate methods of dividing responsibilities between the public and private sectors, selecting asset managers and giving workers a choice. This section illustrates a range of private management models by reviewing the approaches of the Latin American Model, the United Kingdom, Switzerland, Sweden, the US, S Thrift Plan, and Singapore.

The Latin American Model: workers select fund managers. The government collects contributions and allocates them among the pension asset managers although in a few countries, such as Chile, collection is decentralized. The pension funds are responsible for maintaining account records. At retirement, pension funds either pay benefits by allowing periodic withdrawals, or transfer the account balance to insurance companies to finance the purchase of annuities.

United Kingdom: workers have the choice of opting out of either the state-managed plan or their employers plan and setting up a personal pension, and, have the choice of opting back. They select a personal pension provider and can change their provider each year, and they can leave their previous account balance with their old provider. The government collects contributions and allocates them to the personal pension providers based on the employee's selection. Personal pension providers are responsible for maintaining the account records. At retirement, either the personal pension provider or an insurance company must convert personal account balances into annuities.

Sweden: Funded, individual accounts supplement a generous PAYG system by the state. Workers select one or more funds from the eligible participators. Mutual funds, who agree to discounts off their normal administrative charges, participate in the mandatory funded account system. The government collects the contributions and maintains the individual accounts. Participating mutual fund managers know the aggregate volume of business coming from the state pension system, but do not know the individual workers. At retirement, individual accounts must be converted into annuities by insurance companies selected by the state through a bidding process.

Switzerland: Workers have no choice and contribute to industry-wide pension funds that are managed jointly by worker and employer representatives. Fund operation including contribution collection, account maintenance, asset management, and pension payment are privatized. At retirement, benefits are converted into annuities by the funds. United States (the US' Thrift Savings Plan): The government selects a few market indexes of domestic and international equities, corporate bonds, and government bonds. The government contracts private firms to manage asset portfolios with the objective of matching an index performance. Workers choose to allocate their account balances between the various funds. The government is responsible for all pension operations except asset management and payment of annuities. The government selects the annuity provider.

Singapore: Workers contribute to a centrally managed provident fund and have recently gained the choice of investing the surplus in private equity markets. The provident funds are invested in government bonds that earn interest rates equal to the interest rate paid on deposits at major Singaporean banks.

The different approaches summarized above are compared in Table 4 below. Each approach is rated based on its strength of providing three attributes: insulating investment decisions from political intervention; offering workers a choice; and lowering administrative costs. The comparison also shows how each approach divides responsibilities between the government and the private sector in setting pension policy, collecting contributions, maintaining records, managing assets, and paying benefits.

Table 4: Different funded account models

Approach	Comparative strength			Allocation of responsibilities				
	Political insulation	Worker choice	Low cost	Set policy	Collect contributions	Maintain records	Manage assets	Pay benefits
Latin America	••	•		G	G/P	G	P	P
UK	••	••		G	G	P	P	P
Switzerland	•		••	G	P	P	P	P
Sweden	•	••	•	G	G	G	P	G
Thrift plan	•	•	••	G	G	G	P	G
Singapore		•	••	G	G	G	G	G

G - Goverment **P** - Private

Source: Social Protection in Asia and the Pacific (2001), Asian Development Bank, "Operation of Pension Systems: Public or Private", L.H. Thompson

Based on the analysis of these approaches, one can conclude the following:

- Dividing responsibility between government and private sectors is correlated with the comparative strengths and weaknesses of each model.
- The feasible models that could be developed are:
  - Models that effectively provide political insulation and have low administrative costs but workers must be willing to sacrifice choice (e.g., Switzerland).
  - Models that offer workers choice and have low administrative costs, but these require giving the government the main responsibility for selecting investment options and maintaining worker accounts (Sweden and the Thrift Plan).
  - Models that effectively provide political insulation and offer workers choice but have high administrative costs (e.g., the United Kingdom).

The proposed Palestine multi-pillar system - analysis

The proposed reform model of Palestinian pension systems under the Independent Palestinian Pension Authority (PPA) [in the law of retirement of 2005] gives the Board, mostly comprised of government employees, the main responsibility in hiring investment managers and custodian managers and maintaining worker accounts. For that reason, it has low administrative costs. However, evaluation of the proposed model, based on globally-evolving earning-related pension models, reveals its drawbacks:

- The model offers neither workers choice nor political insulation. Any feasible model should prioritize one of the two;
- The model lacks both a day-to-day mechanism promoting private competition in pension responsibilities (especially asset investment) and a benchmarking mechanism. Therefore, one can anticipate inefficiency and a low rate of return;
- The model resembles a multi-pillar system but actually combines the various pillars, it is nearly a centralized system;
- While the model opens the door for private employees to participate in the pensions, it does not address the possibility of establishing a privately managed pension;
- The model assigns investment responsibility to the private sector, however, policies and procedures have not been established yet; and
- From a practical point of view, the model's operational structure requires development, and the transition stage requires a large amount of financing, and both requirements are considered time consuming.

It is essential to have a private pension scheme in Palestine that complements existing pension funds. Yet, the only existing pension system in Palestine is not adequate. The following is a suggested multi-pillar system that addresses the shortfalls in the public pension system and works towards a much improved pension industry in Palestine:

- A traditional PAYG scheme to continue and to benefit only the existing elderly who have not yet contributed to a pension scheme. It would include means for those over 65 to receive benefits funded by public revenues;
- Quantify and acknowledge the unfunded liabilities that must be paid out of general revenues;
- A unified public pension system for all public employees should be implemented with individual accounts that pay benefits based on defined, fully-funded, compulsory contributions by both employees and employers. The fund should be privately-invested and managed under strict public supervision. It should pay individual benefits based on individual account contributions and accumulated returns from investments;
- Create a completely private pillar pension scheme, either on a voluntary or mandatory basis, which would collect or manage contributions of workers not covered by the civil service scheme;

- Newly and previously hired employees in the public and private sectors would have the right to opt out of and in to both public and private pension programs; and
- A coordination body or system should be established among all pension funds.

Proposal for a "private pension scheme" in Palestine

Selecting the most appropriate earning-related pension model in Palestine should take into account the following considerations:

1. The PNA budget deficit is expected to remain an ongoing issue. There will therefore be political pressure to use pension funds to cover this shortfall. Enabling officials to make investment decisions will dampen the positive effects of the pension funds on the local financial market, economic growth and economic development;
2. Giving workers the opportunity to select a private pension fund or an annuity provider has a limited impact when employees have an inadequate knowledge of financial matters and institutions., The availability of information and transparency of the market are also imperfect;
3. Scarcity of private investment opportunities, economic uncertainties, and low returns on invested capital in the West Bank and Gaza necessitate keeping transaction costs low. However, investment professionals are costly particularly in a specialized new market such as Palestine;
4. While the administrative resource of PNA institutions will keep costs low, management efficiency will be weak and quality of service low. The model should therefore seek to privatize pension responsibilities.

The earnings-related pension model in Palestine should therefore seek political insulation, low marketing costs, privatization of pension responsibilities, and skilled investment professionals, while limiting choice for workers. The most appropriate model for the Palestinian context is the industry-wide pension fund (e.g. Switzerland) that is managed jointly by worker and employer representatives and where the responsibilities are privatized but the public sector remains responsible for setting policies.

The minimum pension

In many countries, a minimum income guarantee is set up for the whole population and/ or for the pension contributors. For those that fall below that level, a minimum benefit financed from the general fiscal budget should be available. If the minimum income guarantee is directed at only pension contributors, then it should be financed from pension contributions. Otherwise, non-pension participants will be subsidizing pension plan participants.

Generally, the minimum income guarantee for pension contributors falls in the range of 25 to 35 percent of the average wage in the economy. Consequently, the earnings-related pillar of the pension system is offering pension benefits that fall above the minimum income guarantee. Therefore, the higher the contribution is set for the mandatory pillar, the larger the opportunity for a successful earnings-related experience.

If structured incorrectly, the minimum income guarantee can do away with the positive nature of the earnings-related benefit, can break many labour market incentives, and can create contingent liabilities for the government budget. There are two approaches to providing minimum pensions: flat and fill the gap. The "flat" approach is a flat benefit to all citizens or at least to pension contributors, and the earnings related element is an addition to the flat base. The "fill the gap" approach literally fills the gap between the minimum income level and the benefits otherwise available.

The flat method provides benefits to both rich and poor similarly. By contrast, the "fill the gap" is a cheaper method and requires that the earnings-related share be large enough to produce the desired benefit for contributors with average pre-retirement income. However, the major drawback of "fill the gap" is that it discourages people to work and contribute and their retirement benefits are unrelated to their previous earnings. To reduce this effect, the minimum guarantee needs to be less than 100 percent of the earnings-related benefit. The second drawback of "fill the gap" is that it creates a contingent liability for the government.

Constructing the Palestinian privately managed pension scheme

a. Model:

   Industry-wide pension funds: funds that pool the assets of pension plans established for unrelated employers who are involved in the same trade or business.

b. Model comparative strengths and weaknesses:

   Comparative strengths include political insulation and low administrative costs. However, the model's comparative weakness is less choice for the worker.

c. Model allocation of responsibilities:

   - Government sets pension policy;
   - Worker and employer representatives manage the pension fund; and
   - The private sector collects contributions, maintains records, manages assets, and pays benefits.
   - Pension responsibilities, particularly the investment professionals, should not be limited to local companies. International companies and entities could provide better management practice, better management of foreign assets, lower risks, higher returns, and wider investment opportunities.

d. Model characteristics:

- Mandatory, advance-funding, defined-contribution, and individualaccount;
- Retirement benefits (either schedule withdrawals or annuities) made by the pension fund or insurance companies;
- E-E-T tax-policy and tax benefit for the annuities buyer; and
- A non-tax incentive approach that will encourage employer participation and maintain employee loyalty and low turnover rate. The contribution rate could be set high for employees and low for employers in the first year of employment. Conversely, for the third year of employment, the rate will be lower for employees than for employers.
- The minimum pension:
    - ¤. Fill-the-Gap approach
    - ¤. It is financed from pension contributions
    - ¤. It is only directed at pension contributors
    - ¤. It falls in the range of 25 to 35 percent of the average wage, and it will be less than 100 percent of the earnings-related benefit

e. Initial pension parameters requiring further study are:

- Eligibility for Pension: The obligatory retirement age is 65 years old, with a vesting period of more than 15 years of employment;
- The average contribution rate of 16% (7% employees; 9% employers);
- Benefits comprise of retirement income and heath insurance. Other benefits, such as education and housing, could be voluntary; and
- Benefits afforded by the system to the average retiree and the minimum guaranteed retirement income to pension participants.

To quantify certain variables for the model's parameters, a dynamic simulation of the income model for pension cash flows and the socio-economic impact should be developed.

f. Asset allocation:

The board will be tasked with deciding the appropriate asset allocation model for the pension fund to ensure maximum return for the contributors. They will define both the asset mix and the appropriate level of domestic, regional and international allocation. This will be monitored and reviewed periodically to allow for adjustments as the economic and political situation evolves and the appetite for risk and investment landscape adjusts. Initially, as a result of the high risk environment and the limited domestic investment capacity, a conservative asset allocation model and a portfolio more heavily weighted towards international assets would be expected. As the situation improves, a revision of the portfolio could re-distribute assets towards local investment opportunities which would have a positive multiplier affect on the local economy.

g. Pension supervision

Palestinian economic development and the depth of the capital markets require intensive, pro-active supervision of a mandatory pension scheme. Regulations should establish the rules for pension supervision in the following areas: licensing, monitoring, communication, analysis, intervention, and correction.

A special pension regulator, perhaps under the umbrella of the Capital Markets Authority (CMA), is required to establish and develop a legislative agenda to create an appropriate legal environment.

h. Managing and financing the transition to advance funding

Pension funds covering the private sector workforce are currently unavailable and existing provident funds are advance funding. Only compulsory compensations require further financing.

Solutions for financing compulsory compensations:

- Eliminating the old system;
- Quantifying the accrual liability for each company and the breakdown for each individual worker; and
- Converting the accrual liabilities into loans at current market terms (for private companies) or into shares (for public companies).
- Initially, group pension funds can be set up in the banking, insurance, and NGO sectors or within universities.

Legal and regulatory framework

a. The legal framework

Palestine has never had a comprehensive, constant, and inclusive social security system. Since the time of the British Mandate, there has been an occupational pension system implemented by large organizations (mostly public sector) under the United Kingdom at the time of the Mandate, and later the Jordanian Government in the West Bank and Egypt in the Gaza Strip between 1948 and 1967.

During Jordanian and Egyptian control, some institutions employed individual systems of pension and provident funds. Social insurance emerged with the foundation of national systems in Jordan and Egypt. Yet Palestinians were once again cut off from these emerging systems as a consequence of the Israeli occupation. The Israeli occupation of 1967 introduced a new legal system based on military orders. These military orders did not explicitly address pension or other social security issues. The following table illustrates the history of regulatory development of the pension and provident fund.

Table 5: Related pensions laws	
1827	Administrative law of the salaries of removed employees (Ottoman)
1832	Law of retirement of commissioners of property (Ottoman)
1920s–1948	Pensions (Ottoman Service) regulation, 1926 (British Mandate)
1930s–1948	Pensions (Ottoman Service) (Amendment) Ordinance, 1936 (British Mandate)
1930s–1948	Pensions (Ottoman Service) (Amendment) Ordinance, 1937 (British Mandate)
1930s–1948	Shari a Courts Pensions (Amendment) Ordinance, 1940 (British Mandate)
1940–1948	Pensions (Amendment No.2) Ordinance, 1946 (British Mandate)
1940–1948	Widows and Orphans Pensions Ordinance no. 33 , 1944 (British Mandate)
1948–1967	Pension law no.34 for the year 1959 (Jordanian)
1948–1967	Modified Pension law No. 34, Law No. 8 for the year 1964 (Jordanian)
1967–1993	
1993–present	Jordanian Law No. 8 for the year 1964
1993–present	The law of public retirement No. 7 for the year 2005 public sector employees (PNA). (Implemented since 2005)
1993–present	The Law of Social Insurances No. 3 of 2003 for the private sector. (Not implemented)
1993–present	The Law of Public Retirement, No. (7) of 2005

Historically, there has been a diversity in pension and provident fund schemes because each one of these schemes has followed a different administrative structure.

A Privately Managed Pension Fund for the private sector in Palestine must be legally recognized. While the Palestinian Legislative Council passed a Pension Law in 2005, it is mostly aimed at covering PNA and Palestine Liberation Organization employees and unifying their pension plans. Article 8.2 of this related law allows the private sector and civil society to join the pension plan, but the law would have to be rewritten to allow for the pension fund described in this study (see the section above, "Constructing a privately managed pension pillar"). The new law (or rules and regulations annexed to the law) would have to:

- Establish a distinct legal personality for the Privately Managed Pension Fund and specify its role;
- Ensure its full financial and administrative independence;
- Define the coverage of employers and employees and mandate their contributions;
- Establish terms and conditions for the operation of the pension fund;
- Specify the tax treatment of the pension contributions;
- Specify the role of the supervisory authority;
- Protect pension fund assets from inappropriate usage or seizure;
- Establish the rights of employees;
- Establish accounting and disclosure standards; and
- Set minimum reserves and solvency rules.

There may be other requirements, many of which would be spelled out in rules and regulations, such as the composition of the "Pension Fund Board", the vesting period, portability rules, disclosure to employees… etc.

a. Investment regulations

To protect pension fund assets and fulfil its investment objectives, investment regulations should be issued. These vary widely across countries. Nevertheless there are minimum standards that are generally observed:

- Diversification of assets by limiting the percentage of assets invested in any particular economic activity or company;
- Establishment of safeguards against speculative investment;
- Specification of the type of foreign investments allowed abroad (e.g. AAA sovereign bonds in OECD countries); and
- Ensuring that any investment is backed by full disclosure and transparency of operations, assets, accounts and balance sheets.

a. Institutional framework

The first issue that will arise in pension fund asset management is the weakness of institutional frameworks in the West Bank and Gaza Strip. This will limit pension fund investment decisions. For the fund to have credibility, its investments will require full disclosure and transparency, as well as stock market oversight that prevents insider trading and stock manipulation. The Nablus stock exchange and the Capital Market Authority have not yet achieved this standard. A major strengthening of these two institutions will have to take place. Until this institutional reform takes place and achieves minimum standards, a high proportion of pension contributions will have to be invested abroad. They should be gradually repatriated as more solid investment opportunities emerge in Palestine.

Socio-economic impact and financial implications

International experience shows that private pension schemes have substantial economic and social benefits and contribute to social welfare and economic prosperity. These pensions account for enormous flows of private capital, nationally and internationally, and are significant in terms of their size, proportion of GDP, and volume and concentration in the financial markets. For instance, in the United States, pension and provident funds have increased from approximately 2% of national wealth in 1950 to about 30% more recently. In the OECD countries, pension funds are considered one of the most important players in financial markets, managing more than US$15 trillion of assets in 2003, and representing over 80% of the GDP of the OECD states. In all the above mentioned countries, and over the past two to three decades, the world has witnessed spectacular improvements in the standard of living of these societies and their elderly.

In Palestine, a private pension system can be expected to make significant contributions to the well-being of the elderly, to promote economic development, and to develop the Palestinian financial markets. Though the Palestinians have not yet developed a "Dynamic Simulation Income Model" for private pension schemes in the West Bank and Gaza Strip to forecast future trends and impacts, the pension fund will generate high proceeds over the coming three to five years. Consequently, the private pension scheme will support old-age life arrangements in Palestine and help enhance economic growth.

Furthermore, private pension funds will help decrease PNA expenditure on welfare and social security plans and, in the long-run, reduce the deficit. Also, the private pension scheme will lead to higher savings rates, which in turn should lead to more productive investments. These investments should result in an increase in the gross output of the Palestinian economy. Moreover, these steps will aid financial market development, which is a key factor for economic development. This can be achieved through the participation of insurance companies, banks and other financial institutions. Their participation in investment activities will certainly enlarge the accumulated assets of the pension system. To summarize the effects on economic growth, we should consider the following aspects:

1. Better resource allocation and introduction of financial innovations, e.g. equities and corporate bonds, as well as hedging strategies against risks and against asset shortfalls;
2. Improvement of financial, accounting and auditing procedures in the securities market. Financial and brokerage firms will be stimulated by a modern and well-operated pension system; and
3. Benefits to existing provident funds through the pooling of assets and diversified risks. This could lead to investment in longer-term assets through local and international financial institutions operating in the West Bank and Gaza Strip. The Arab Bank and the National Insurance Company already have some working plans and are giving serious attention to private pension funds. Moreover, they are willing to play a key role in any pension or provident fund program in Palestine.

Finally, private pension funds will significantly impact the main economic indicators (i.e. GDP, employment, wages, and prices) in all sectors of the Palestinian economy. The establishment of such funds is key for sustainable economic development and the executive summary (enclosed in this study) identifies suggested steps to be taken by the private sector.

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Annexes

Table 1: Pension funds and life insurance assets in OECD economies, 2003-2004

OECD Countries	Total assets for pension funds + Life Insurance Investments 2003		Total assets for pension funds + Life Insurance Investments 2004	
	millions of USD	as a % of GDP	millions of USD	as a % of GDP
Australia	393,765	74.7	582,886	91.3
Austria	48,742	19.1	75,227	25.6
Belgium	92,146	30.3	126,051	35.8
Canada	618,724	72.2	662,448	77.3
Czech Republic	6,446	7.1	8,561	8.0
Denmark	178,408	84.2	221,356	91.7
Finland	40,392	25.0	111,806	60.1
France	847,335	48.2	1,055,250	60.0
Germany	713,988	29.7	878,653	31.9
Greece	-	-	-	-
Hungary	7,447	9.0	11,150	11.1
Iceland	13,970	132.2	17,886	146.2
Ireland	-	-	146,881	80.9
Italy	273,107	18.6	370,048	22.1
Japan	2,093,976	48.7	2,250,987	48.2
Korea	126,005	20.8	139,164	20.5
Luxembourg	-	-	-	-
Mexico	-	-	-	-
Netherlands	709,708	138.4	813,135	140.4
New Zealand	-	-	15,353	15.5
Norway	61,187	27.7	81,614	32.6
Poland	18,864	9.0	26,550	11.0
Portugal	30,952	21.0	36,668	21.9
Slovak Republic	8,275	25.3	8,651	21.1
Spain	-	-	217,187	20.9
Sweden	23,457	7.8	226,689	65.4
Switzerland	522,283	162.3	549,486	153.2
Turkey	-	-	2,238	0.7
United Kingdom	2,121,652	118.0	2,475,540	116.2
United States	12,252,046	111.9	13,432,423	115.0
Total OECD	**21,202,874**	**107.2**	**24,543,888**	**108.7**

Source: OECD Global Pension Statistics; OECD Insurance Statistics Yearbook

Table 2: Main funded pension system in OECD countries (mandatory [year]/voluntary)

Country	Mandatory	Voluntary		
		High coverage	Medium coverage	Low coverage
Australia	1992			
Austria			•	
Belgium			•	
Canada			•	
Czech Republic				•
Denmark	1964/1985			
Finland	1956/1985			
France				•
Germany			•	
Greece				•
Hungary	1998			
Iceland	1986			
Ireland			•	
Italy				•
Japan			•	
Korea	2005			
Luxembourg				•
Mexico	1997			
Netherlands		•		
New Zealand				•
Norway	2006			
Poland	1999			
Portugal				•
Slovakia	2005			
Spain				•
Sweden	2000	•		
Switzerland	1982			
Turkey				•
United Kingdom			•	
United States			•	

Source: OECD Global Pension Statistics; OECD Insurance Statistics Yearbook

Table 3: Evolution of the size of pension funds relative to GDP, 2001-2004

OECD Countries	Total Investments of Pension Funds (as a percent of GDP)			
	2001	2002	2003	2004
Australia	57.7	58.1	56.1	72.7
Austria	3.9	3.9	4.2	4.5
Belgium	5.6	5.0	4.0	4.1
Canada	53.3	47.8	52.1	52.1
Czech Republic	2.3	2.8	3.1	3.6
Denmark	27.2	25.6	27.6	30.0
Finland	8.2	8.0	8.3	45.3
France	3.9	6.6	7.0	7.0
Germany	3.3	3.4	3.6	3.8
Greece	-	-	-	-
Hungary	4.0	4.6	5.4	6.8
Iceland	86.4	87.6	101.9	111.9
Ireland	44.3	35.1	39.4	42.6
Italy	2.3	2.4	2.5	2.6
Japan	13.9	14.1	15.3	14.2
Korea	-	1.5	1.6	1.7
Luxembourg	-	-	-	-
Mexico	4.3	5.2	5.8	6.3
Netherlands	107.0	89.4	106.2	106.2
New Zealand	14.8	13.1	11.4	11.3
Norway	4.0	4.0	4.6	6.8
Poland	2.5	4.0	5.5	7.0
Portugal	12.1	12.1	12.5	11.2
Slovak Republic	10.7	16.6	22.7	22.7
Spain	5.8	5.7	6.2	9.0
Sweden	8.3	7.7	7.8	12.7
Switzerland	104.4	96.7	111.6	111.6
Turkey	-	-	-	0.1
United Kingdom	72.5	66.5	65.1	65.1
United States	93.9	82.0	92.0	95.0
Total G10	**86.5**	**75.3**	**83.9**	**86.4**
Euro area	**70.2**	**52.0**	**63.7**	**59.6**
Total OECD	**84.9**	**73.7**	**81.9**	**84.1**

Source: OECD Global Pension Statistics; OECD Insurance Statistics Yearbook

Table 4: Pension fund portfolio allocation, 2004 (as percent of total)

Country	Cash and Deposits	Bills and Bonds issued by public administration	Corp. bonds	Loans	Shares	Land and Bldgs	Mutual funds (CIS)	Unallocated insurance contracts	Other invest-ments
OECD									
Austria	1.2	71.6		0.8	19.4	1.0			6.1
Belgium	3.3	2.7	1.7	0.3	9.4	1.4	75.2	2.7	3.4
Canada	5.0	18.7	5.4		23.6	3.5	36.7		7.2
Czech Republic	9.6	51.9	31.1	0.0	5.5	0.3	0.3		1.3
Denmark	0.3	24.7	29.0	7.2	19.8	2.1	16.9		0.0
Finland	0.9	50.1	0.0	8.5	30.4	9.6	0.0	0.0	0.5
Germany	2.6	2.5	26.6	28.1	32.2	3.8			4.2
Hungary	1.3	74.9	2.0		5.2	0.2	7.5		8.9
Iceland	2.4	33.0	15.3	10.4	33.7	0.1	3.7		1.4
Italy	5.9	34.8			8.4	9.2	10.3	24.5	7.1
Korea	7.4	24.3	56.4	9.9	0.2	0.0	0.5		1.4
Mexico	0.0	85.2	11.7						3.1
Netherlands	2.2	25.5	13.8	5.3	44.6	5.0			3.5
Norway	4.7	27.6	32.5	2.7	24.8	4.2			3.5
Poland	5.8	58.9	1.4	0.0	33.4		0.0		0.5
Portugal*	8.2	24.4	18.4	0.0	22.1	10.8	22.4	0.0	6.4
Spain	4.9	20.3	36.4	0.0	17.5	0.2	7.5		13.3
Switzerland	9.9	29.3		5.0	19.1	12.3	17.5		6.9
Turkey	0.0	72.6	0.0	0.0	13.2	0.0	0.0	0.0	14.2
United Kingdom	2.5	14.7	6.8	0.5	43.4	4.3	15.4	6.0	6.3
United States	8.3	6.4	5.0	0.1	35.5	0.6	30.7	9.4	4.0
non-OECD									
Brazil	44.2	14.9	2.2	3.9	15.9	6.7	11.6	0.0	0.6
Bulgaria	19.9	55.2	18.6		3.3	1.7			1.4
Colombia	0.8	48.5	30.1	0.0	6.2	0.0	2.2	0.0	12.2
Estonia	4.4	33.9	23.3	0.0	35.1	1.0	6.2	0.0	0.8
Slovenia	13.3	46.3	32.4		7.7		0.3		
Indonesia	70.9	0.1	11.9	0.7	4.1	6.0	1.3	0.0	6.9
Singapore	2.7	96.4	0.0	0.0	0.0	0.2	0.0	0.0	0.7
Thailand	41.4	23.9	18.2		13.7		1.8		1.0

* - for Portugal, the values registered on variable "Other investments" include short-term payable accounts to the fund managers (commissions), payable loans and the amount relative to the partial transfer of one pension fund, transferred to social security, worth about 1 billion Euros.

Totals may not add up to 100 due to rounding or to negligible values.

Source: OECD Global Pension Statistics; OECD Insurance Statistics Yearbook

Table 5: Pension fund portfolio allocation, 2004 (as percent of total)

Country	State Sector	Corporate Sector	Financial Sector	Foreign Sector	Other Assets
Latin American					
Argentina	62.3	14.7	11.1	10.3	1.6
Bolivia	67.5	24.4	5.6	1.4	1.1
Chile	18.7	24.4	29.5	27.3	0.1
Costa Rica	77.2	11.3	11.5		
El Salvador	83.5	0.3	10.5	5.5	
Peru	24.5	45.2	20.0	10.2	0.1
Dominican Rep.			100.0		
Uruguay	79.0	5.2	7.5		8.3
Other					
Kazakhstan	50.6	30.4	9.0	7.2	2.8

Totals may not add up to 100 due to rounding or to negligible values.

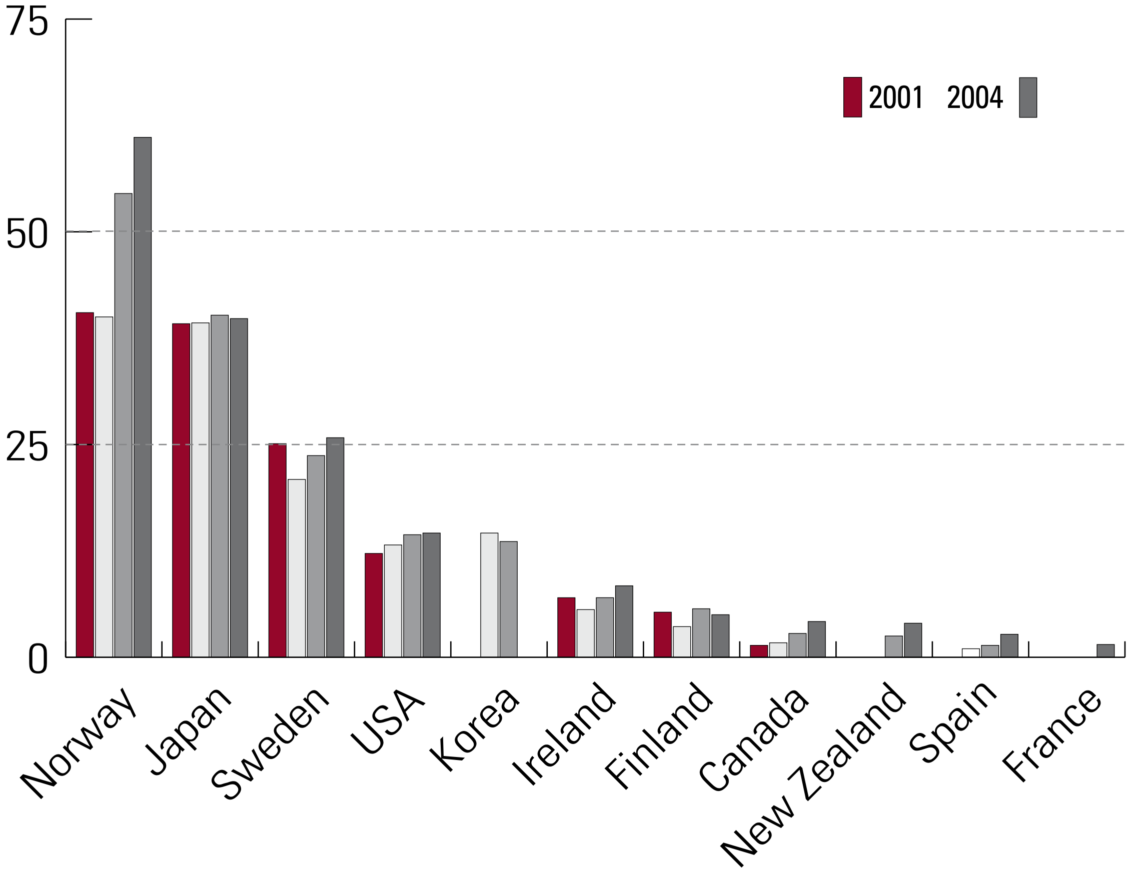
Source: International Federation of Pension Fund Administrators

Table 6: Pension fund portfolio allocation, 2004 (as percent of total)

Selected OECD countries	2001	2002	2003	2004
Belgium			0	44
Canada	3,330	-1,007	15,785	
Germany			5,133	7,450
Iceland	306	345	1,892	2,354
Korea		1,022	935	1,253
Netherlands	12,256	-2,087	13,802	
Norway	1,122	1,032	2,420	3,327
Portugal	-1,127	-1,438	2,142	2,549
Spain	3,793	1,217	6,645	6,954

Source: OECD Global Pension Statistics; OECD Insurance Statistics Yearbook

Figure 1: Social security reserves for selected OECD countries, 2001-2004 (as percentage of GDP)



Source: OECD Global Pension Statistics; OECD Insurance Statistics Yearbook

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و يتوقع من نظام تقاعدي خاص في فلسطين المساهمة في تطوير الأسواق المالية الفلسطينية، وتحفيز النمو الاقتصادي وتأمين العيش الكريم لكبار السن.

تهدف دارسة الجدوى الأولية هذه إلى استنهاض وتحفيز اهتمام القطاع الخاص في إصلاح صناديق التقاعد. إن القضايا الرئيسة التي تحتاج إلى تحليلات أكثر تفصيلاً تشمل الإشراف على صندوق التقاعد ودور سلطة سوق رأس المال، وقضايا تتعلق بإقرار القانون، ومعايير وتشريعات الاستثمار وتحديد المدراء المناسبين للصناديق. وسيكون من الأدوات المفيدة، تطوير نموذج محاكاة ديناميكية للدخل يتنبأ بالتوجهات والميول الاقتصادية المستقبلية وأثر صناديق تقاعد القطاع الخاص على الاقتصاد الكلي.

تشير نتائج الاستبيان المنفذ أن المؤسسات سيكون لديها رغبة عالية بالمشاركة بنظام تقاعدي يقدم تقاعد ممول، ونظام مساهمة معرفة، ويدار من قبل القطاع الخاص، ولديه محفظة استثمارية محافظة.

وبناء على هذا فإن اختيار النظام متعدد الأركان هو الخيار المناسب. يَشْملُ هذا النظامِ خمسة عناصرِ أساسيةِ:

١) عنصر مبني على عدم ألمساهمه والذي يوفر مستوي الحد الأدنى من الحمايةِ؛

٢) عنصر مبني على المساهمة والذي يهدف إلى استبدال جزءِ الدخلِ؛

٣) عنصر إلزامي مبني على مكونات مرتبط بتحقيق الإيرادات والدخل؛

٤) ترتيبات طوعية لتَشجيع منافع تقاعدِ إضافيةِ؛

و٥) عنصر مبني على ترابط عائليَ غير رَسمي.

على المدى البعيد سيكون من المطلوب إصلاح شامل مبني على نظام التقاعد متعدد الأركان ولكن على المدى القصير يجب التركيز على خلق الركن الإلزامي المتعلق بالإيرادات والدخل.

من اجل تطوير نظام تقاعدي سليم عمليا، يجب الاهتمام ومعالجة القضايا التالية: تمويل النظام على قاعدة الحسابات الفردية المعرفة للمساهمة والتمويل المسبق، إعطاء الأهمية للمستوي الملائم من حرية الاختيار وتخفيض التكاليف، توزيع المسؤوليات بين القطاع العام والخاص، تحديد مستوي الحد الأدنى للدخل التقاعدي المضمون، والقضايا التنظيمية والمؤسساتية وإدارة تأسيس الصندوق.

النموذج المُقتَرَح

لقد خلصت إلى ضرورة الإصلاح الملائم لتطوير نظام ممول مسبقا، مدار من قبل القطاع الخاص، وفردي معرفة المساهمة. إنّ النموذجَ الأكثر ملائمة للسياق الفلسطينيِّ هو صندوقُ تقاعدي قطاعي وفق الأنشطة الاقتصادية والمهنية العريضة والذي يُدارُ بشكل مشترك من قبل ربِّ عمل وممثلين عن العاملين وحيث يتم خصخصة مسؤولياتَ الصندوق ولكن يبقي القطاع العامَ هو المسؤولَ عن رسم السياسات المنظمة لصناديق التقاعد.

توزيع المسؤوليات

تقترح الدراسة بأن تقوم الحكومة بوضع سياسة التقاعد وأن يعمل أرباب العمل والعاملين على إدارة الصندوق، ويعمل القطاع الخاص على جمع المساهمات وإدارة الأصول وعملية مناقصات وطلبات عروض ادارة الاستثمار يَجِبُ أَنْ تَكُونَ مفتوحة للمرشحين المحليين والدوليينِ.

تخصيص الأصول

توصي الدراسة بأنه يناط إلى مجلس إدارة الصندوق مهمة إ قرار نموذج تخصيص الأصول الملائم لصندوق التقاعد لضمان الحد الأعلى من العائدات للمساهمين. ويتم مراجعة هذا التخصيص من وقت لأخر من أجل اجراء التعديلات الملائمة حسب تطور الوضع السياسي والاقتصادي.

الخطوات القادمة والتوصيات

كما تبين الخبرات العالمية، فإن صناديق التقاعد الخاص تؤثر إيجابياً على المؤشرات الاقتصادية كالناتج المحلي الإجمالي، العمالة والأسعار، وتلعب دور رئيسي في ضمان نمو اقتصادي مستدام.

المساهمة، مدعومة بنظام شبكة أمان، ، يُسيطرُ على أكثر البلدانِ المتطورةِ الآن. في العديد من البلدان النامية في أمريكا اللاتينية وبلدان الشرق الأوسط، بدأت أنظمة المساهمة إلزامية تشق طريقها إلي أنظمة صناديق التقاعد، بينما مازالت بلدان أخرى تستخدم صناديق الادخار أو تعتمد بشكل كبير على أنظمة تقاعد غير إلزامية .

نتج عن إصلاح سياسات أنظمة التقاعد ثلاث نماذج تكييف النظام متعدد الأركان وهي: نموذج منظمة التعاون والتنمية الاقتصادية (OECD)؛ نموذج حساب التوفير التقاعدي التشيلي، و نموذج الحسابِ النظريِ (غير النقدي) .عملت الدراسة على تحليل تطبيقلت هذه النماذج في بَعْض التفصيلِ.

"نظام الضمان الاجتماعي" الفلسطينيّ

في ظل غياب نظام ضمان اجتماعي شامل، جزئياً بسبب ظروفِ تاريخية وسياسيةِ، اندفع الفلسطينيين للبحث عن ترتيبات بديلةِ لتلبية احتياجاتهم التقاعديةِ.

- **أنظمة التقاعد العامة**

تدير السلطة الوطنية الفلسطينية ثلاثة أنظمة تقاعد عامة- نظام خاص بالضفة الغربية، ونظام خاص بقطاع غزة، ونظام خاص للعاملين في الأجهزة الأمنية. تَغطّي هذه الأنظمة الموظفين الحكوميين، سلطة الإدارات المحليَّة والعسكريين، تقريباً ١٥ ٪ من القوة العاملة في الضفة الغربية وقطاع غزة. جميع هذه الأنظمة هي وفق نظام الفوائد المعرفة ولا تسمح بتراكم رأس المال من اجل الاستثمار و النمو الاقتصادي. لقد أدركت السلطة الوطنية الفلسطينية ضخامة حجم الدين التقاعدي الضمني لهذه الأنظمة، والتي قامت على ضوء ذلك بتأسيس هيئة التقاعد الوطنية لتقييم سيناريوهات محتملة للإصلاح. إن قانون المسودة الجديدةَ منْ نظام التقاعد العامّ والذي تم تُبنّيه في عام ٢٠٠٥، يَقترحُ نظام متكامل من المساهمة المعرفة مع ضمان راتب تقاعدي أساسيِ.

- **خطط التقاعد الخاصة**

نفذت "بورتلاند ترست" استبيان استهدف المؤسسات والشركات في فلسطين، وقد نتج عنه أنه لو وجد صندوق تقاعد موثوق به للقطاع الخاص في فلسطين، لتمكن من جذب عدد كبير من المؤسسات.

حالياً،تطبق بعض الشركات نظام التعويض الإلزامي الذي يَعْرضُ مبلغ إجمالي إلى الموظف عند إنهاء خدماته. وهناك قله من الشركات التي تؤسس صناديقَ احتياطية لدفع التزامات التعويض للموظفين، وبعض المؤسسات لديها صناديق ادخار غير ناضجة (عدد منْ صناديقِ الادخار في الجامعات والبنوك وشركات التأمين لَهُا أصولُ كبيرةُ). على الرغم من العيوب التي تنتاب صناديق الادخار، فإنها تمثل أساساً صالحا لتطوير أنظمة تقاعد خاصة حديثة.

إصلاح أنظمة التقاعد في فلسطين

إن مجموعة القيود السياسية –الاجتماعية والاقتصادية في فلسطين أوصلت أنظمة التقاعد الموجودة إلى التخلف والشرذمة وعدم الاستدامة. وهذا ما يجعل القول المهم انه من الضروري تطوير نظام تقاعد خاص الذي بدوره سيتمم صناديق التقاعد الموجودة.

ملخص تنفيذي

من أجل خَلْق اقتصاد يقوده قطاع خاصّ حيوي في فلسطين

ضرورة تَطوير نظام صناديق التقاعد للقطاعِ الخاص في الضفة الغربية وقطاع غزة

إن غياب نظام تقاعدي حديث وديناميكي في فلسطين، أجبرَ القوة العاملةَ الفلسطينيّةَ للبحث عن حلولٍ بديلةٍ مثل التوفير والادخار الشخصي و الاعتماد على الدعمِ العائلي لتلبية احتياجاتهم عند التقاعد.

وقد طور القطاع العام خلال السَنَوات الثلاث الماضية، خطة إصلاح شاملة لأنظمة التقاعد العامّة. لكن الوضع في القطاع الخاص ليس مشابها لذلك، فان وجدت أنظمة تقاعد في مؤسساتِ القطاعِ الخاصِ فهي أنظمة تقاعد غير ناضجةٍ.

وفي هذا السياق، قامت "بورتلاند ترست" بتنفيذ دراسة جدوى اقتصادية لمراجعة الحالة القائمة لأنظمة صناديق التقاعد والادخار المتوفرة في الضفة الغربية وقطاع غزة، وتحليل الخبرة العالمية في هذا المجال، بهدف اقتراح نظام صناديق تقاعدية ملائم لفلسطين.

إننا نعتقد، ومن خلال ما قدمته الدراسة، انه من الضروري اتخاذ خطوات فورية لتطوير صناديق تقاعد للقطاع الخاص ذات ادارة فعالة.

نشؤ وتطور أنظمة التقاعد

خلال العقود القليلة الماضية، توسعت أنظمة التقاعد الخاصة على مستوى العالم، حيث أخذت تلعب دورا مركزيا في توفير الدخل التقاعدي. وفي حالة الدول النامية، تعتبر صناديق التقاعد الخاصة جذابة جدا لكونها تخلق معدلات عالية لاستبدال الدخل وتعمل على تعبئة وحشد رأس المال الذي يطور بدوره الأسواق المالية ويحفز النمو الاقتصادي.

إن ما حفَز و دفع برامج إصلاح أنظمة التقاعد إلى الإمام و بشكل رئيسي هي عوامل النَمُو الاقتصادية والضغوط السكانية. فقد بات من الضروري تكييف هذه الأنظمة لتتلاءم مع الاتجاهات الفعلية لتطويل عمر السكان، قضايا التقاعد المبكر، وضمان تمدد وشمول المنافع للعمال المعرضين لخطر الفقر وكذلك العاملين في القطاع غير الرسمي.

و تشمل أنظمة التقاعد التقليدية على نظام الدفع عند الحاجة من الموازنة الجارية، نظام الفوائد المعرَفة، ونظام صناديق الادخار. عملت الدراسة على تحليل كل نظام من هذه الأنظمة بشكل مفصل وكشفت عن المشاكل العامة التي تعانيها الأنظمة القديمة مثل عدم قدرتها على معالجة مشكلات زيادة معدلات التهرب والتقاعد المبكر، بالإضافة إلى طبيعتها المفتقدة للاستدامة بسبب تعمير السكان.

مع مطلع الثمانينات، بدأت البلدان بالتحرك نحو نظام متعدد الأركان، يتكون من عمودين إلزاميين وأخر تطوعي للعاملين الراغبين بزيادة دخلهم عند الشيخوخة. إن هذا النوع من أنظمة التقاعد المتميزة بتاريخ

تَطوير نظام صناديق التقاعد للقطاع الخاص في الضفةَ الغربية وقطاع غزة

The Portland Trust

آب 2007