OECD/IOPS 2nd MENA WORKSHOP ON PENSION REGULATION & SUPERVISION

Update on improvements to pension system coverage in the MENA region.

Challenges for development

Amman-Jordan 2 March 2011

Mr. Ibrahim Muhanna, FCAA, MSAA, FLAA

Chairman

Board of Trustees

The Muhanna Foundation

1. **Introduction**
2. **MENA Countries – general demographic and financial characteristics**
3. **Briefing of specific countries** – Bahrain, Cyprus, Egypt, Lebanon, Morocco, Oman, Qatar, Saudi Arabia, Sudan & South Sudan.
4. **Comparison (**fragmentation, replacement & coverage)
5. **Role of the Insurance Industry**
6. **Challenges**

MUHANNA FOUNDATION 1994

The Muhanna Foundation

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

- Pension
- Long Term Care
- Healthcare

"Education for Retirement"

"A baby born today will retire in 2075 (if not later).
We are supposed to educate our children for a future that we have no clue of.

So, since 2015 may be clear (to some of us at least),
should we be content with educating people who are 60?
Or is it too late?

The obligation to look long term and adjust/adapt as we go along!!!"

i.e. muhanna

The Muhanna Foundation

MENA Retirement Benefit Schemes Demographic and Financial Characteristics

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

MYOPIA of the general public….

- Individuals can have difficulties planning for the future and under-save when young.
- Orientation towards short-term consumption needs
- Cultural stigma associated with sickness, accidents and death
- Religious barriers
- Traditional protection systems still in place in developing societies (family, community….)
- Women are still not educated enough to take the matter into hand for the sake of their family
- Coverage is believed to be the sole responsibility of the government

MYOPIA of insured members….

- No perspective on the future of the scheme
- Orientation towards maximum short-term benefits
- Incentives to exit the earliest with the maximum benefit
- Limited credibility in the schemes
- Better knowledge of the institution
- To receive better behaviour from insured members and participants
- to convince them about a given aspect of administration or legislation
- to encourage communication

Few countries in brief

- Bahrain
  - Defined Benefit Schemes One Organization SIO previously GOSI – Private Sector PFC – Civil Service & Military Service. Defined benefit schemes – benefit based on final or average salary. All 3 schemes under the umbrella of the Audit General Office. Provide insurance against old age, disability and death. Target an overall retirement benefit that replaces around 75% of pre retirement income
- Cyprus:
  - All workers are covered by the Social Insurance Fund (SIF) (basic and supplementary benefits). More than 60 occupational pension schemes for government and semi-government employees with benefits over and above the SIF Benefits. Special pension schemes for specific categories i.e. lawyers, doctors – over and above . More than 2,000 provident funds with benefits in the form of lump sums – over and above.
  - Supervision - Investment Restrictions, Statement of Investment Principles, Reporting to members, Funding regulations.

Few countries in brief

- Egypt:
  - 6 different mandatory pension schemes for the following categories, civil servants, workers in public and private enterprises, self-employed, casual workers, workers abroad, military
  - Defined benefit schemes usually based on the final salary
  - There are also more than 600 voluntary employer sponsored additional benefits.
  - Problems faced by occupational pension schemes: low funding rates. the funds do not operate under an effective set of funding standards. incomplete regulatory framework. low coverage rates
- Lebanon:
  - Defined Benefit Schemes – Government run: Civil Service, Military Service, Parliament Members, Judges
  - Defined Benefit Schemes – Privately Run: Engineers, Doctors, Lawyers, Others
  - Provident Fund – private sector (end of service benefit commuted into pension, in the works. A hybrid system. A defined contribution with few guarantees such as minimum pension and minimum rate of investment. It also in incorporates self adjusting mechanisms for contributable salaries) !!!!.

MUHANNA FOUNDATION 1994

The Muhanna Foundation

Few countries in brief

- Morocco:
  - Civil and Military Servants (Caisse Marocaine de Retraite)
  - Private sector workers (Caisse Nationale de Securite Sociale)
  - RCAR for contractual workers

  Defined benefit schemes based on the final salary (CMR) on the average salary of the last 8 years (CNSS) and on the career revalued average (RCAR). Occupational pension schemes also exist in Morocco. Some occupational plans of public enterprises closed down and were integrated into RCAR. **The Insurance Regulator also monitors the mandatory pension plans**

- Oman:
  - PASI- Defined benefit scheme – benefit based on the average salary for the last 5 years. Provide insurance against old age, disability and death. Target 75% replacement rate. Adopted parametric reforms in 2005.
  - Civil Service, Ministry of Defense, Royal Guard, Internal Security Services, Royal Court, Oman Police. Defined benefit schemes - final salary. Provide insurance against old age, disability and death. Target 75% replacement rate. around 75%. New regulatory independent authority will be set up for all 6 pension schemes. Single Board of Directors. **Single Investment Authority**
  - Specific Private sector companies. Defined benefit schemes - final salary schemes. provide insurance against old age, disability and death. Some schemes operate as top up schemes, over and above PASI benefits. Under some regulations from PASI

Few countries in brief

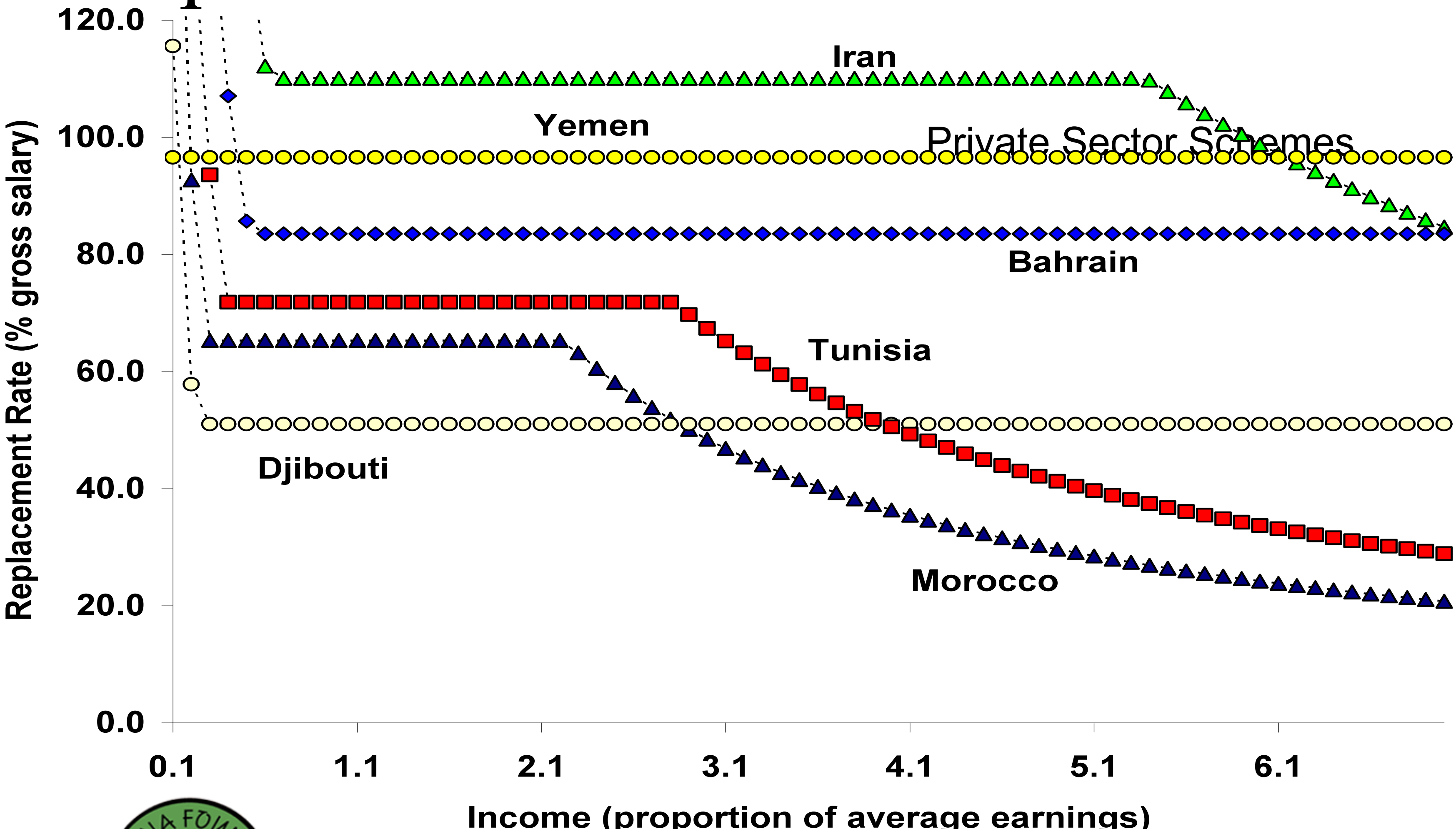
- Qatar
  - One organization administering the public sector pension funds both civil & military. Mandated private sector pension law is in the making.
  - One of the most generous systems in the region.
  - Only few occupational pension plans in existence.
- Saudi Arabia
  - Two major efforts took place in the Kingdom in the past few years, parametric reform of the private sector scheme GOSI, and the portability rules between the public and private schemes.
- Sudan & South Sudan
  - A major review of the both the public and private pension system is taking place

Thus we have Fragmented Dual Systems

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

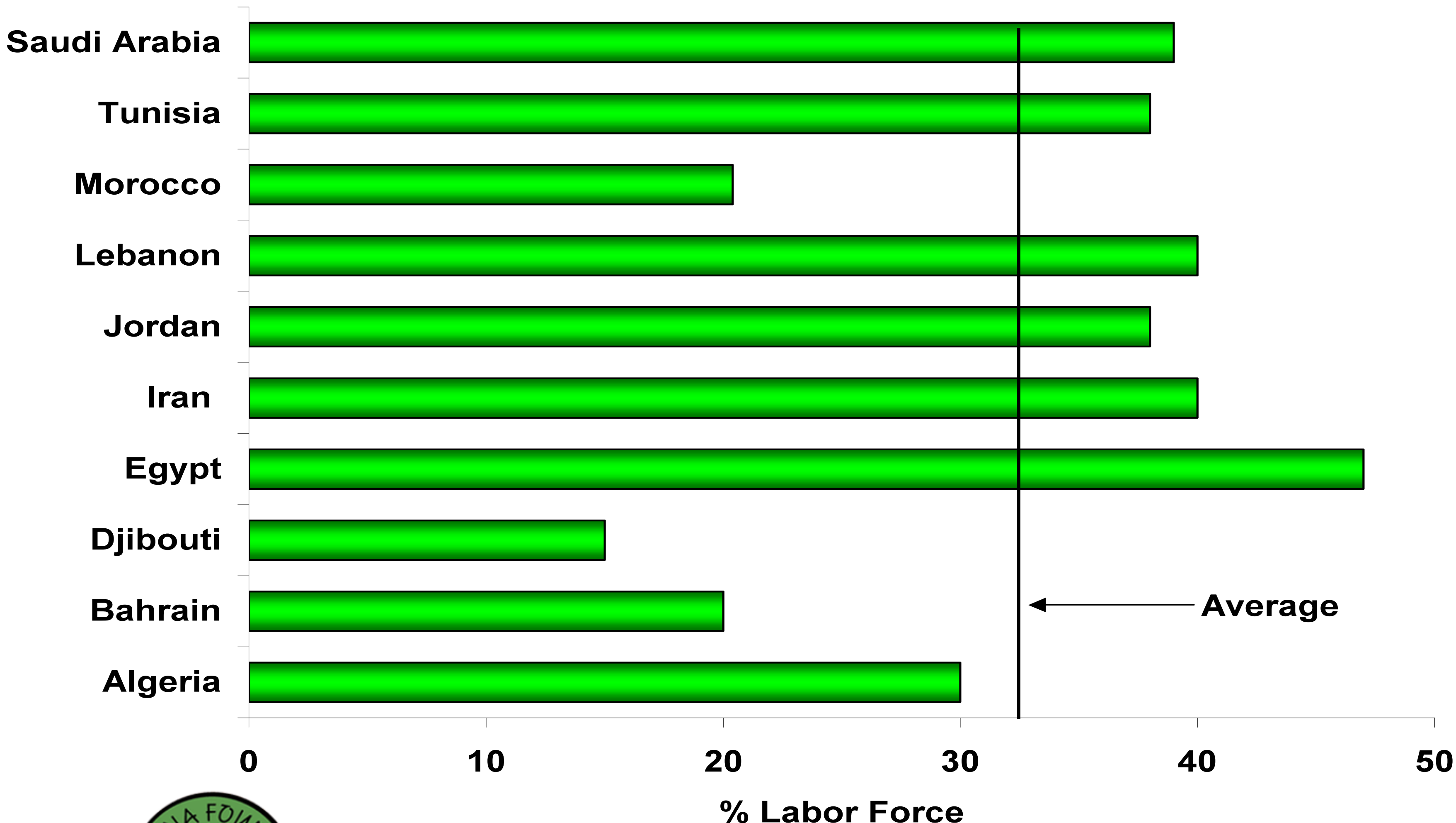
The Muhanna Foundation

Large variation in patterns of income replacement in Mandated Schemes



The Muhanna Foundation

Coverage rates are modest (mostly wage-earners)



The Muhanna Foundation

Role of private pension systems

- Adequacy: an **absolute** measure of living standards.
  - individual pension entitlement as a proportion of economy-wide average earnings.
  - **pension level.**

- Insurance: a **relative** measure of living standards.
  - individual pension entitlement relative to
    individual earnings when working.
  - **replacement rate.**

The Muhanna Foundation

ISSUES

At the time of CLAIM, the insurance company:

•Is still operating;

•Is solvent;

•Is willing to meet it is obligations

The big QUESTION:

• Is the Insurance COVERAGE adequate?

•Did the client receive BEST ADVICE at the time the insurance was DESIGNED & purchased & up to the time of the claim?

REGULATIONS

Most REGULATIONS in the region are CONCERNED in safe-guarding policyholder's interest through minimizing potential default of an insurance company!!!

Almost no Regulator in the region has looked thoroughly into the methodology used in soliciting insurance business & advising clients of insurance coverage.

INDIVIDUAL RISKS

SEVERITY

- Permanent Total Disability
- Death
- Long Term Disability
- Retirement (switching)
- Unemployment
- Temporary Total Disability
- Permanent partial Disability
- Healthcare
- Schooling

INDIVIDUAL PARAMETERS

1. Age & Sex
2. Souse & Children – ages & sex
3. Assets (savings, home, …)
4. Liabilities (loans, mortgages, …)
5. Income (individual – spouse) – (home or expatriate)
6. Expenses (before & after risk) & Taxes
7. Schooling, University, Dowry, Start up capital.
8. Employee Benefits & other insurances
9. Social Security
10. Economic & Social Conditions (returns, inflation, …)

INDIVIDUAL PARAMETERS

Principal	Assumption
Age	25 years
Annual Income	**$ 15,000**
Income Increase (before age 35)	5.5%
Income Increase (Long-term)	4.0%
Annual Individual Expenses	**$ 12,000**
Price Inflation	3.0%
Age at Marriage	30 years
Retirement Age	65 years

INDIVIDUAL PARAMETERS

Spouse	Assumption
Age Difference of Spouse	-5 years
Annual Income	**$ 12,000**
Income Increase (before age 35)	5.5%
Income Increase (Long-term)	4.0%
Retirement Age	60 years

MUHANNA FOUNDATION 1994

The Muhanna Foundation

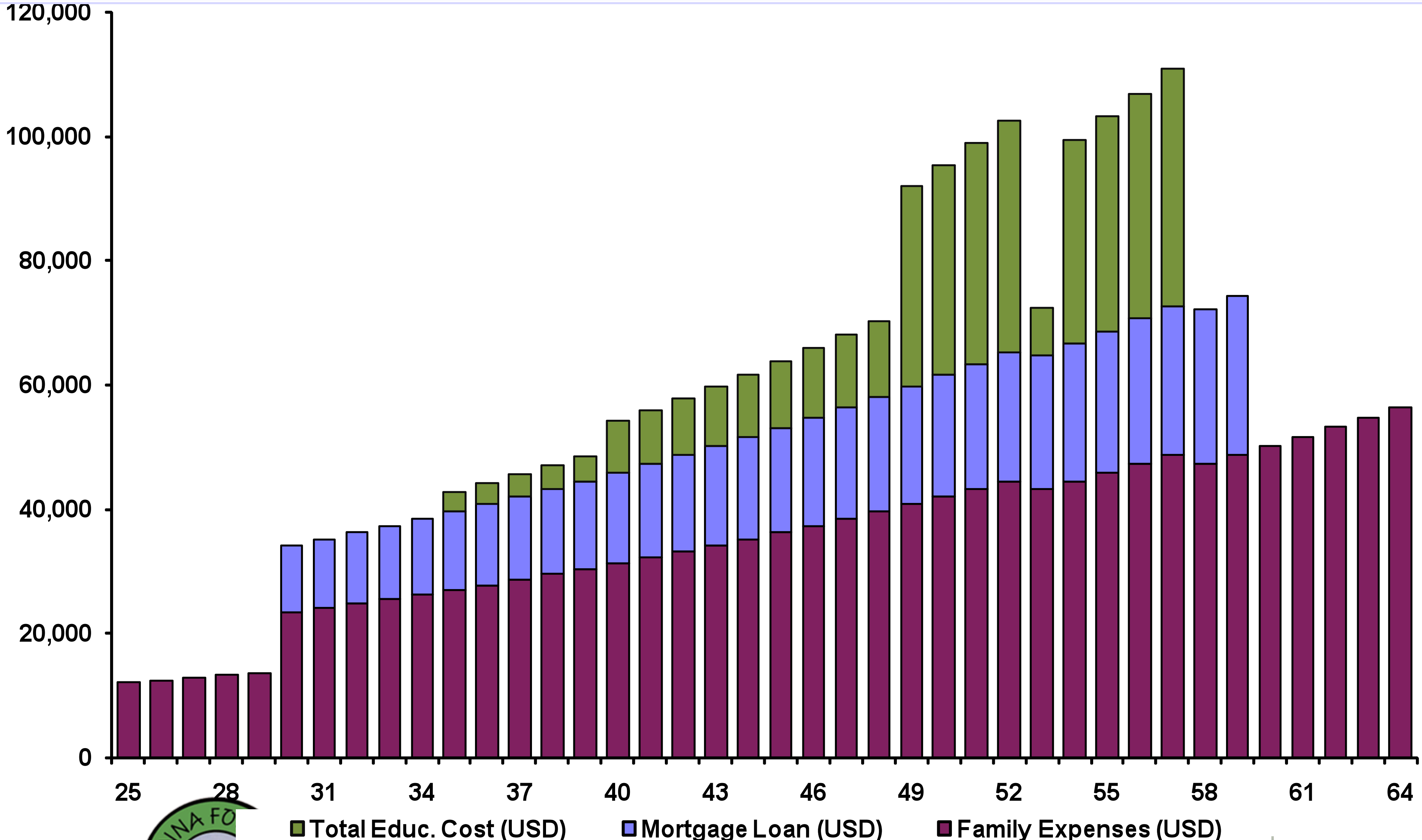
INDIVIDUAL PARAMETERS

Children	Assumption
Child 1 expected after	1 year
Child 2 expected after	6 year
School	
Average Tuition (1st year)	$ 2,000
Increase in Tuition	5%
Schooling Period	15 years
University	
Average Tuition (1st year)	$ 7,000
Increase in Tuition	5%
Schooling Period	4 years

INDIVIDUAL PARAMETERS

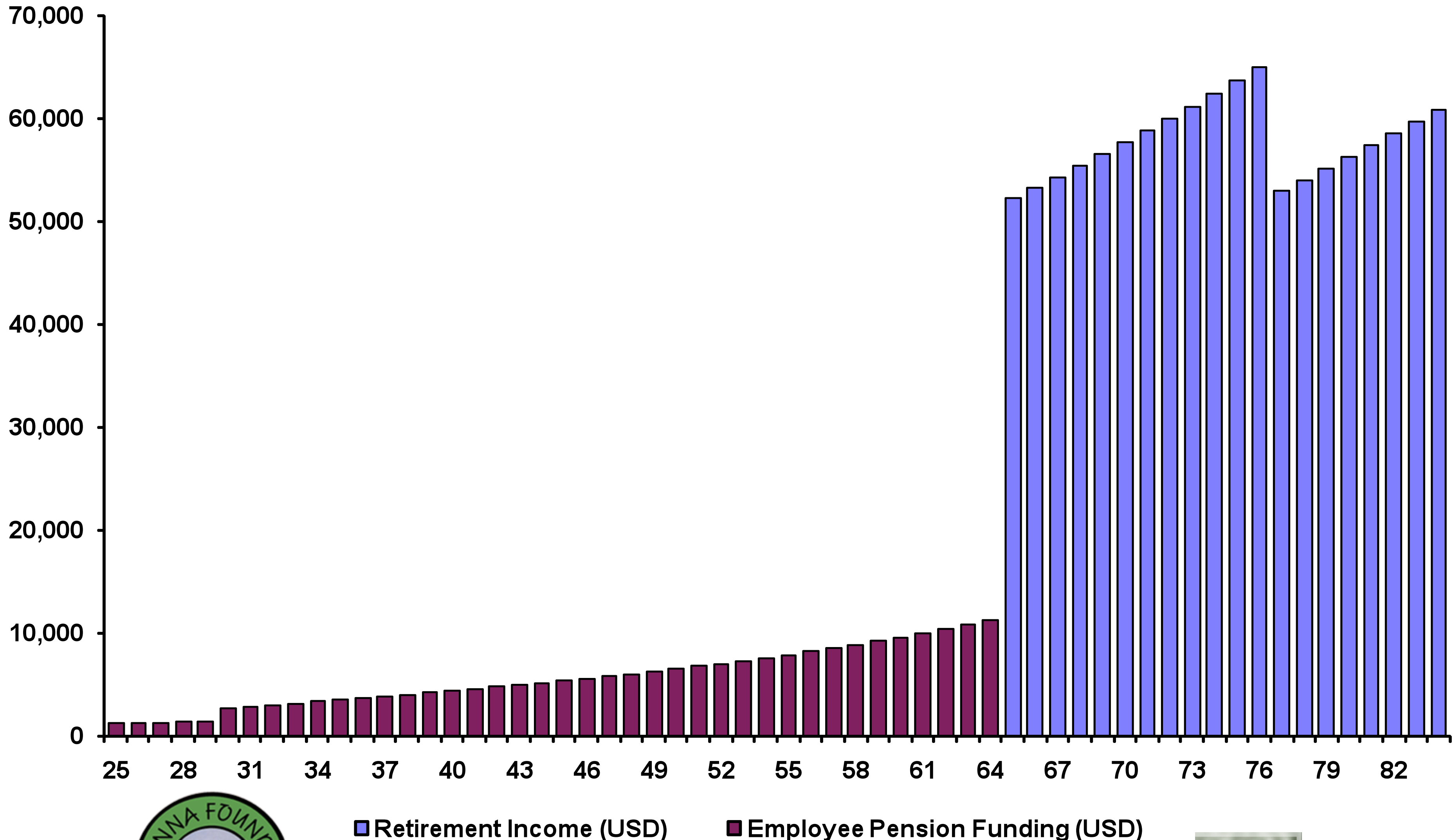
Family	Assumption
Annual Expenses	$ 20,000
Price Inflation	3%
Return on the Investments	5%
Mortgage Loan	$ 180,000
Period	30 years
Interest	5%
Pension Funding (% of Income)	7.5%
Pension Level (% of last family exp.)	90%
Annual Increase in Pension	2%
Widow's Pension Level	80%

Pre-retirement expenses:
Family expenses, Education, Home mortgage



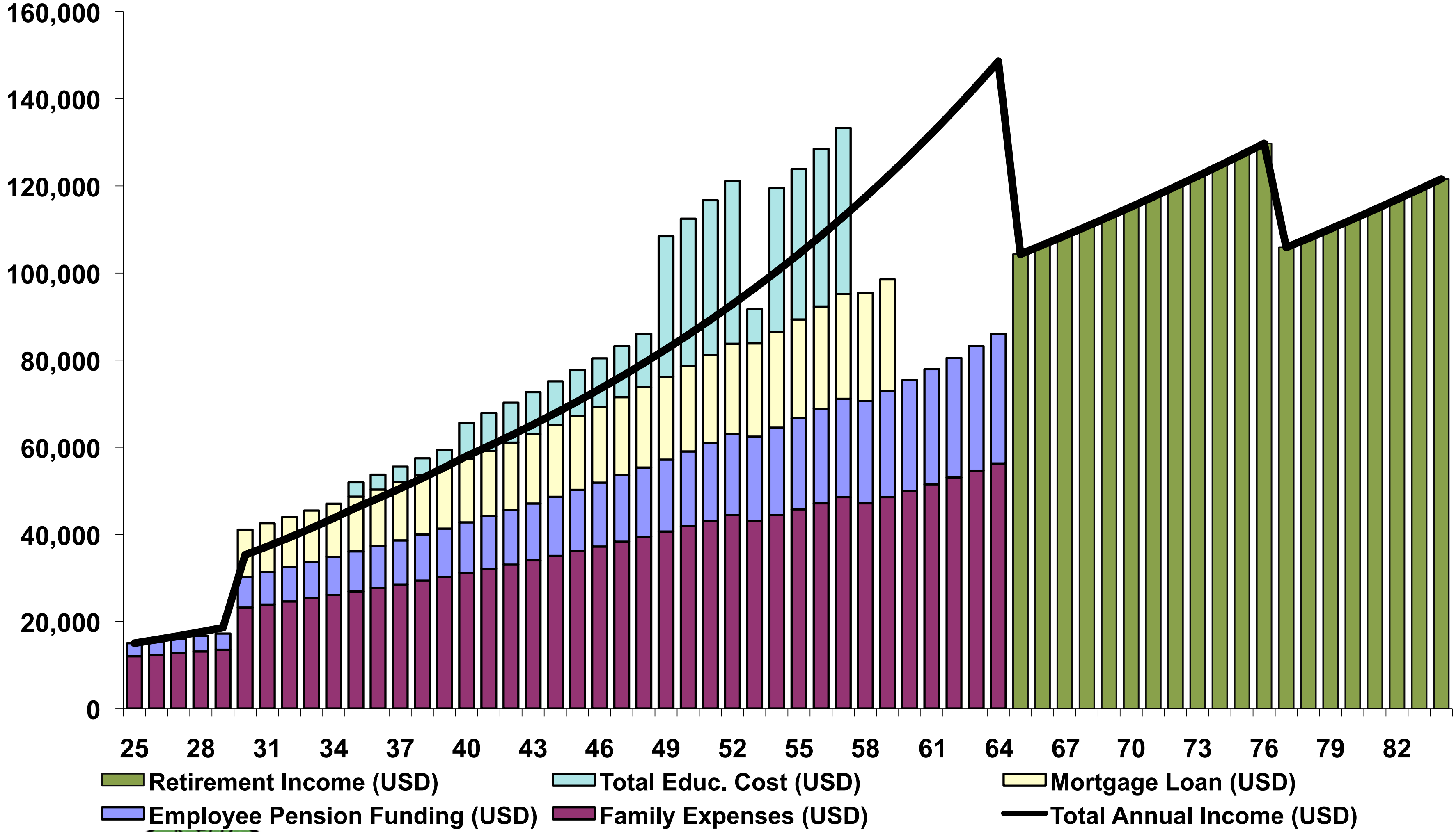
The Muhanna Foundation

Retirement income and Employee Pension Funding



The Muhanna Foundation

Retirement income reflecting ALL pre-retirement expenses



Are all pre-retirement expenses to be funded for after retirement??

•Needs change after retirement

•Children education fees no longer exist

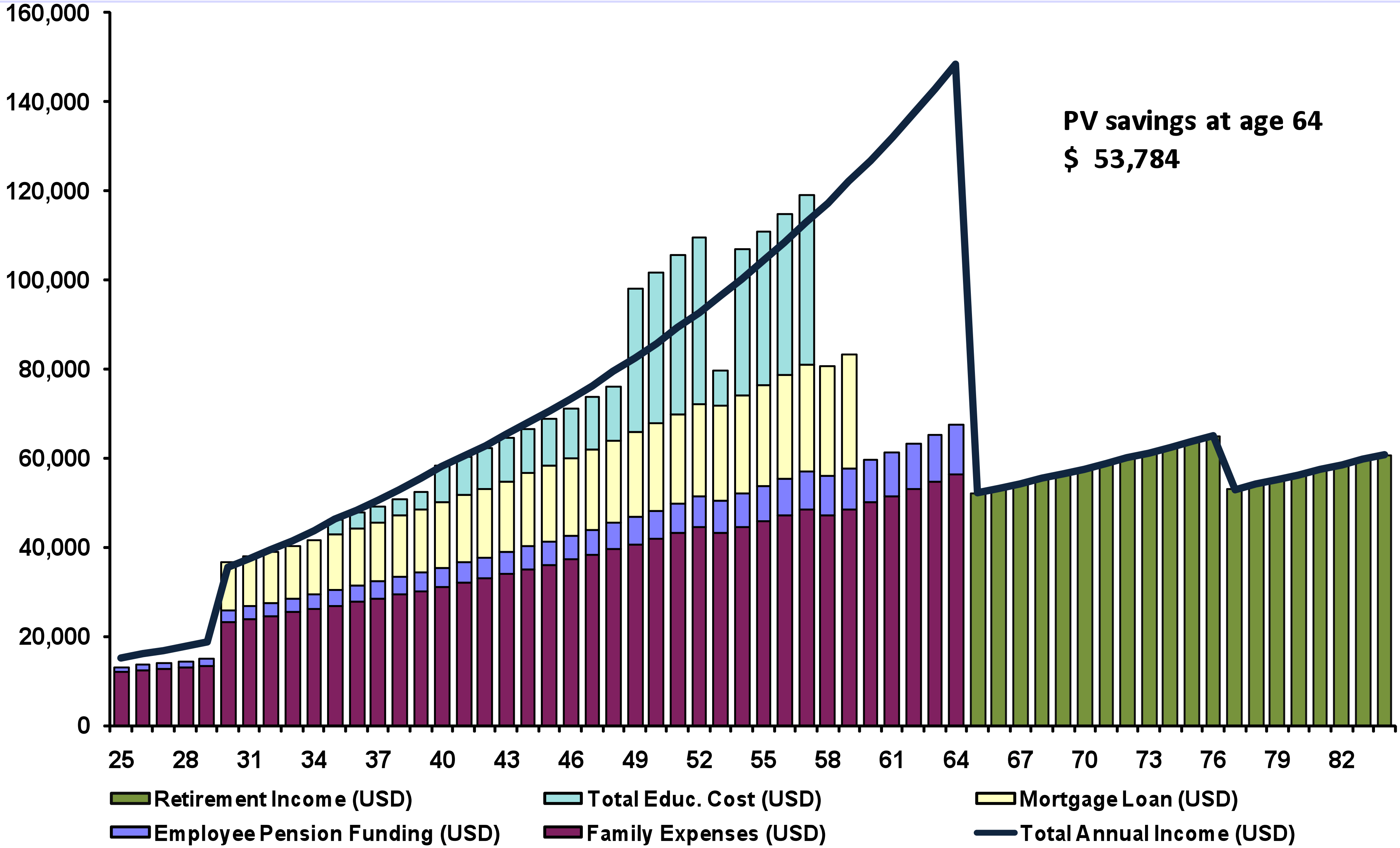
•The house mortgage loan is already paid

•Some more needs emerge

•Like health care expenses if not covered under a different plan...

•There is no need to over-fund and burden the employee's expense budget during active life..

Retirement income reflecting only post-retirement actual expenses



Funding for what is really needed...

- Only family expenses persist after retirement
- Funding for future pension should take only those expenses into account
- It is more easily sustained by the active employee
- Mandated schemes should focus more on this basic need, making the whole funding operation easier to implement for all parties involved...
- Quality of the advice is so critical

The Muhanna Foundation

MD vs FD

1. MEDICAL DOCTOR
    1. Visited
    2. Diagnosed
    3. Prescribed (the MD signs)
    4. Followed Up (need)
2. FINANCIAL DOCTOR
    1. Solicited (sold not bought concept)
    2. Analysed (inshallah)
    3. Sold (the clients signs)
    4. After sales service (hopefully)

Optimum Cover

- How much insurance?
  - $10K or $1M
- How long coverage?
  - 1 yr, 10yrs or lifetime
- What form of coverage?
  - Participation of profits, No profit, Guarantees!!
- Amount of cover?
  - Level, increasing or decreasing

CONCLUSIONS

1. It is NECESSARY to regulate the insurance companies financially but it is not SUFFICIENT.

2. It is imperative to:

    1. Licence consultants
    2. Make the consultant personally responsible
    3. Make companies responsible
    4. Regulate the cost of Sale (Transparency / Disclosure)
    5. Establish a random review
    6. Allow complaints

MENA Retirement Benefit Schemes Challenges

- **Countries with more than one social security scheme should converge to a unique pension system – benefits:**

  - economies of scale, flexible labor force, equitable pension system

- **Lack of formal supervision regulation both in the case of social security schemes and for occupational pension schemes. This is required in the following areas:**

  - funding and investment rules

  - asset segregation, asset diversification, investment limits

  - transparency and information disclosure

  - proper governance rules

MENA Retirement Benefit Schemes Challenges

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

The Muhanna Foundation

The Muhanna Group

- i.e. Muhanna & co. (Actuaries & Consultant) is the 1st and largest Actuarial Consulting Firm in the Region.
- i.e. Muhanna (Rating Services) is the only Insurance Rating Services in the Region.
- The Muhanna Foundation is only Actuarial & Social Insurance Education Foundation in the Region.

- Rendered services in **38** countries
- Provided services to **52** government & semi-government organizations
- Reviewed **18** Social Insurance Funds & Reviewed **97** Pension & Provident Funds
- Advised **63** life & general Insurance companies Provide services to **94** other private institutions
- Financed & sponsored **37** actuarial students
- Delivered & published **69** actuarial and insurance papers & studies

The Muhanna Foundation

THANK YOU

For feedback:

ibrahim@muhanna.org

Tel +9611 752 999

Fax +9611 751 292

For more information:

www.muhanna.org

The Muhanna Foundation