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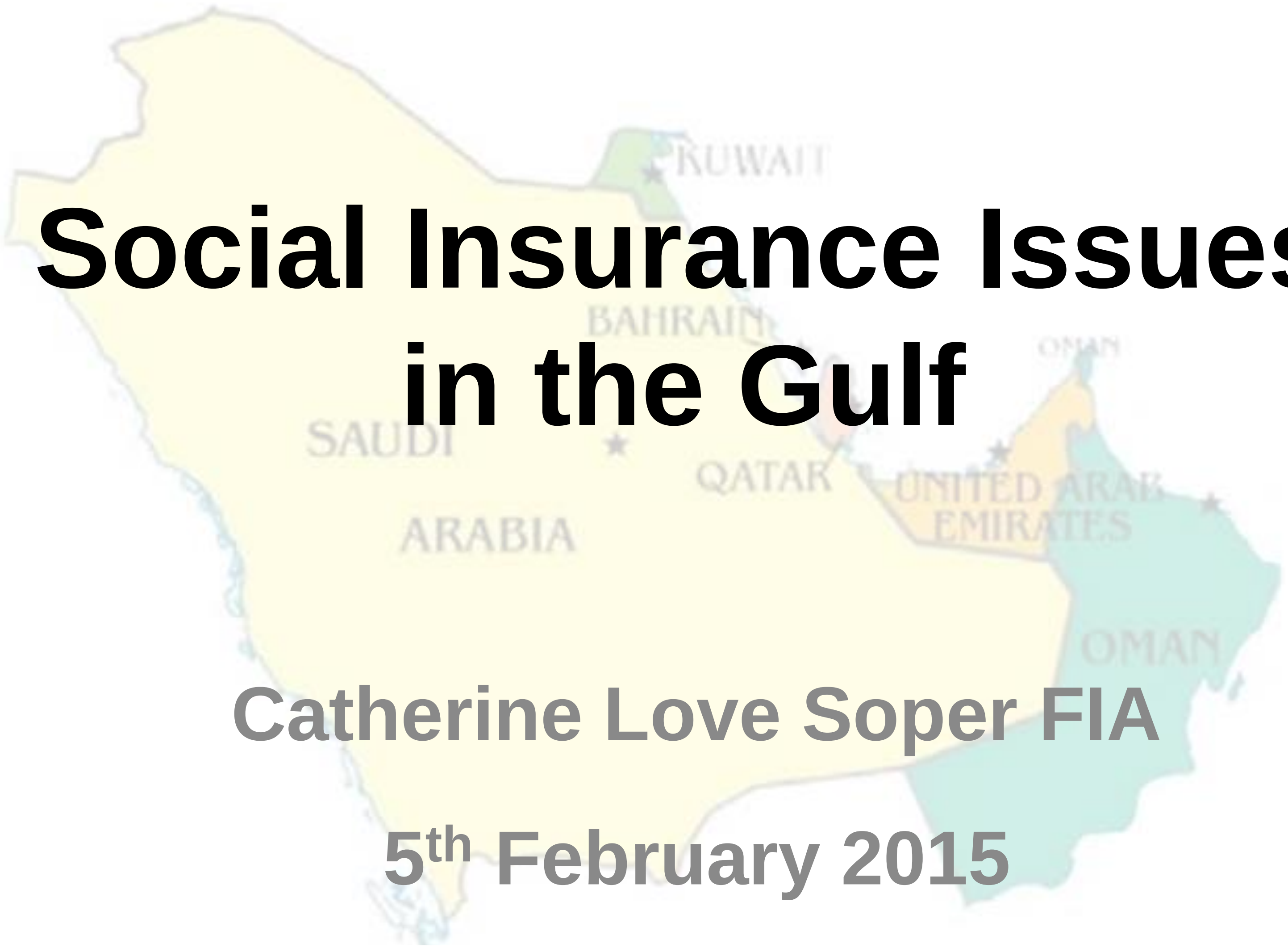
Social Insurance Issues in the Gulf



Catherine Love Soper FIA

5th February 2015

IAA CONSULTING ACTUARIES SECTION
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Agenda

- Introduction to the Gulf:
  - Social Insurance Schemes
  - Current Challenges
  - Ex-pats End of Service
- Case study: Abu Dhabi pensions
  - Benefits, Challenges and Opportunities
- Case study: Oman pensions
- Summary
- Questions?


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Introduction to the Gulf

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Myth that there is no work for pensions actuaries!

- Lots of DB scheme work
- Schemes all still open
- Populations still very young
- Exciting place to be an actuary!

Social Insurance Schemes

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- Civil Retirement and Social Insurance Schemes ensure pensions in each GCC state **for gulf nationals**;
- **Defined benefit and compulsory**;
  - Saudi Arabia - first social security scheme (GOSI, 1969)
  - Bahrain (GOSI, 1976)
  - Kuwait (KPISS, 1977)
  - Oman (PASI, 1992)
  - UAE (GPSSA, 1999 and ADRPBF, 2000)
  - Qatar (GRPA 2002)
- Largest and possibly only pillar in each of GCC countries so high expectations on income replacement.

Social Insurance Schemes

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- Provide for old-age, incapacity and death risks;
- Some provide occupational injury benefits, loans, funeral grants and marriage grants;
- **Benefits are very generous!**
  - Pension replacement rate is very high and maximum pension attained through short service periods,
  - E.g. In Qatar, only 20 years' service period to be eligible to get 100% of final salary,
  - Pension eligibility from early age (at 40 years old in Qatar and Kuwait).

	Maximum Pension (as % of final salary)
Bahrain	88%
Oman	80%
Saudi Arabia	75%
Kuwait	65%

Social Insurance Schemes

- GCC schemes funded on a partial basis with exception of Kuwait;
- Not common to fully fund liabilities of a social security scheme;
- Definition of a viable scheme is debatable! Typically use:
  - Projected reserve covers benefit expenditure by multiple e.g. 4 times;
  - Projected reserve remains positive for e.g. 60 years;
  - Benefit expenditure will not exceed certain percentage of GDP.

- E.g. Canada: projected reserve ratio same in 10^{th} and 60^{th} year
- E.g. US: income rate between 95% - 105% of cost rate for 75yrs

- GCC: partially funded system is not precisely defined!

Source: Financing of pension schemes, ISSA presentation, George Psaras

Current Challenges

- Reserves misunderstood to be surpluses in past!
- Led to a poor financial position.

<u>2006 report:</u>

- Total GDP of the GCC approximately $400 billion;
- Past service liability approximately $200 billion;
- Schemes' deficit approximately $100 billion;
- **25% of GDP** therefore significant!

- On average, benefits > contributions in 16 years;
- Funds will be depleted in 49 years.

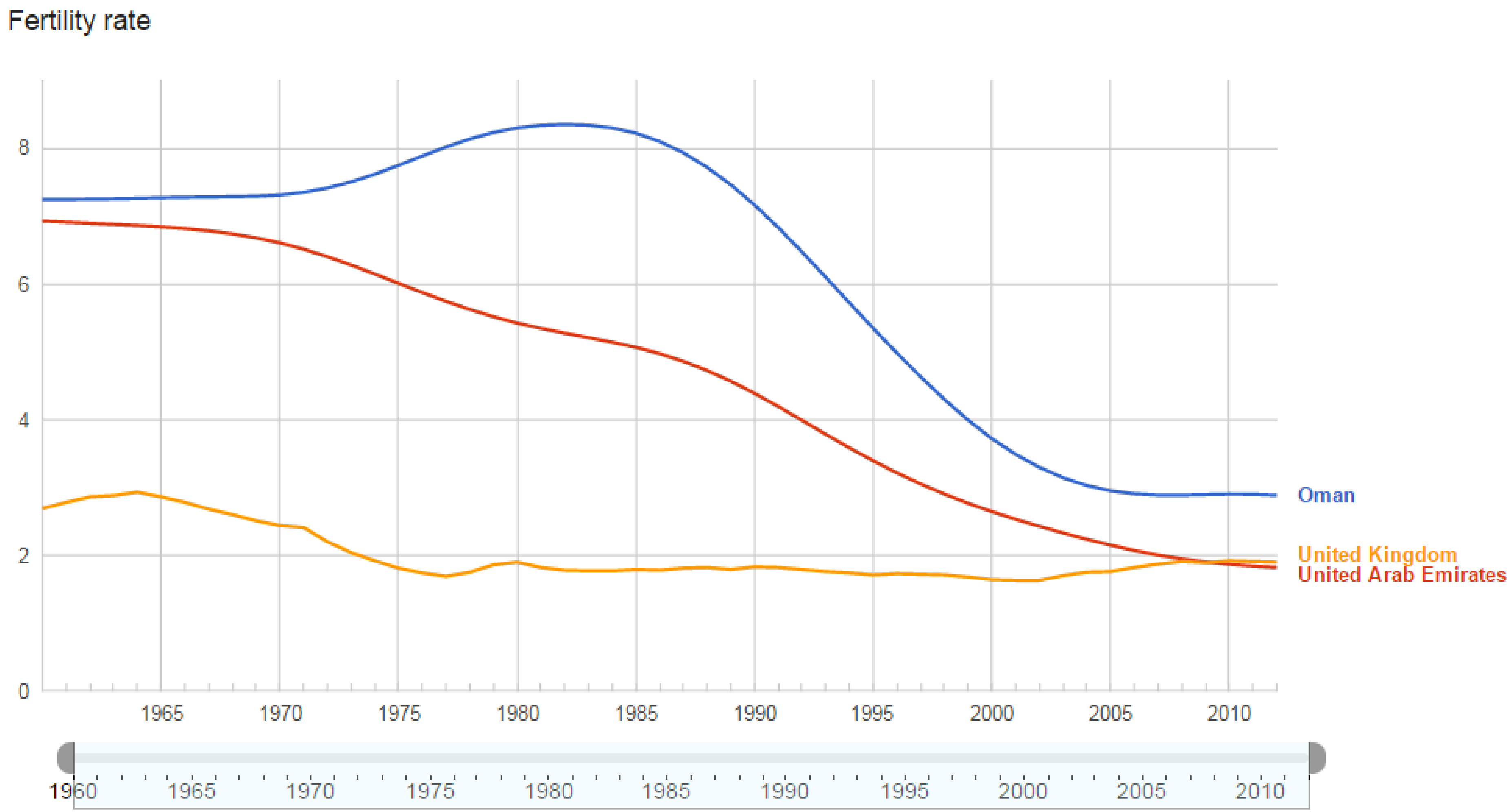
Source: i.e. Muhanna & co

Current Challenges

- Current funding position, and increasing economic & demographic pressures mean schemes are **unsustainable;**

- Reducing fertility rates;

Current Challenges



Data from World Bank

Current Challenges

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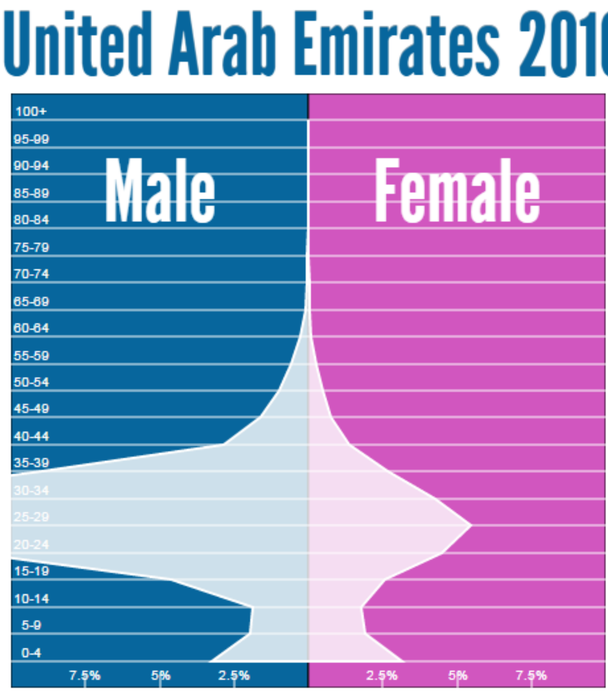

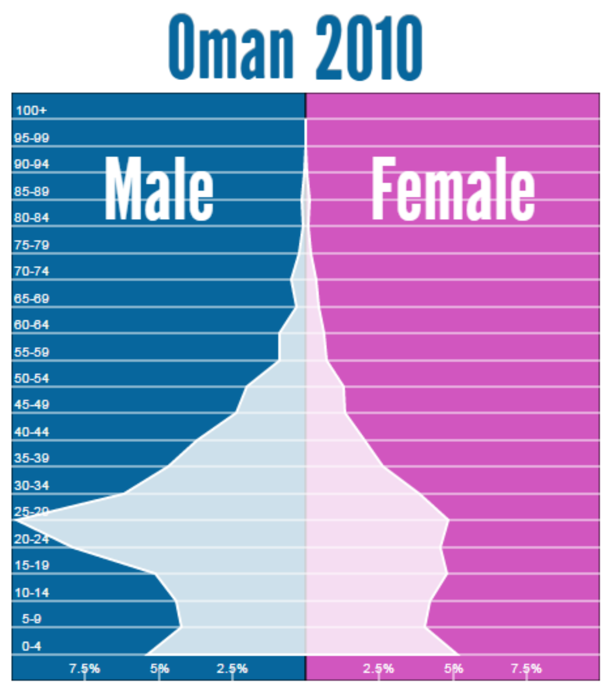

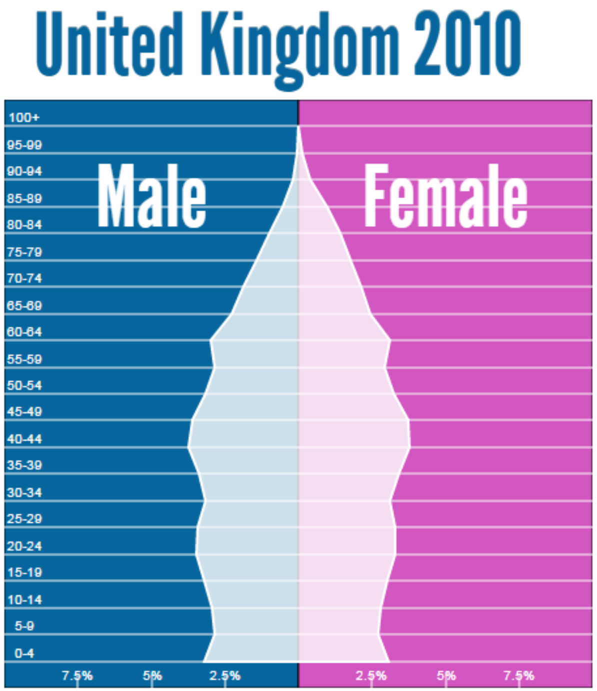

Source: United Nations, Department of Economic and Social Affairs, Population Division.

Current Challenges

- Current funding position, and increasing economic & demographic pressures mean schemes are **unsustainable;**
- Reducing fertility rates;
- Low retirement ages observed and increasing life expectancy;
  - Average retirement age observed in 2012 between 48 and 56 years old in GCC states.
  - Life expectancy in Oman risen more than 3 times faster than in UK since 1960

Current Challenges

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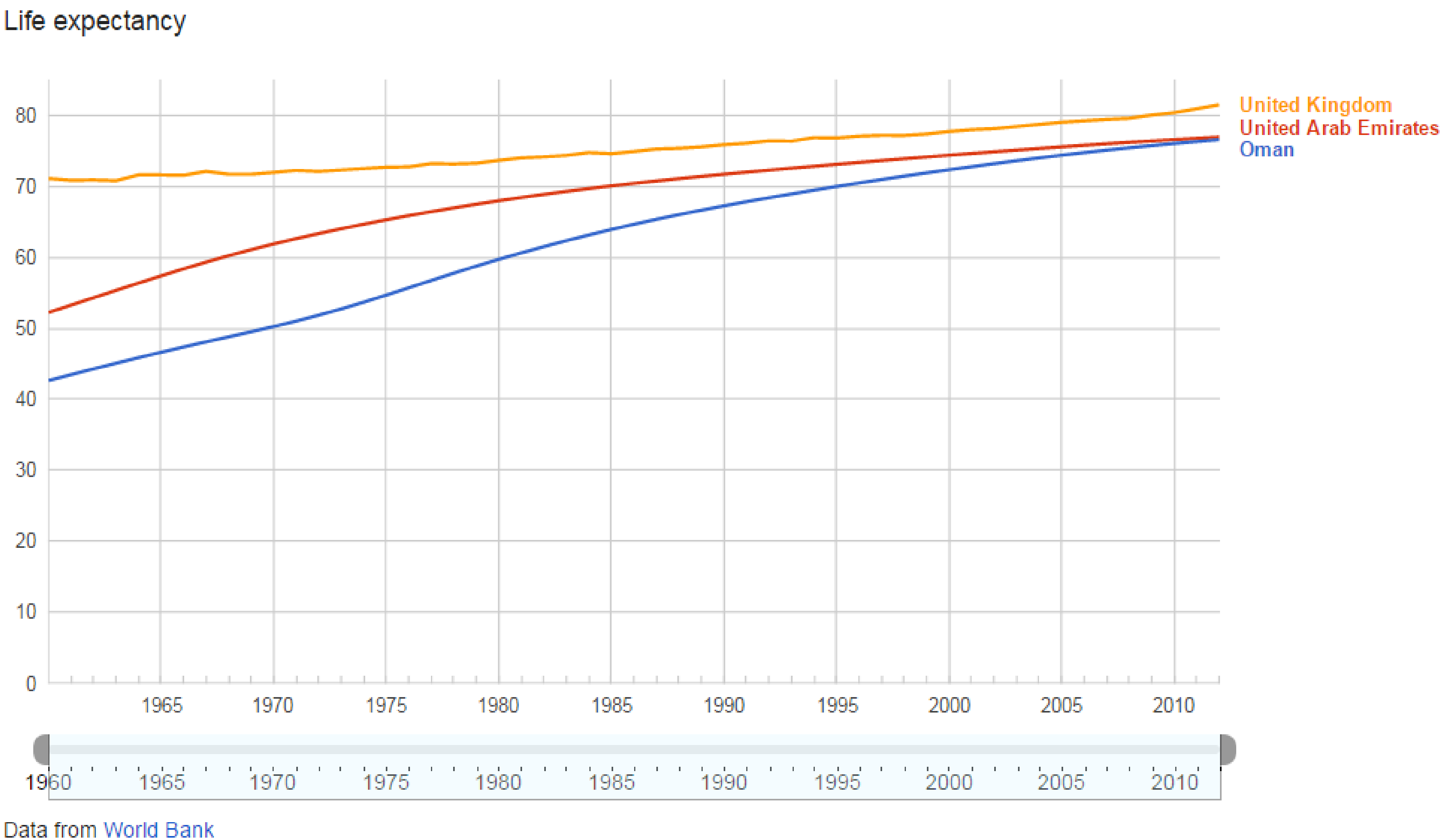

Current Challenges

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Average life expectancy at birth and at 60 years of age in the GCC states, 2000–2012

(Unit: year)

State	Average life expectancy at birth			
	2000	2005	2010	2012
United Arab Emirates	76.20	77.80	75.70	77.60
Saudi Arabia	71.90	72.20	73.30	74.10
Oman	73.38	74.28	76.10	[1]75.40
Bahrain	72.98	74.23	75.40	78.29
Kuwait	75.30	76.90	77.50	77.50
Qatar	74.46	77.22	77.55	[1]78.64
State	**Average life expectancy at 60 years of age**			
	2000	**2005**	**2010**	**2012**
United Arab Emirates	18.00	19.00	16.00	21.00
Saudi Arabia	20.40	20.90	21.50	21.80
Oman	N/A	N/A	N/A	N/A
Bahrain	19.00	20.5	21.50	22.00
Kuwait	15.00	17.00	17.10	19.00
Qatar	20.66	22.85	21.62	*22.50

* 2011 data

Source: World Social Security Forum, 31st ISSA General Assembly, Soliman S. Al-Humayyd

Current Challenges

- Current funding position, and increasing economic & demographic pressures mean schemes are **unsustainable;**

- Reducing fertility rates;
- Low retirement ages observed and increasing life expectancy;
  - Average retirement age observed in 2012 between 48 and 56 years old in GCC states.
  - Life expectancy in Oman risen more than 3 times faster than in UK since 1960
- Ratio of number of pensioners to number of contributors is increasing;
  - In UAE, from 24 contributors per one pensioner in 2000 to 5 contributors in 2012,
  - Average age of contributors rose from 29 in 2000 to 36.6 in 2012.

- **Challenge is how to reform the scheme structures to achieve stability and sustainability.**

Source: World Social Security Forum, 31st ISSA General Assembly, Soliman S. Al-Humayyd

Current Challenges

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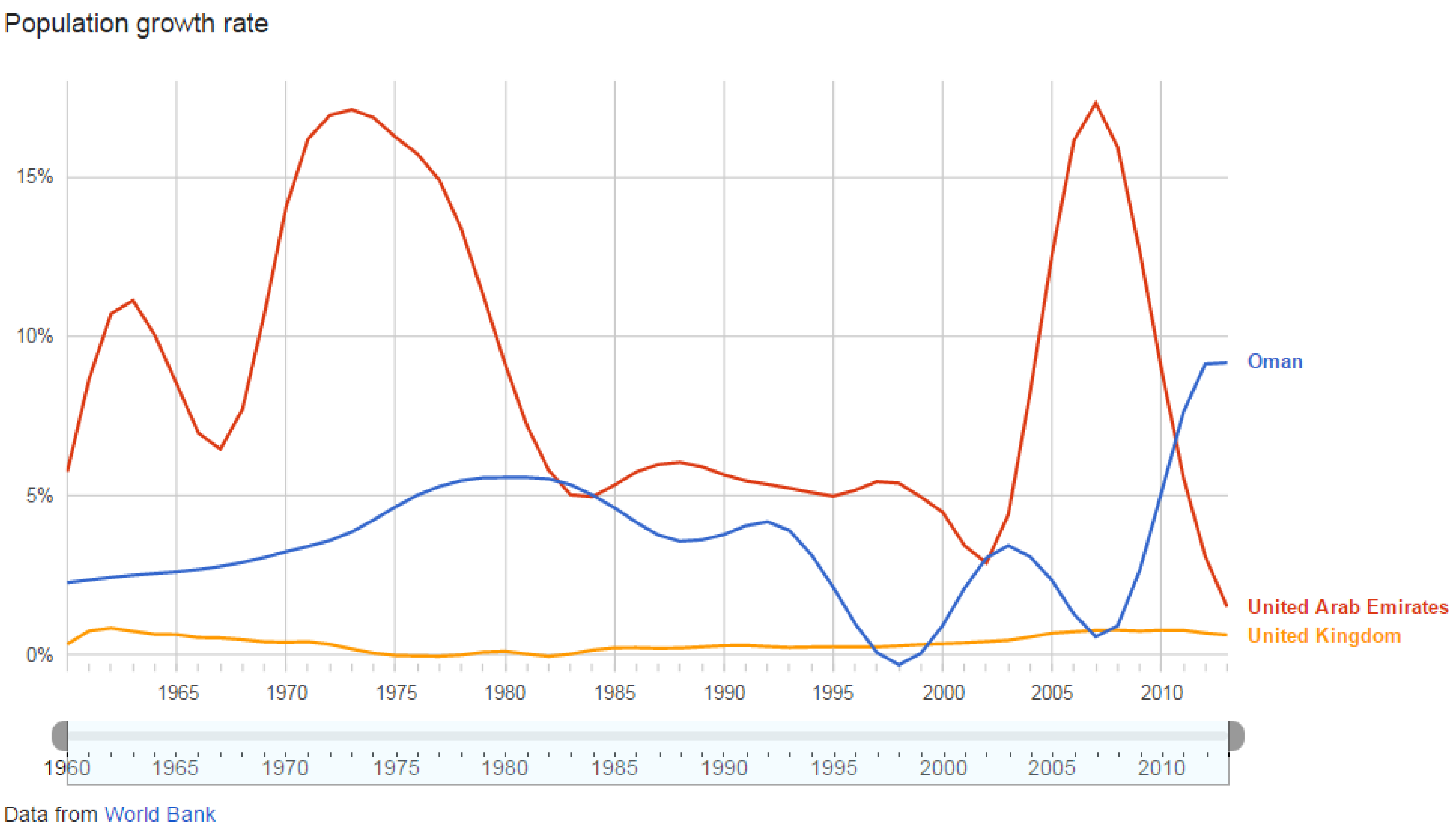

Current Challenges

Population of the GCC states, 2012 **(Unit: 000)**

State	Nationals	Total
United Arab Emirates	972	9,206
Saudi Arabia	19,838	28,290
Oman	2,093	3,314
Bahrain	596	1,318
Kuwait	1,079	3,250
Qatar	260	2,051

Source: World Social Security Forum, 31st ISSA General Assembly, Soliman S. Al-Humayyd, and the World Bank

Ex-pats: End of Service

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- Labour laws ensure ‘end of service’ (EOS) lump sum, based on **final salary** and **years of service**, for ex-pats;
- EOS typically unfunded;
- Returns greater in the oil industry!
- But - no protection on insolvency;
- Many people lost benefits in Dubai crash;

- Ministry of Presidential Affairs (in UAE) asked Callund to advise on options for social insurance for ex-pats;
- **Insurance schemes offer more advantages?**

Ex-pats: End of Service

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Government

- Institutional investors stimulate economy
- Ministry of Labour: less complaints!
- Attract more talent

Insurance Companies

- Boom in new business!
- Economies of scale in premium setting

Employees

- Protection
- Bring funds to home country when retire
- Combine other insurance for discounts
- Deals with Sharia Law

Employers

- Protection and good compliance
- Less shock effects
- IFRS valuations not required
- Competitive on world stage

Case Study: Abu Dhabi

Case Study: Abu Dhabi

صندوق معاشات ومكافآت التقاعد لإمارة أبوظبي

Abu Dhabi Retirement Pensions & Benefits Fund

- Abu Dhabi Retirement Pensions & Benefits Fund (ADRPBF) was formed in 2000;
- For UAE Nationals, and their beneficiaries, working in the Emirate of Abu Dhabi:
  - The Government;
  - Semi-Government;
  - Military and police;
  - Private sector employees; and
  - Self-employed.
- Compulsory, auto-enrolled (!), no opting out;
- Very unusual to have one scheme covering everyone

Case Study: Abu Dhabi

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Benefits:

- Retirement age: 60 males / 55 females, but:
  - Or, after 25 years' service (maximum pension);
  - Or, after 15 years if female and have children;

- Accrual rate 3.2%, maximum pension is 80% FPS;
- Lump sum post 25 years: 25% salary per year;
- Very generous death and injury benefits;
- Discretionary pension increases;

- Minimum pension £13k p.a. for a member;
- Minimum pension £2.2k p.a. for a beneficiary.

Case Study: Abu Dhabi

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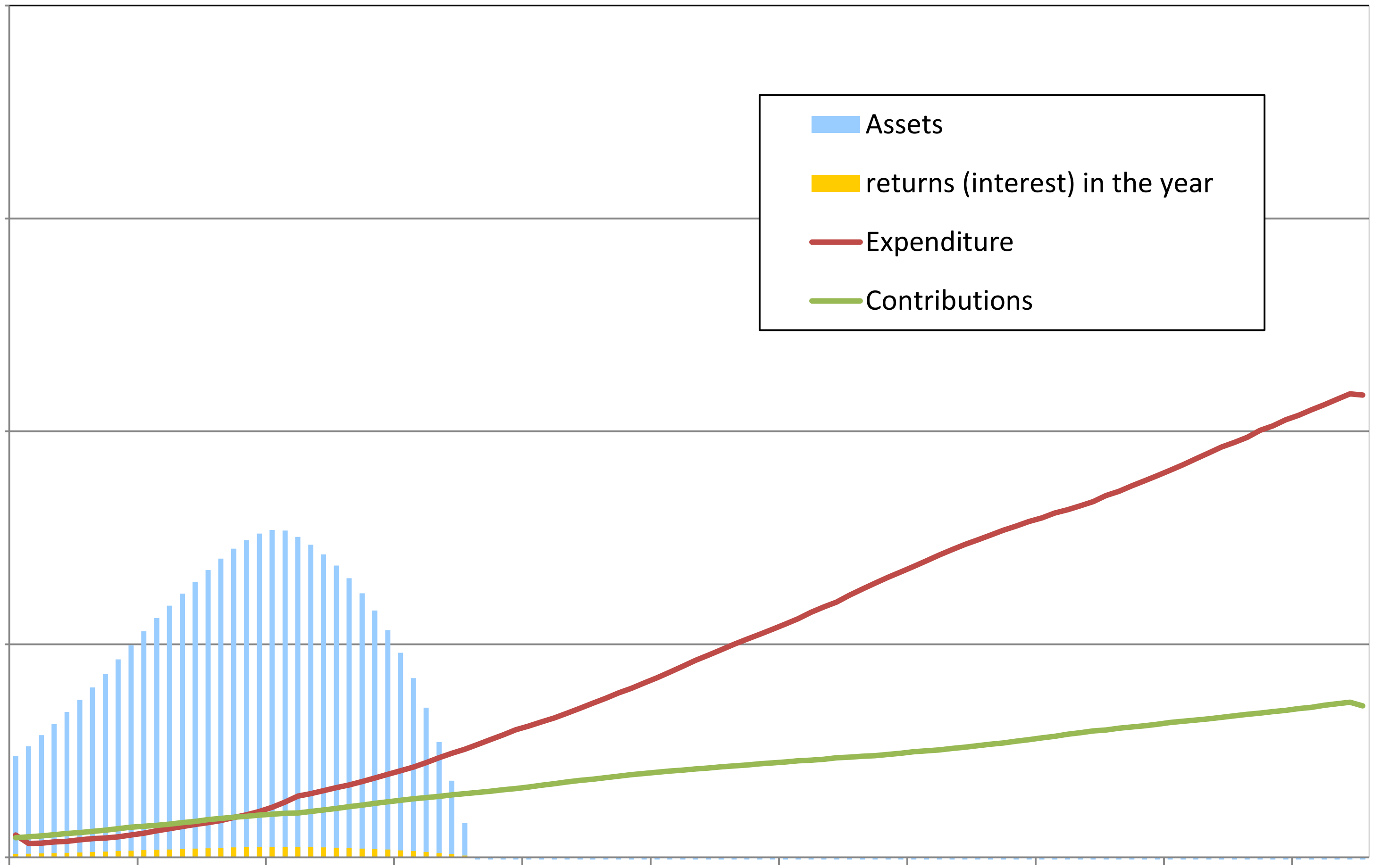
Beneficiaries:

- Widows and widowers;
- Children up to age 21 unless:
  - In full time education to age 26;
  - Holds a university degree but does not have a job, to age 26;
  - Is “unable” to earn a living;
  - Is a daughter and is unwed (!!!)
- Father, if his depended on deceased child;
- Mother, is she is divorced or widowed;
- Brother, to age 21;
- Sister, if unwed;
- Grandchildren, if their father is dead.

Case Study: Abu Dhabi

- When ADRPBF constituted, the law defined contribution rates:
  - Employee: 5%
  - Employer: 15%
  - Government: 6%
- No provision in Law for this to be changed
- Initially set up such that capital reserves would last projected 75 years;
- Since 2000, economy has grown significantly => significant real increases in pay for members of ADRPBF;
- Liabilities have increased significantly.

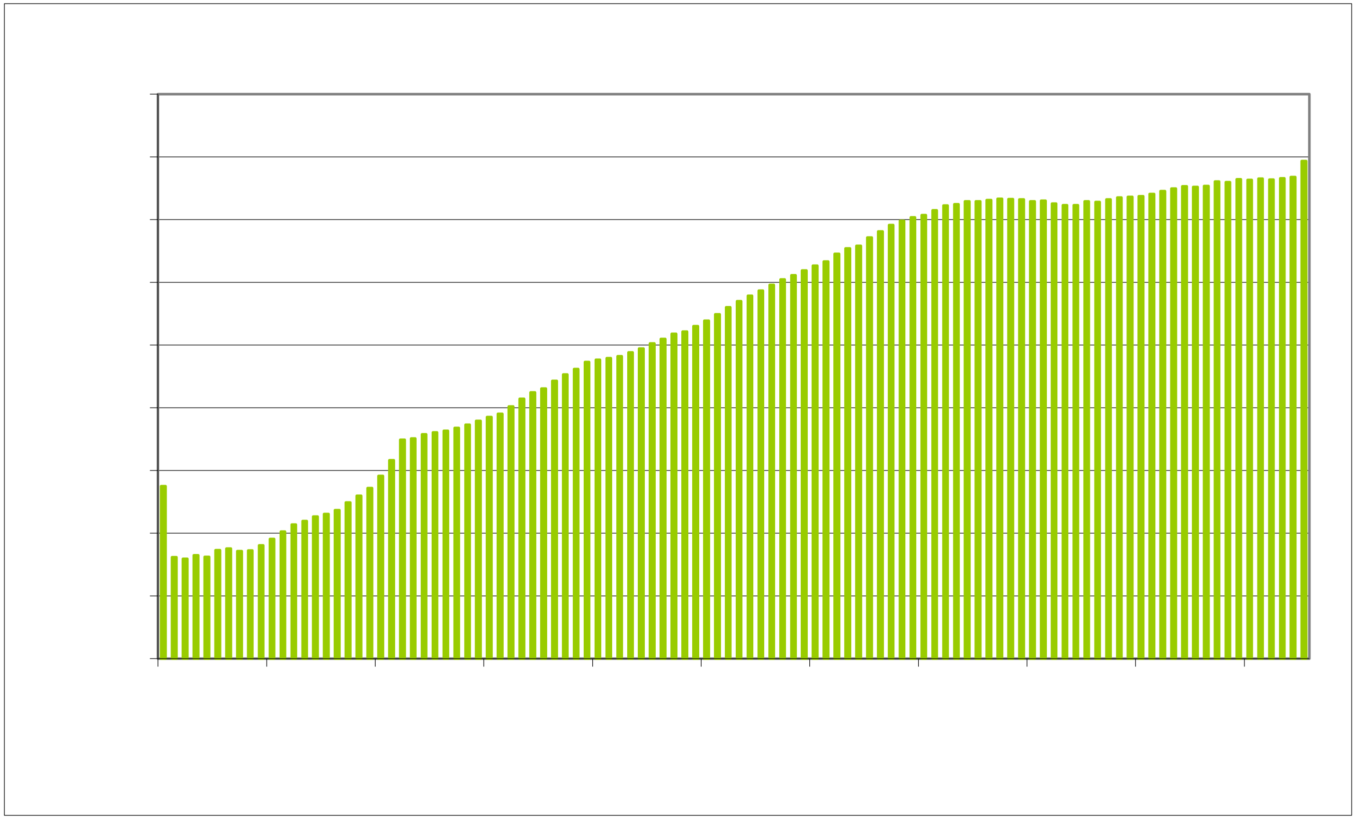
Case Study: Abu Dhabi



Case Study: Abu Dhabi

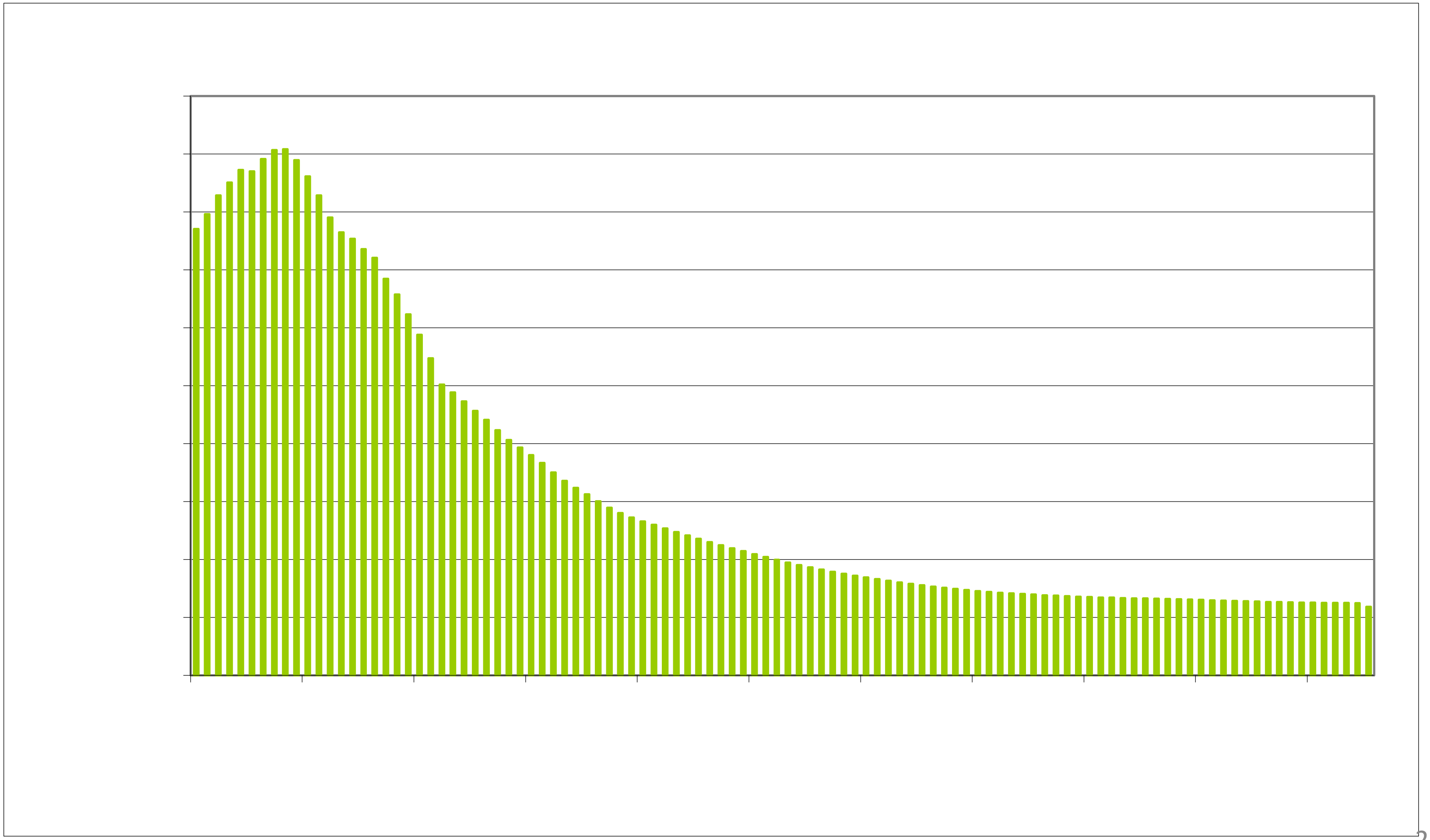
- Can Abu Dhabi just rely on oil and use PAYG?

Pay As You Go contribution rate



Case Study: Abu Dhabi

Contributors per pensioner (system dependency ratio)



Case Study: Abu Dhabi

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Abu Dhabi Pension Reform Simulation Tool (ADpresto) >>> Scenario Setting

S1: base case | S3: DB plus DC | Engine Room

Reformed DB system plus DC

reform package: three-stage

DB pensions and benefits:

reform steps in:	2020	2030	2040	
salary averaging period (years):	10	15	15	
accrual rate (%):	2.5	2	2	
maximum accrual (%):	75	70	70	
min. service years for full pension:	30	35	35	
pension indexation (%age weight):				
of inflation	100	100	100	
of members' salary growth	50	50	50	
capped at (%age points):	10	10	10	
lumpsums: (%age change) death in service	-10	-50	-50	0
work-related death	-10	30	30	0
work-related disability	0	0	0	0

	'000	%age change		
minimum pension (monthly):				

indexation with inflation: for lumpsums: ☐ for minimum pension: ☑

Share of pensionable salary in total salary (%):

government	100	100	100	
civil service	100	100	100	
semi-governmnt.	100	100	100	
private	100	100	100	

max. monthly pensionable salary ('000 Dh):

150	250	250	

indexed by %-age weight of:

inflation	100	100	100	
salary growth	50	50	50	
EoS-Gratuity?	☑	☑	☑	☐
Art. 21?	☑			

Contribution rates (%):

		public sector				private sector			
reform steps in:		2015	2025	2030		2015	2025	2030	
DB	employee	5	5	6		5	5	6	
	employer	15	15	16		15	15	16	
	government	6	6	6		6	6	6	
mDC	employee	2	2	2		2	2	2	
	employer	2	2	2		2	2	2	
	government	2	2	2		2	2	2	
vDC	employee	2	2	2		2	2	2	
	employer	2	2	2		2	2	2	
	government	2	2	2		2	2	2	
of total salary?		☑				☑		☑ subsidy?	
		'000	%age change			'000	%age change		
gov vDC contribs capped at:		20				20			
vDC take-up rate:		20	20	30		30	43	50	

indexed with: inflation ☑ salary growth ☐

Service transition:

minimum service at reform start to enter transition: 5

'potential old service' factor: 1.5

NRA transition:

	male	female	male	female	male	female	male	female
transition start year:	2015	2015	2025	2025				
increase from cohort to cohort (in months):	3	3	3	3				
new target NRA:	62	59	64	64				

Early retirement mothers:

take-up rate: 0

Add as new policy package

Change this policy package

Calculate | S3: DB plus DC | Exit

Case Study: Oman

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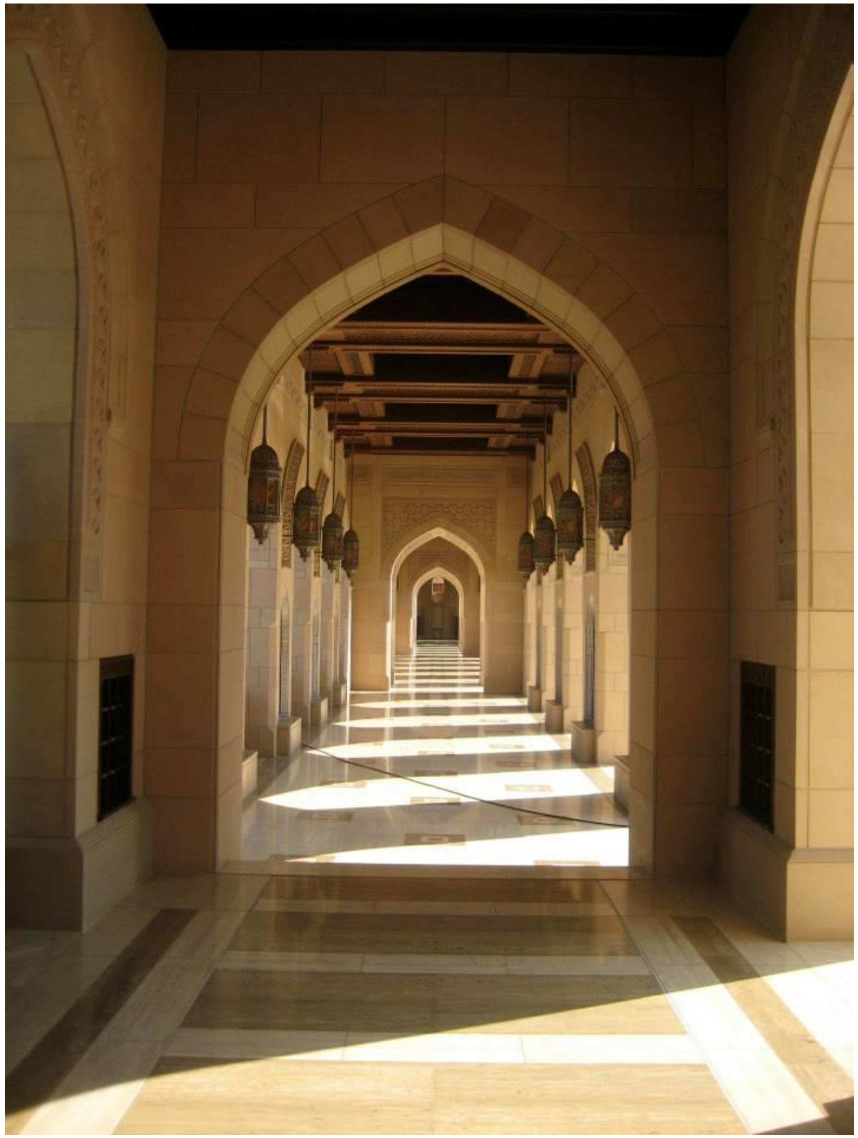
الهيئة العامة
للتأمينات الاجتماعية



سلطنة عمان
وزارة المالية

Case Study: Oman

- Unique compared to the other GCC states:
  - Many more schemes
  - Less money
  - Much worse position than average
- 8 Public Sector schemes:
  - 2 civil service schemes
  - 6 military schemes
- 3 'Private Sector' schemes:
  - Public Authority Social Insurance ("PASI")
  - 2 (more generous) corporate schemes
- Ministry of Finance tries to "regulate" them!

Case Study: Oman

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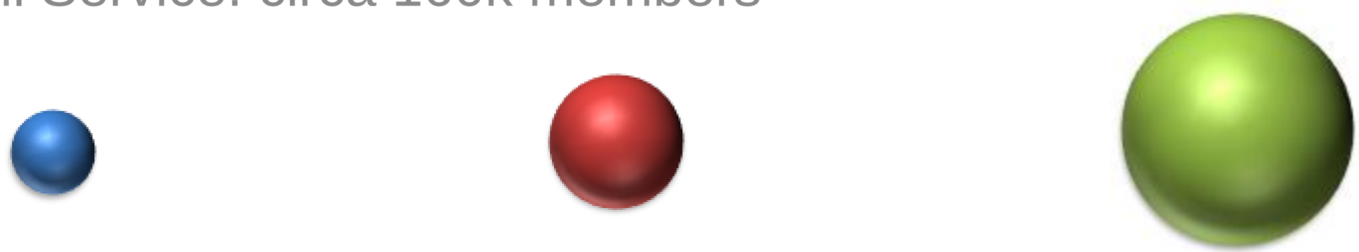
- Approximately 1 million members in total
  - Excludes future beneficiaries
  - PASI: circa 200k members
  - Civil Service: circa 160k members



2007 valuation:
Combined deficit circa 4 billion OMR
(circa £6.6bn)

2010 valuation:
"Probably 10 billion OMR"
(circa £17bn)

GDP:
£52 billion

- Deficit is circa 33% of GDP
- Worse than UK?!

Case Study: Oman

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- Ministry of Finance (MoF) pays the bills and is meant to regulate all schemes, but:
  - No regulatory regime
  - Limited powers and receives limited information
    - Can postpone payments in
    - 2007: first valuation of all schemes by MoF
  - Each scheme run by a Board who usually have an interest in improving benefits
    - No requirement to consult MoF!
    - Reforms get blocked by Boards!
    - Only the Sultan could overrule!

Case Study: Oman

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- Worried dramatic cuts in future and civil unrest
- Aim:
  - ✓ Make Boards independent
  - ✓ Increase retirement age
  - ✓ New hires on reduced benefits
  - ✓ Communication drive
- Balance with very paternal culture

Summary

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- Social insurance schemes for Gulf nationals are very generous:
  - Paternal Culture
  - Only one pillar
  - Oil money
  - Poor understanding initially
- Currently unsustainable
- Most schemes working on reforms now -> lots of work for actuaries!
- Ex-pat labour force far larger than Gulf nationals
  - Also need sustainable retirement provision

Questions?