



## Egypt's Pension Reform Plan

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## Egypt's Pension System

- Egypt has one of the largest public pension systems in the region covering between 70 and 90 percent of the labor force, paying benefits to more than half of those over 60, and supporting a considerable number of invalids and survivors all at cost of around 4 percent of GDP.
- Five schemes are administrated by two public institutions:
  1. A scheme for employees of the private sector, and the public sector.
  2. A scheme for civil servants.
  3. A scheme for the self-employed.
  4. A scheme for casual workers (Almost non-contributory).
  5. A scheme for workers living abroad (Optional).
- The Government Employee Pension Fund (GEPF) manages the scheme for civil servants, while the Public and Private Enterprises Employees Pension Fund (PPEEPF) manages the scheme covering public and private employees as well as the other three schemes.

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- All schemes except for the one for casual workers operate under a defined benefit principle whereby benefit calculations take into account an individual's employment history and earnings. The casual workers scheme provides a flat benefit to qualifying members.
- In addition, Egypt has a supplementary private pillar that includes some 630 occupational pension plans operated by individual employers or through professional associations. These plans cover around 7.3 million workers or 26% percent of the labor force.
- There is also a significant system operated by professional syndicates providing retirement type benefits that currently remains outside of any regulation and oversight.

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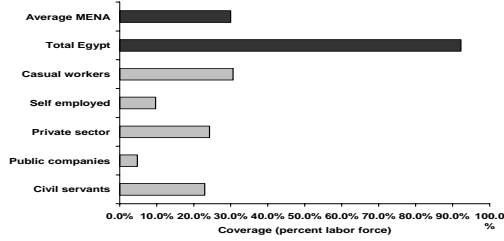
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## The problems facing the Egyptian Pension System

1. *The Egyptian pension system has achieved the highest level of coverage in the region, **TOO HIGH**.*




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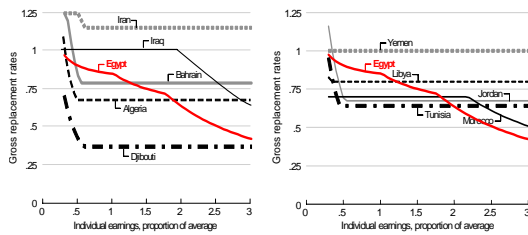
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2. *The income replacement mandates ( 80 percent for the average full-career individual) for all contributory schemes are **ambitious and unlikely to be affordable or sustainable**.*




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3. *The ambitious coverage and high replacement rate demanded a prohibitive contribution rate which encourages leakage from the formal Labour Market.*

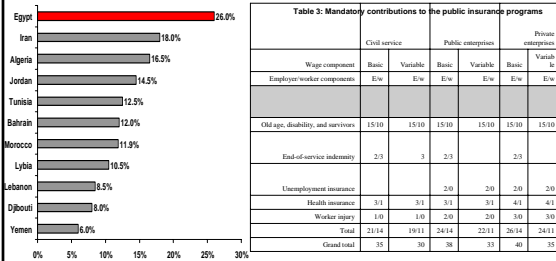


Table 3: Mandatory contributions to the public insurance programs

	Civil service		Public enterprises		Private enterprises	
	Basic	Variable	Basic	Variable	Basic	Variable
Wage component	E/w	E/w	E/w	E/w	E/w	E/w
Employer/worker components						
Old age, disability, and survivors	15/10	15/10	15/10	15/10	15/10	15/10
End-of-service indemnity	2/3	3	2/3		2/3	
Unemployment insurance			2/0	2/0	2/0	2/0
Health insurance	3/1	3/1	3/1	3/1	4/1	4/1
Worker injury	1/0	1/0	2/0	2/0	3/0	3/0
Total	21/14	19/11	24/14	22/11	26/14	24/11
Grand total	35	30	38	33	40	35

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3. **Benefits formulas and eligibility conditions do not respect basic norms in terms of design, distort incentives and result in non-transparent redistribution.** There is a structural misalignment between the retirement age, the contribution rate, and the accrual rate that compromises the financial sustainability of the system.
4. **Current financing arrangements are simply not affordable.** Financial projections show that transfers from the government would have to increase from 2.3 percent of GDP today to 3.4 percent in year 2010 and around 5.4 percent by year 2020. When interest payments on the debt are added, total payments to the pension funds would need to increase from the current 5.7 percent of GDP to around 9.7 percent of GDP in year 2020 (see Chart). Over the long term, this debt could represent 2 to 3 times the size of the economy, a scenario that is clearly not realistic.

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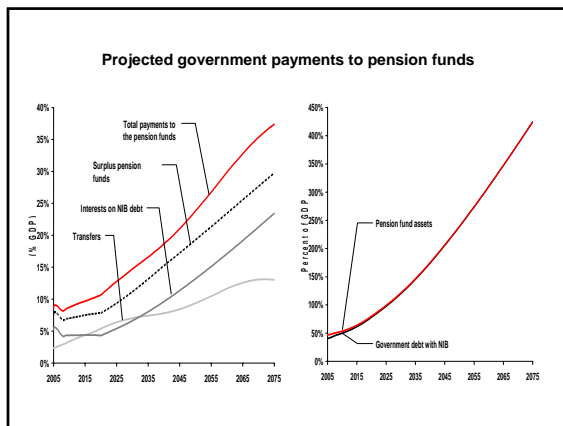
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## The Principles for Solutions

***There are five principles that should guide the design of the new pension system:***

1. Provide adequate and affordable benefits accommodating the needs of various population groups for retirement saving instruments.
2. Be financially self sustainable.
3. Be administratively efficient.
4. Allow for efficient, secure, and transparent diversification of savings for retirement within and outside the public system.
5. Minimize economic distortions, while supporting economic growth.

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## The Solutions

1. **Closing the current system to new entrants, containing the accumulation of pension liabilities, and restructuring the debt of the Government with the NIB.** In order to contain the accumulation of new implicit pension liabilities, however, those individuals who stay would face gradual reductions in new benefit accruals. The Government would finance the unfunded liabilities of the closed system so that the new scheme could start its operations free of debt.
2. **Establishing a new contributory system for all new entrants, inactive members and current active plan members electing to switch.** The target gross replacement rate of 55 – 70 percent would depend on the contribution option chosen between 17 and 25 percent rate. The proposed contributory scheme could have two tiers:

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## The Solutions

- a. **Notional Account (NA) scheme:** The NA scheme would remain essentially an earnings related scheme financed on a pay-as-you-go basis. Depending on the option chosen, the contribution rate for this scheme could be between 12% and 20% of covered wages. Workers contributions should be registered in individual "notional" accounts and earn a "notional" interest rate. The accounts are notional because the account entries for individuals are not backed by a stock of accumulated capital. Their role is simply to track how much individuals have contributed and accumulated for notional interest accrued. Upon retirement, the notional capital recorded in the account is transformed into a pension for life (an annuity) by taking into account the individual's life expectancy. Therefore, is designed to reduce incentive problems of the existing system and secure its financial sustainability.

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## The Solutions

- b. **Defined Contribution Fully Funded (DC-FF) scheme:** The Government is also considering the introduction of a mandatory DC-FF scheme as a complement to the proposed NA scheme. The DC-FF component would target a 15-20 percent replacement rate financed by a 5 percent contribution rate. The DC-FF would also employ individual accounts, but account accumulation would be invested in financial assets. The annuitized benefit that individuals would receive upon retirement would depend on the account accumulation, which reflects the returns on actual investments during the worker's participation in the scheme.

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## The Solutions

3. *Securing pension system benefits for all segments of the labor force through an alternative contribution regime.*
4. *Introducing a relatively low basic non-contributory pension that provides a universal income guarantee for all retired persons 65 years or older.*
5. *Rationalizing and expanding the voluntary and employer-sponsored private pension system to provide an avenue of secure complementary retirement savings accessible to all workers.*

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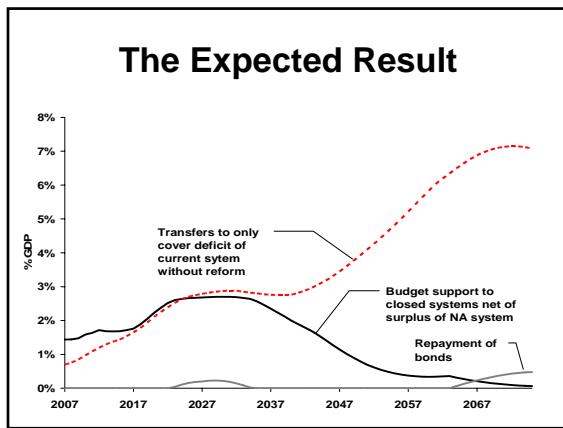
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## The Expected Result




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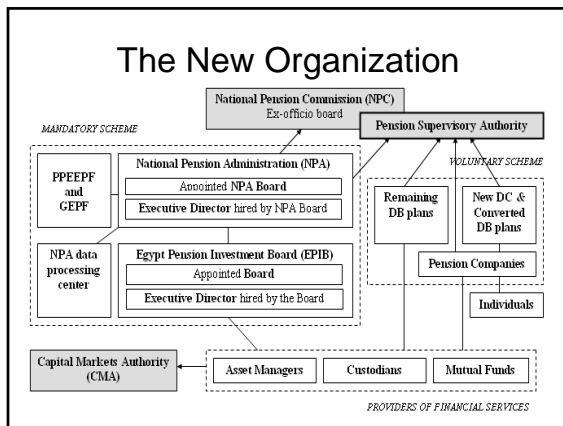
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## The New Organization




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