
Employee Benefits in the Region

Is there Room for Private Pension Plans?

&

Case Study: Post-Retirement Health Plan

11th Regional Pensions & Social Insurance Conference

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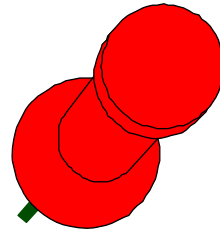
Iyad Hourani

Senior Actuary

Agenda

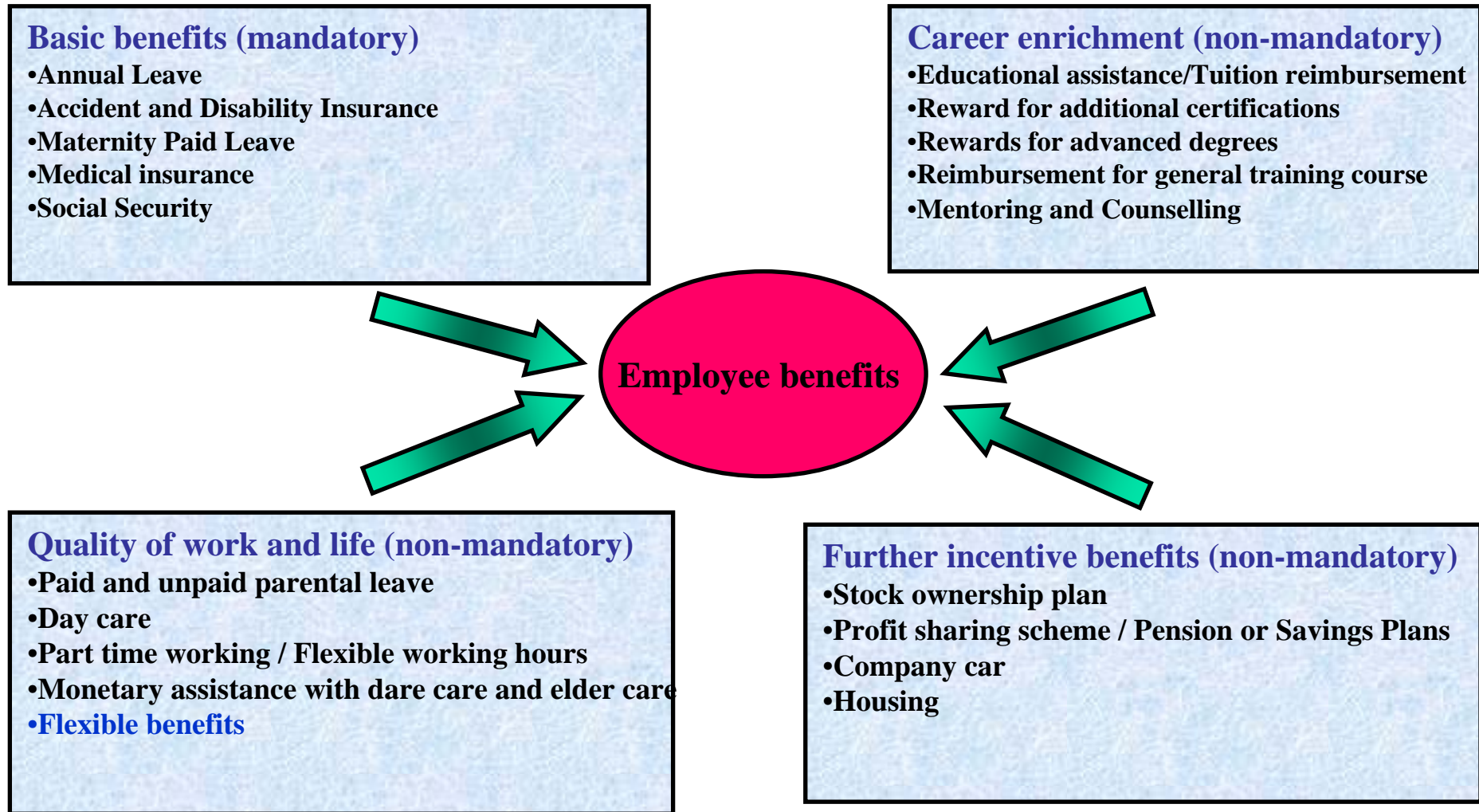
1. Employee Benefits - Introduction
2. Private Plans in the Pillar Model
3. Is there Room for Private Pension Plans?
4. Case Study (Post-Retirement Health Plan) - Preliminary Cost Analysis

Employee Benefits Introduction



EMPLOYEE BENEFITS: that part of the total compensation package, other than pay for time worked, provided to employees in whole or in part by employer payments (e.g., life insurance, pension, workers' compensation, vacation).

General EB Categories



Why do employers offer Benefits?

- Some Benefits are compulsory (by Law)
 - Social Insurance
 - Labour Law
- Social Role (private sector is called upon to play a part)
 - There is a need to fill
 - Adaptation to changing society & way of life
 - Sometimes, fiscal incentives are put in place to encourage employers to go this path

Why do employers offer Benefits?

- Competition for talents (attracting & retaining)
 - Within sector employer competitors
 - Within country
 - Global competition for specific expertise
- Company Reputation

- Management of HR & cost to achieve Strategic & Operational Co. Goals
 - Compensation structure & Employee Benefit programs need to be construction in line with these objectives

Strategic Choices

- What kind and level of benefits to be offered – how comprehensive the benefits should be
- How much of the money that is used to cover employee benefits should be paid by the employer, and how much of it should be covered by the employee Company Reputation
- Managers must make a fundamental choice about how flexible the benefits program will be

Private Plans in the Pillars Model

Is there Room for Occupational Pension Plans?

The Pillars (retirement system)

- Pillar 0 - universal assistance against poverty
 - Non-funded (general revenues)
- Pillar 1 – social insurance compulsory plan
 - Financed through contributions (and sometimes general revenues)
 - Pay as you Go, or partial funding
- Pillar 2 – occupational compulsory plans
 - Fully funded (not always)
- Pillar 3 – voluntary individual savings (through insurances, voluntary plans, or other vehicles)

What is needed, what is affordable, & through which Pillars?



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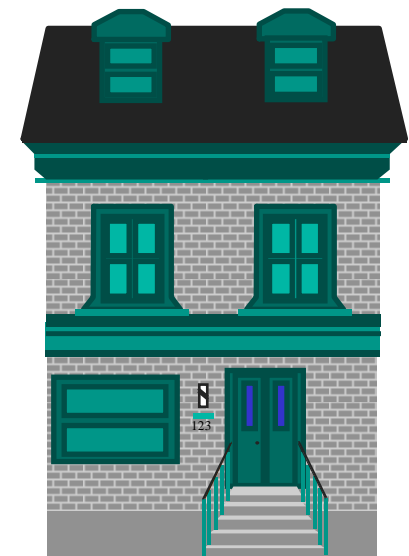


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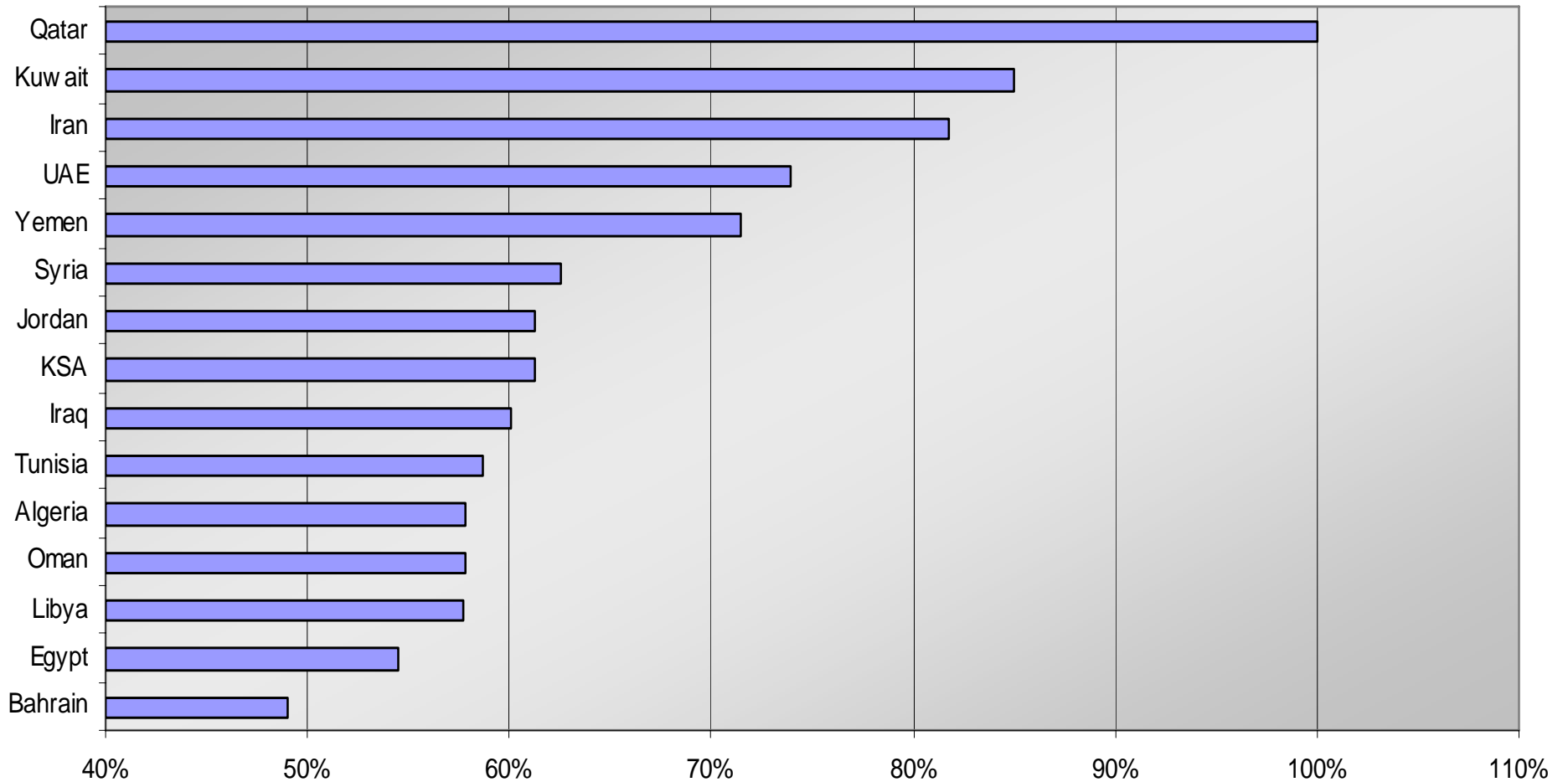
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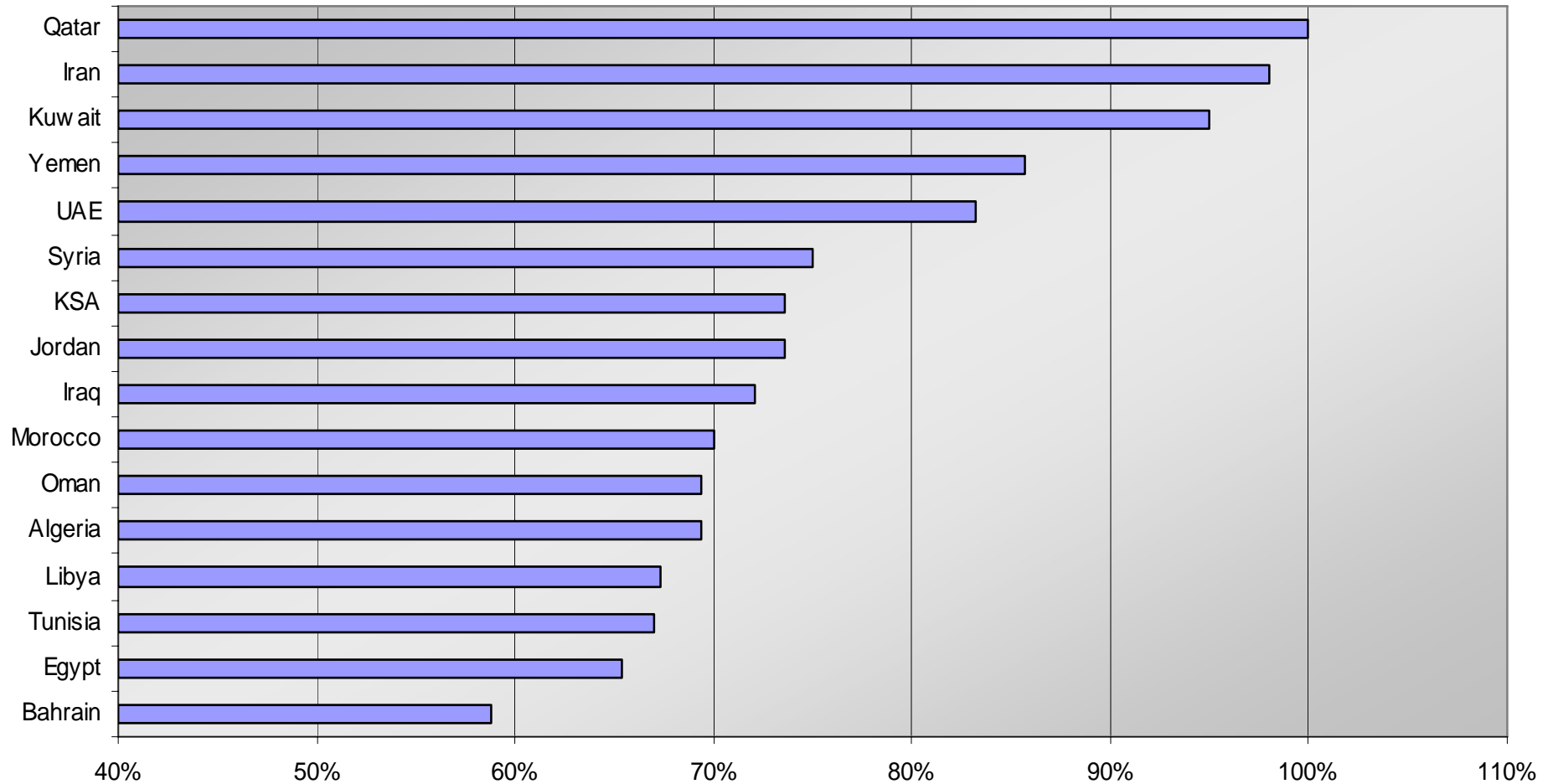
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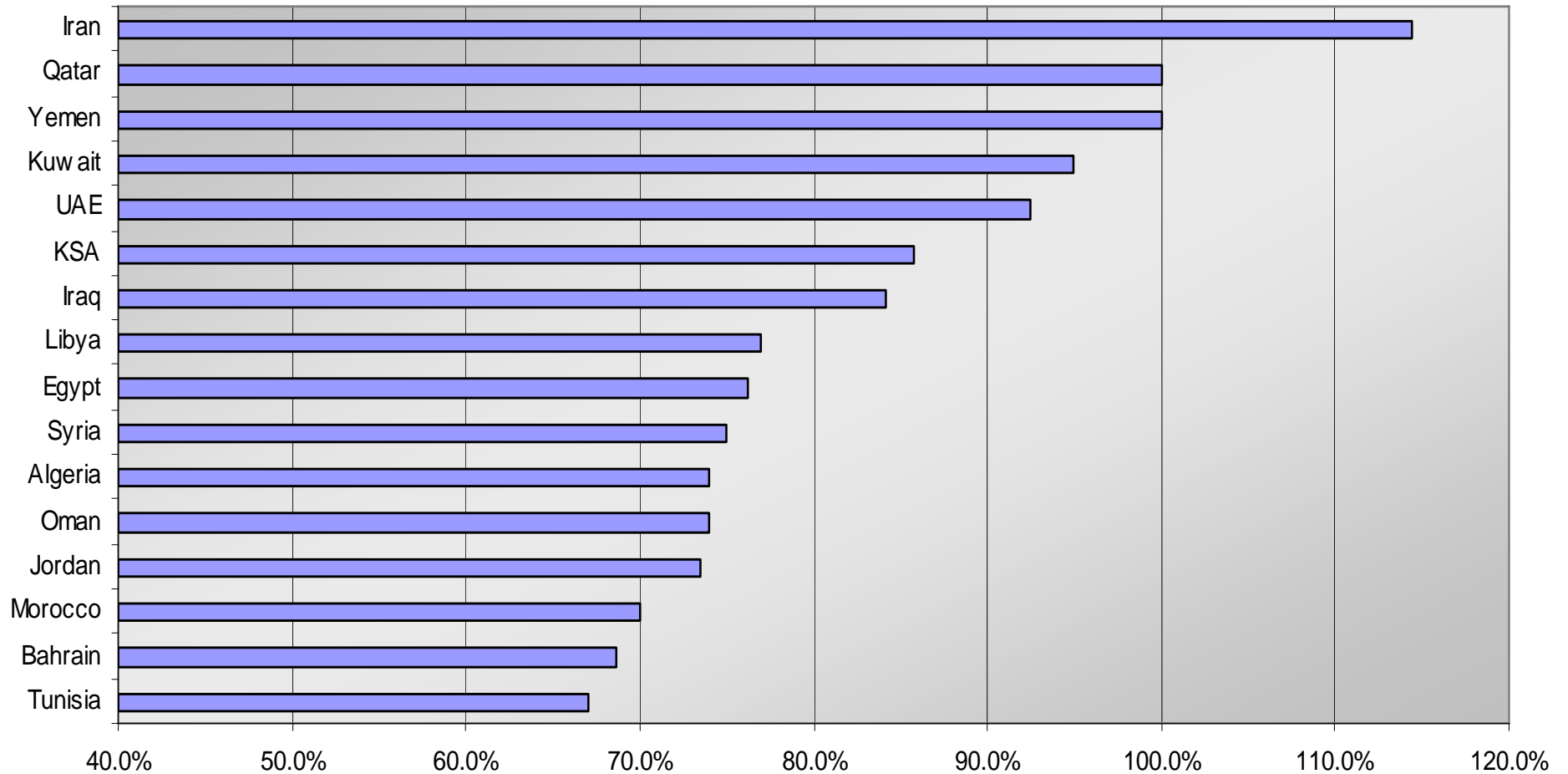
Replacement Ratios for a person whose salary is lower than Max Earnings Retirement at Age 55 with 25 years of service



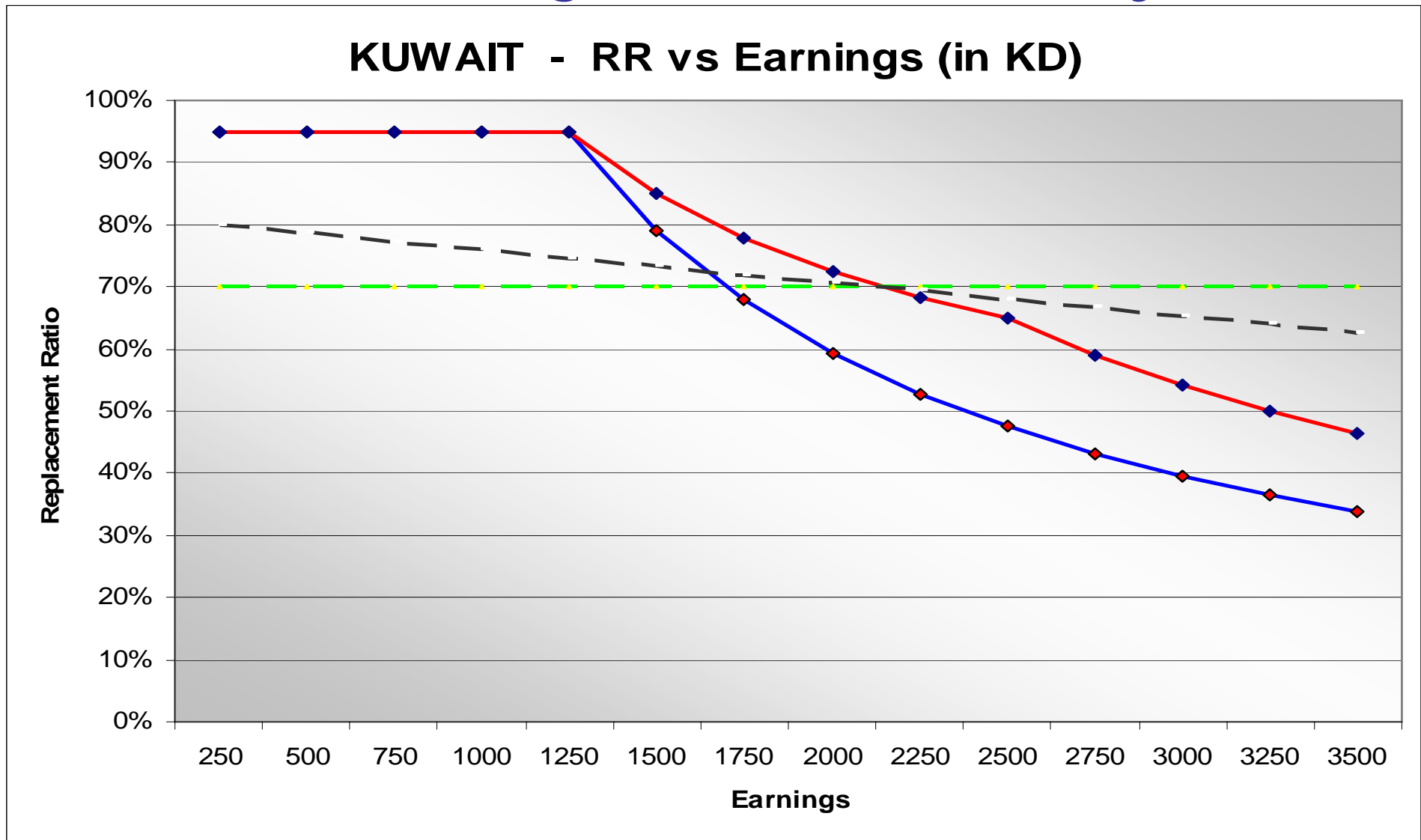
Replacement Ratios for a person whose salary is lower than Max Earnings Retirement at Age 60 with 30 years of service



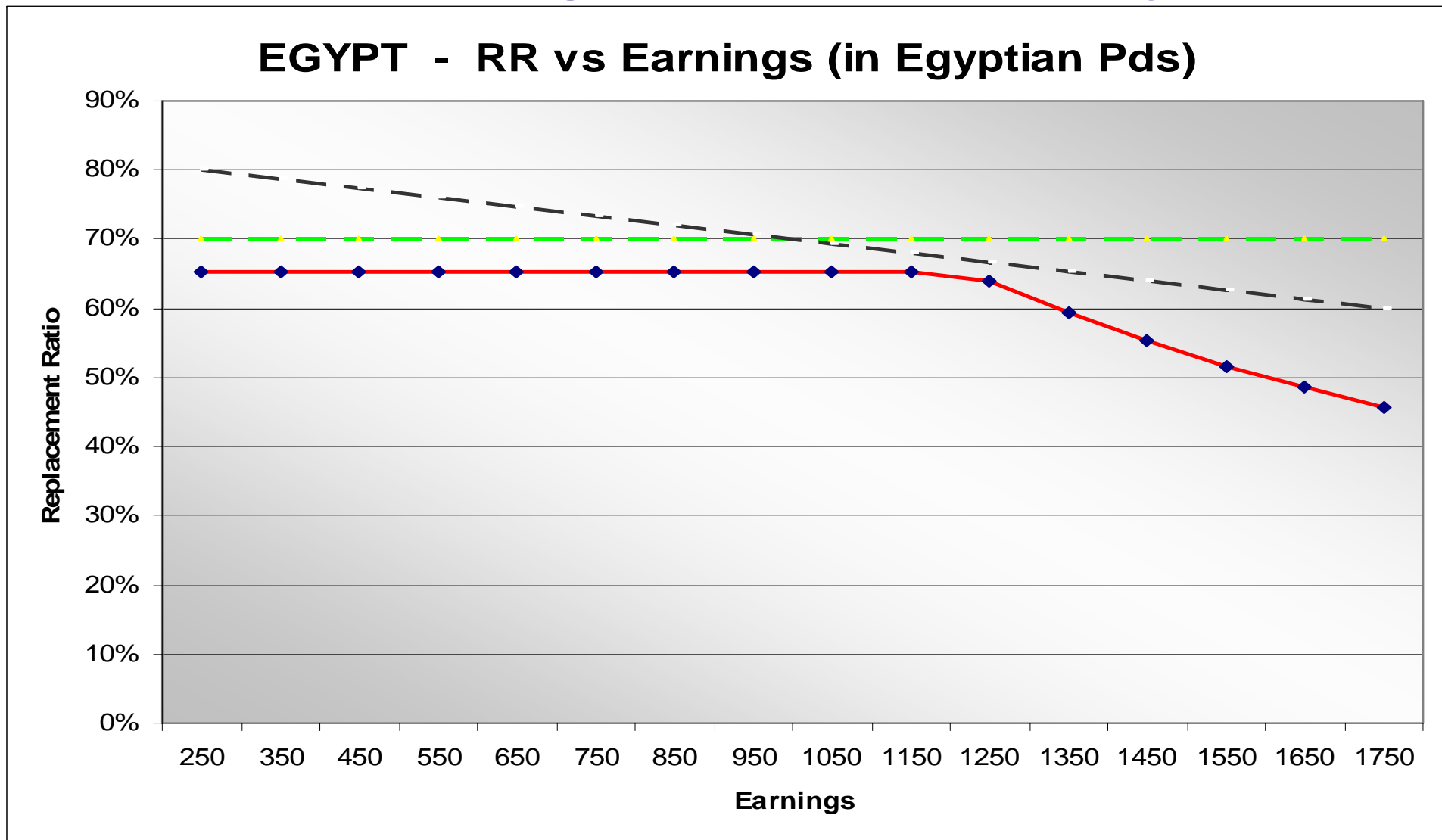
Replacement Ratios for a person whose salary is lower than Max Earnings Retirement at Age 60 with 35 years of service



Example of Kuwait Retirement at age 60 with 30 contr. yrs.



Example of Egypt Retirement at age 60 with 30 contr. yrs.



Is there room for occupational pension plans?

- Currently: very little
- Still, there is large corporations and multinationals in the region offer their employees pension or savings plans
- Foreign workers not covered under social insurance schemes
- Several countries are starting to put ceilings on pensionable earnings:
 - Kingdom of Bahrain
 - Sultanat of Oman
 - Kingdom of Saudi Arabia
 - Lebanon (draft structural reform)

What is needed for the future?

- Corporate Governance
- Pension Legislation (Monitoring Authority)
- Stronger Insurance Annuity Market & TPAs
- Stronger, reliable, transparent and more developed capital markets
- ...

Case Study

Post-Retirement Health Care Preliminary Cost Analysis

Introduction and Overview

- Discuss program design of post-retirement health benefits
- Assess cost implications of contemplated designs
- Discuss factors that impact cost the most
- Discuss funding alternatives

Introduction and Overview

- No adequate health coverage after retirement
- Health care cost after retirement could have a devastating financial impact individuals
- Sector Employers considering the possibility of setting up a plan that offers **Class II In-Patient** care for their employees and their spouses
- Cost should be reasonable and funding should be shared (Employers & Employees)
- Cost containment measures should be set in order to increased predictability and stability of employer contributions

Employee Statistics & Other Data

Employee Statistics & Other Data

- Employer survey: information for more than 12,000 employees in the sector as of December 31, 2006
- Information requested for each employee:
 - Date of Birth; Date of Hire
 - Gender; Marital Status
 - Basic Salary as at December 2006
- Indicators & others results from statistical report were also used in this study

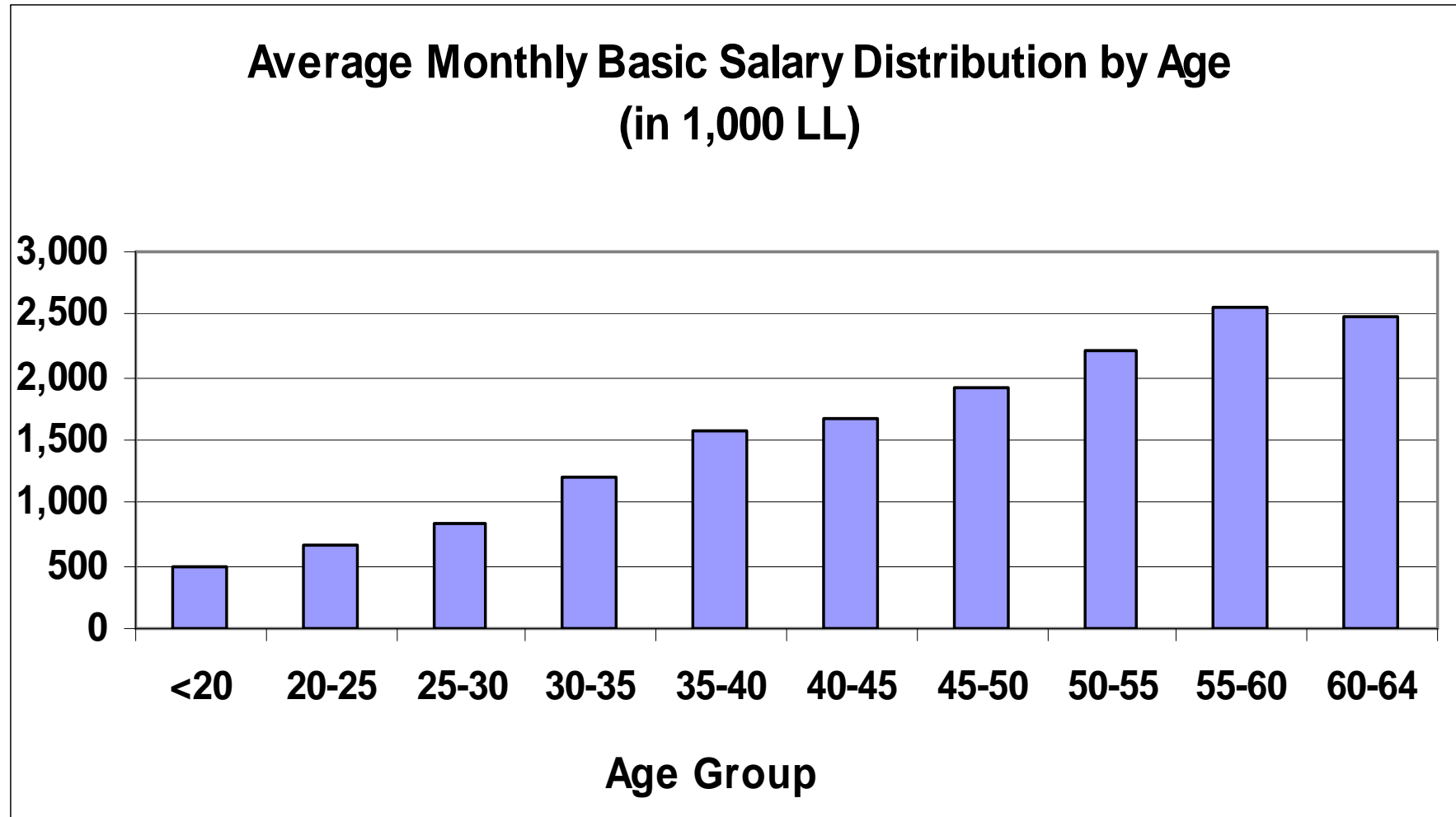
Employee Statistics & Other Data

- Data set is considered to be representative of the whole sector employee's profile
- Data set was carefully and is considered sufficient and reliable for the purpose of this study

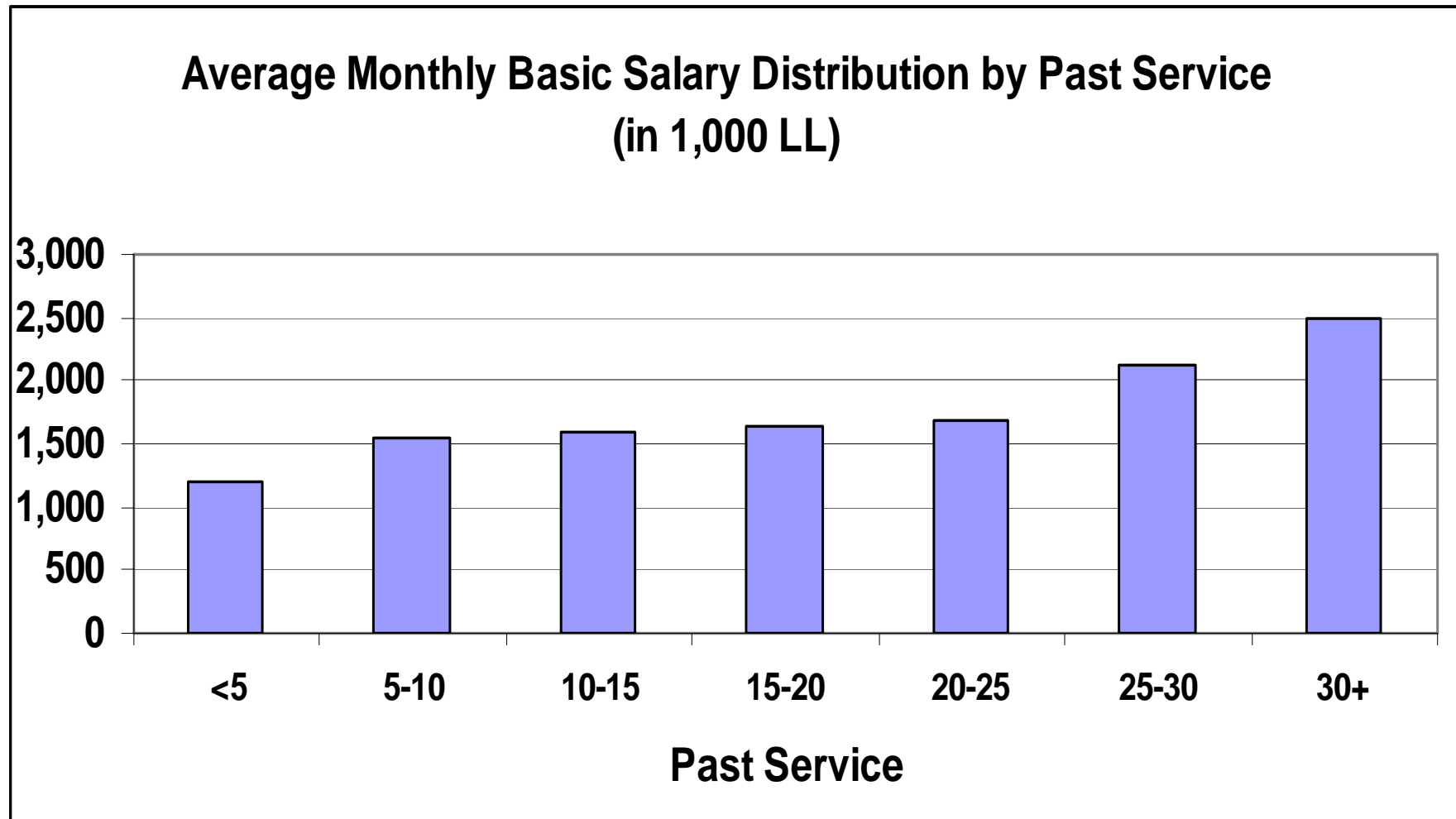
Employee Statistics & Other Data

Age group	Male	Female	Total	Average Monthly Basic Salary in 1,000 LL (1/1/2007)	Average Past Service
<20	2	0	2	494	1.2
20-25	166	229	395	656	2.0
25-30	855	1,053	1,908	838	3.5
30-35	1,004	958	1,962	1,200	7.2
35-40	1,100	874	1,974	1,585	11.1
40-45	971	765	1,736	1,662	14.2
45-50	1,070	694	1,764	1,912	18.2
50-55	864	450	1,314	2,221	22.0
55-60	567	211	778	2,546	24.8
60-64	302	73	375	2,489	28.7
Total	6,901	5,307	12,208	1,592	13.1

Employee Statistics & Other Data



Employee Statistics & Other Data



Employee Statistics & Other Data

In-Patient Medical Cost

- Statistics on in-hospital cost and utilization rates were obtained from TPAs and different other sources
- Survey the top-5 insurance companies in Lebanon with regards to health care business - Class II In-Patient group premiums were requested for different age groups
- Such results were analyzed and adjusted for comparability purposes (in necessary)
- In order to derive post-retirement health cost for this study, the above information was adjusted for:
 - profit margins;
 - Administrative cost;
 - Stop-Loss reinsurance and contingency margins

Plan Design Description (Base Scenario)

Plan Design Description

Base Scenario

Plan Design - Key features

- Post-retirement defined benefit health plan
- Contributory for both Employer & Employees
- Eligibility Requirement
 - Full-time employees in the sector
 - 1 year waiting period before joining the plan
 - Membership is mandatory after the waiting period

Plan Design Description

Base Scenario (*cont'd*)

- Vesting Rules (*i.e. irreversible rights for benefits*)

- Employee contributions (with interest)

- Design 1

- 0% vesting for the first 5 years
 - 100% vesting after 5 years of contribution

- Design 2

- 0% vesting at all times in the event of employment termination (*i.e. Fonds Perdus*)

For both designs, in the event of death before retirement, the employee has 100% vesting

Plan Design Description

Base Scenario (*cont'd*)

- Vesting Rules (*i.e. irreversible rights for benefits*)
 - Employer contributions
 - Contributions serve only for financing health cost after retirement (*i.e. 0% vesting in cases of death or employment termination*)

Plan Design Description

Base Scenario (*cont'd*)

- Vesting Rules (*i.e. irreversible rights for benefits*)
 - Rights for post-retirement health benefits
 - Irreversible rights are acquired after 25 contribution years
 - Or, reaching age 64 as an employee in the sector with 20 contribution years
 - Special transition rules will be decided on and set for current employees (at plan implementation)
- Normal Retirement Age (NRA): 64

Plan Design Description

Base Scenario *(cont'd)*

- Reference Compensation
 - Basic Monthly Salary, excluding
 - allowances, commissions, bonuses, and other variable compensation component
 - Exemption Amount (for 2007)
 - No contributions are paid on the first 112,500 LL
 - Ceiling Amount (for 2007)
 - No contributions are paid on salaries over 5,250,000 LL
- Contribution Base
 - Employee & Company contributions are calculated as a % of the Reference compensation
 - May also be determined as a fixed monthly amount

Plan Design Description

Base Scenario *(cont'd)*

Plan Benefits

- Pre-retirement death benefit
 - Employees contributions accumulated with interest

- Benefit at employment termination from the sector (other than retirement)
 - Employee's contributions accumulated with interest x Vesting %

Plan Design Description

Base Scenario *(cont'd)*

- Retirement Benefit
 - In-hospital Class II health benefits for the Retirement Member and his/her spouse
 - This benefit is provided for the lifetime of the Retired Member and his/her spouse
 - This benefit cannot start prior to age 64 (NRA)

Plan Design Description

Base Scenario *(cont'd)*

- Investment of Plan Funds
 - All contributions are paid to the Plan's Fund
 - All benefits and/or insurance premium will be assumed by the Fund
 - **Fund assets are assumed to be invested, properly allocated & Hedged against currency devaluation**
 - Investment returns contribute in increasing the Plan's assets, and hence in reducing the required contributions to finance the Plan's benefits

Results & Cost Projection (Base Scenario)

Results & Cost Projections

Base Scenario

Age	Gr.	Count	Group Distrib.	Avg. Age	Avg. Past Service	Avg. Annual Basic Salary (2007)	% of Generated Future Income	% of Expected Future Benefit Costs	Required Contribution Rate ⁽¹⁾	
									DESIGN 1 100% vesting after 5 Years	DESIGN 2 Fonds Perdus
Under 30	1	2,305	19%	26.5	3.3	12,900	14%	12%	6.9%	6.5%
30 to 40	2	3,936	32%	34.5	9.2	22,293	36%	27%	5.6%	5.3%
40 to 50	3	3,500	29%	44.5	16.2	28,607	33%	32%	7.1%	6.9%
50 to 55	4	1,314	11%	51.8	22.0	35,532	11%	14%	9.6%	9.4%
55 to 60	5	778	6%	56.7	24.8	40,739	5%	9%	14.7%	14.6%
60 to 64	6	375	3%	61.3	28.7	39,830	1%	5%	43.5%	43.5%
Under 50	[1-3]	9,741	80%	28.9	8.2	17,825	83%	71%	6.4%	6.1%
Under 55	[1-4]	11,055	91%	34.5	10.6	21,649	94%	86%	6.8%	6.5%
Under 60	[1-5]	11,833	97%	38.1	12.2	24,245	99%	95%	7.2%	6.9%
All	all	12,208	100%	40.0	13.1	25,469	100%	100%	7.5%	7.2%

Results & Cost Projections

Base Scenario *(cont'd)*

- Required Contribution if all employees are included
 - 7.5% of Basic Salaries under Design 1
 - 7.2% of Basic Salaries under Design 2

- If only employees under age 60 are to be included
 - 7.2% of Basic Salaries under Design 1
 - 6.9% of Basic Salaries under Design 2

- If only employees under age 55 are to be included
 - 6.8% of Basic Salaries under Design 1
 - 6.5% of Basic Salaries under Design 2

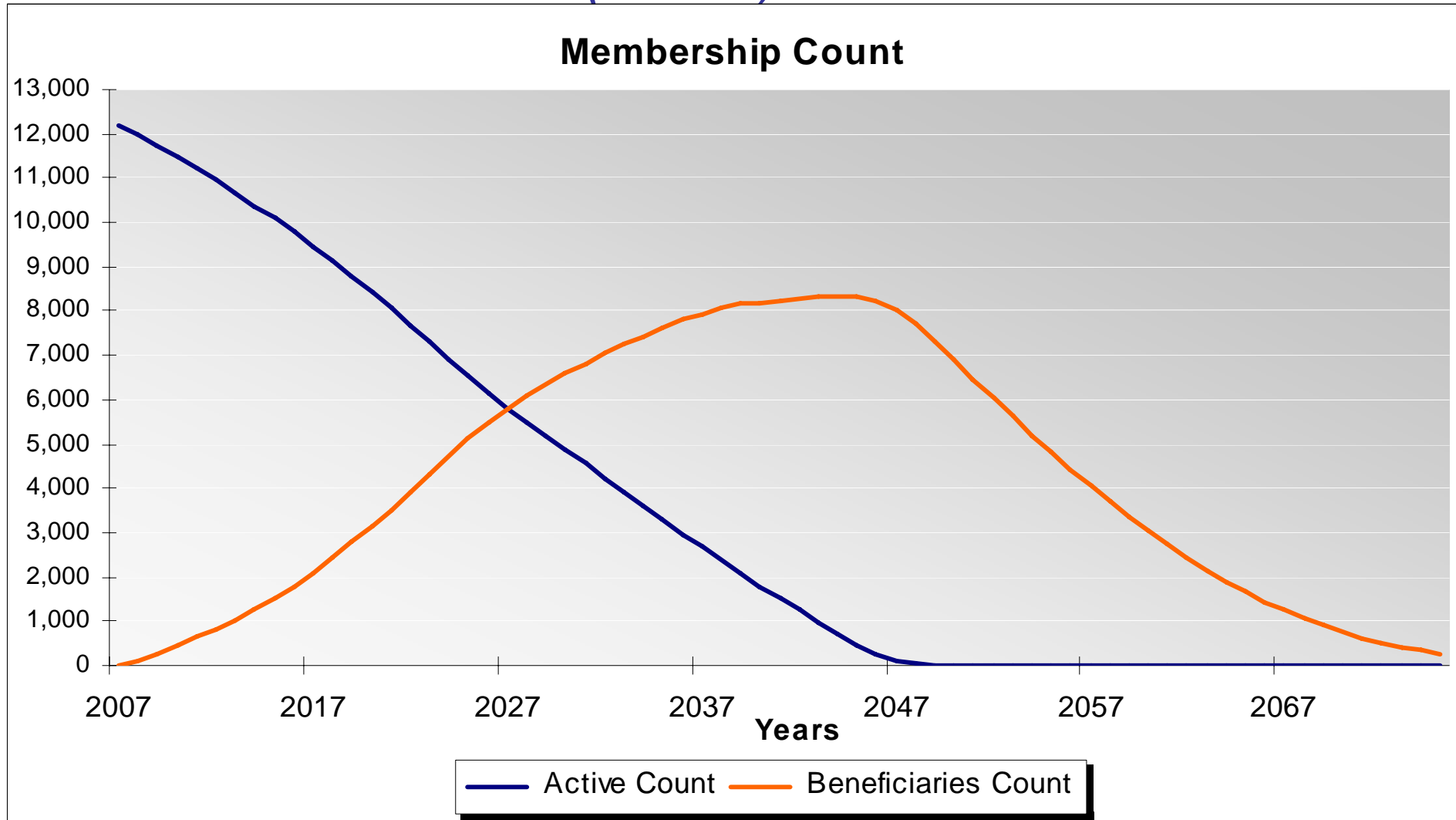
Results & Cost Projections

Base Scenario *(cont'd)*

- We do recommend that Design 1, or an modified version of it, be considered rather than Design 2.
 - Mainly because it is more equitable to the employees
 - And the cost difference is not significant
- We can observe that those employees over the age of 55 are highly subsidized by their younger colleagues.
- The graphs on the following slides portray some of the most important projected financial results for the Base Scenario *(assuming all population included)*

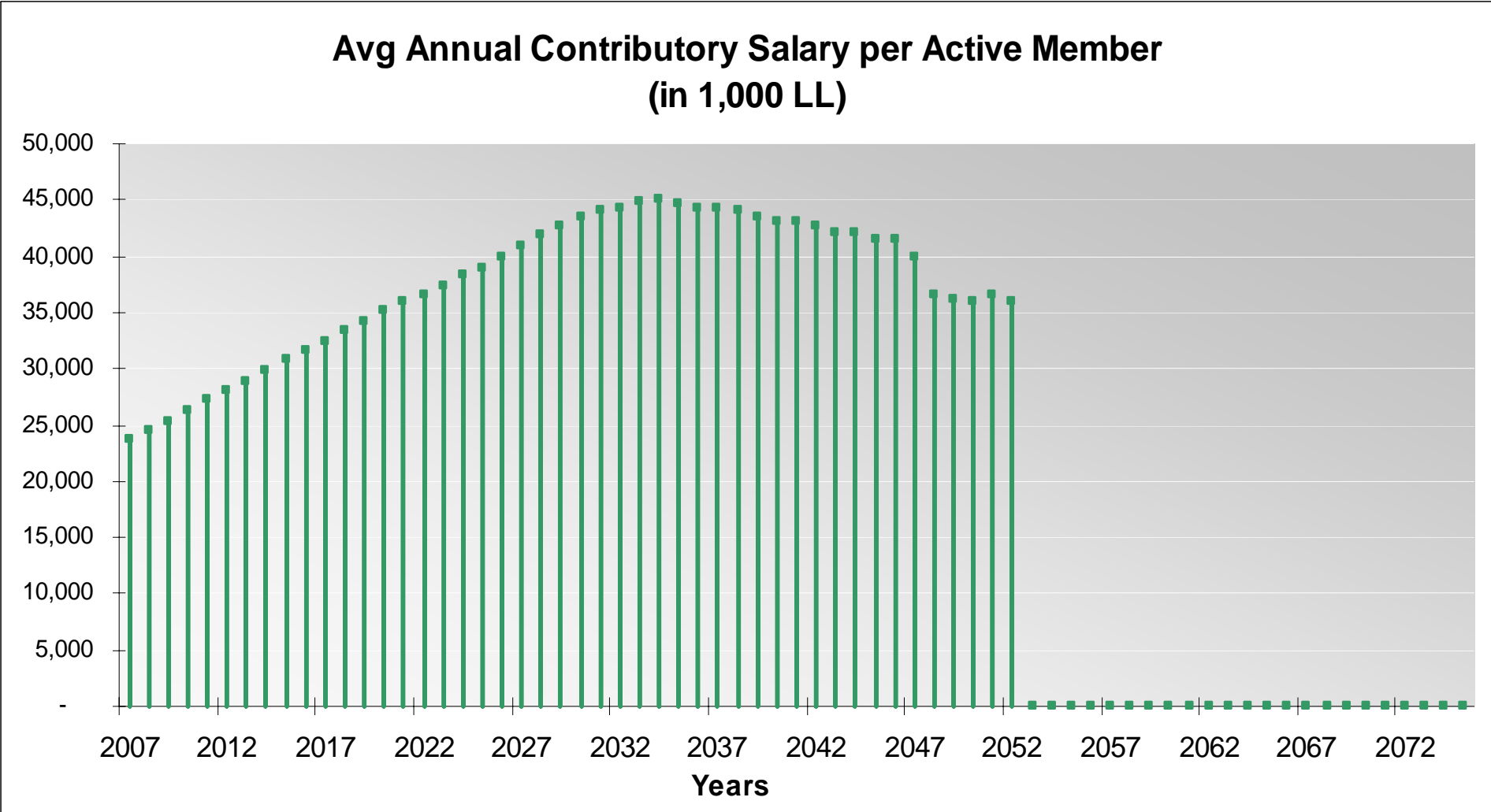
Results & Cost Projections

Base Scenario (*cont'd*)



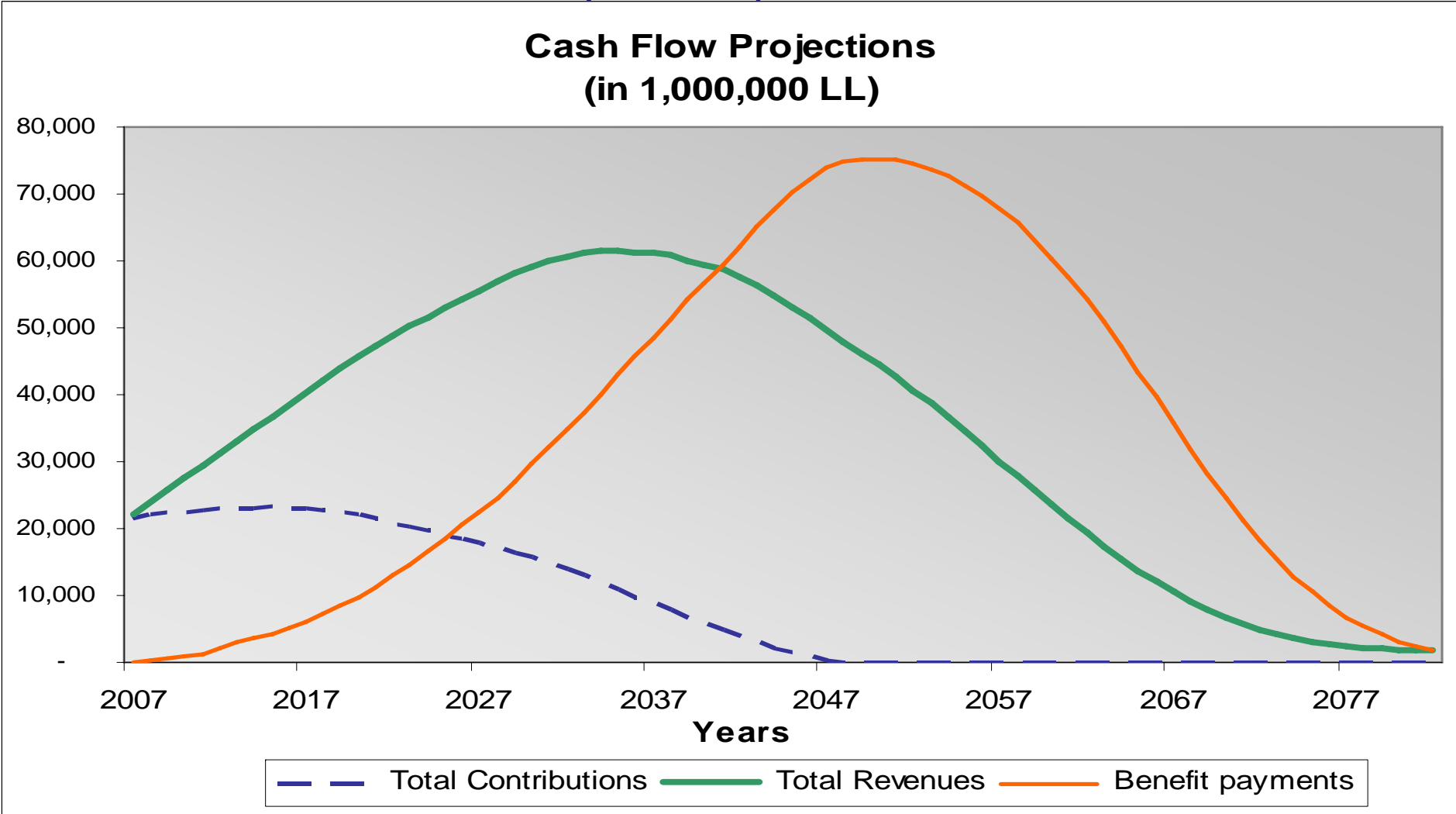
Results & Cost Projections

Base Scenario (cont'd)



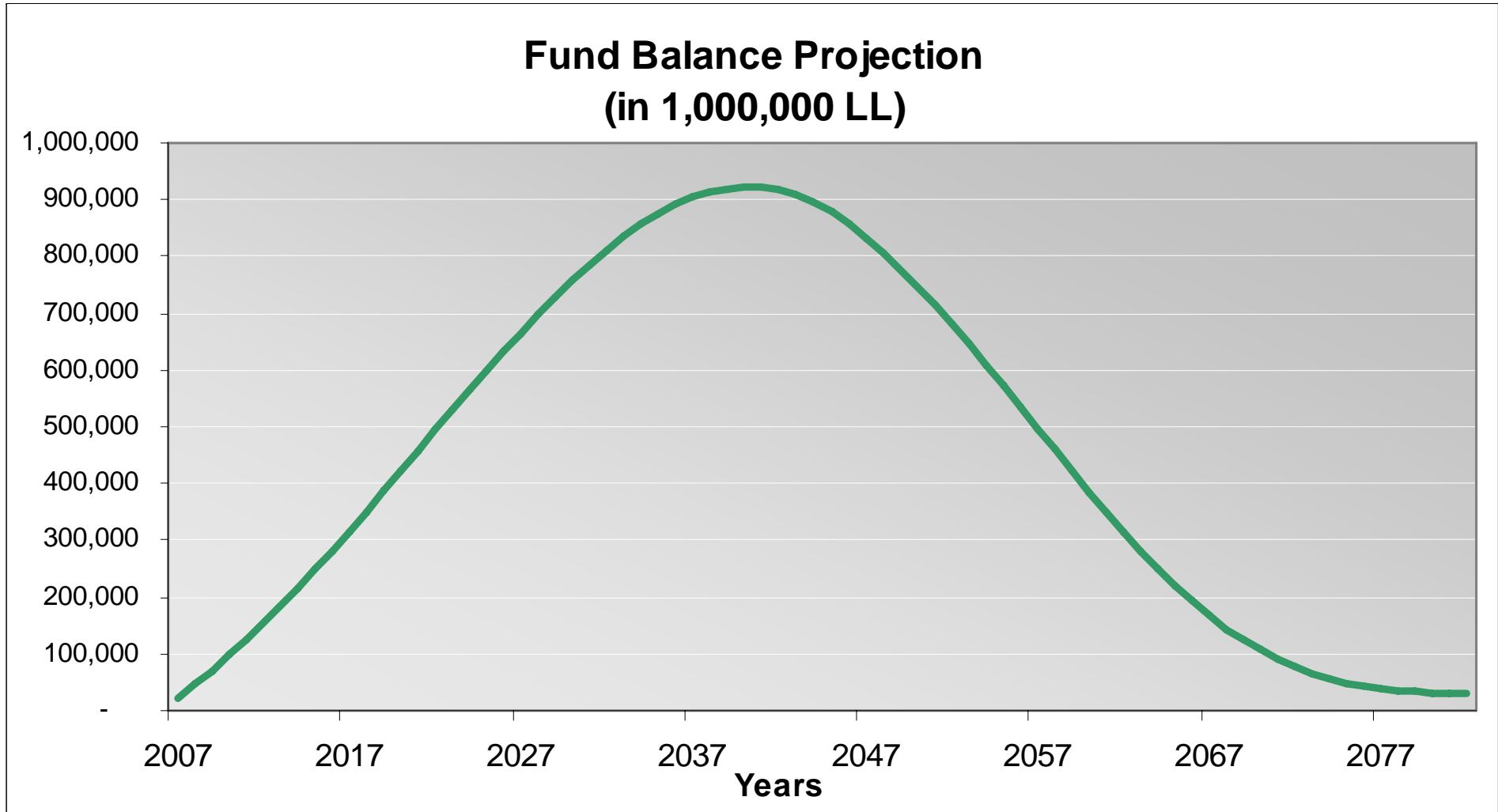
Results & Cost Projections

Base Scenario (cont'd)



Results & Cost Projections

Base Scenario (*cont'd*)



Results & Cost Projections

Base Scenario *(cont'd)*

- Until around year 2042, the annual total revenues surpass the annual total benefit payments
- During this period, the fund increases to reach more than 900 billion LL (600 million USD)
- After this period, the fund decrease gradually
- In reality, with new entrants in the Plan and with a stable workforce in the sector, the fund will probably stabilize from around 2045 onwards

Alternative Scenarios & Sensitivity Testing

Alternative Scenarios & Sensitivity Testing

- This section presents 9 alternative scenarios that show how the Plan's cost might be impacted if one or several events occur in the future
- For each scenario, we briefly describe the differences with the Base Scenario
- For each scenario, a table is presented comparing the resulting Plan's cost (*Requirement total contribution*) with that of the Base Scenario

Alternative Scenarios & Sensitivity Testing (*cont'd*)

Scenario A (medical inflation)

- Scenario A is identical to the Base Scenario with regards to the Plan's design. We have tested the impact of a change in the medical inflation assumption on the total cost
- In Base Scenario, we assumed a medical inflation of 4.0% p.a.
- In Scenario A, we tested an increased medial inflation assumption, at 4.5% p.a.
- The impact on cost is considerable, with an increase in the total required contribution decreases by about 1.3% of basic salaries
- A 17% jump in cost for a change of 0.5% in medical inflation!

Alternative Scenarios & Sensitivity Testing (*cont'd*)

Scenarios B, C and D (investment return)

- Scenarios B, C and D are identical to the Base Scenario with regards to the Plan's design. We have tested the impact on Plan's cost due to different average investment return performances
- In Base Scenario, we assumed that on average, the fund will achieve 6.0% net investment return per year on average
- For scenarios 7, 8 and 9, we assumed that the net investment return performance will be 5.0%, 4.0% and 7.0% respectively
- We can observe investment return has a huge impact on the total required contribution (as a %of basic salaries)
- A 1.0% change in the net investment return has approximately an impact of 20% to 25% on the required total contribution!

Alternative Scenarios & Sensitivity Testing (*cont'd*)

Scenario E (LL devaluation by 50% in 2007)

- In Scenario E, we test the impact on Plan's cost and on the required total contribution if the Lebanese currency was to lose 50% of its value in 2007
- We assumed that the medical cost is partially linked to the USD (at 70%) and partially to the LL (at 30%)
- As a hedging mechanism (and an investment policy), we assumed that fund's assets will be similarly allocated: 70% in USD and 30% in LL

Alternative Scenarios & Sensitivity Testing (*cont'd*)

Scenario 10 (LL devaluation by 50% in 2007)

- We assumed that an 8-year period is necessary for salaries to reach their initial nominal levels before the devaluation
- We assumed that an 4-year period is necessary for the LL linked portion of the medical cost to reach its initial nominal level before the devaluation
- We assumed a higher return on investments in the LL for a period of 6 years (compared to current returns)

Alternative Scenarios & Sensitivity Testing (*cont'd*)

Scenario 10 (LL devaluation by 50% in 2007)

- A 50% devaluation of the LL in 2007 results in a 45% increase in the total required contribution rate
- If such a devaluation was to happen 10 years from now, it's effect would be partially watered-down.
 - This is true only if the fund's assets are invested at around 70% in USD currency and around 30% in LL
 - In such case, 10 years from now the fund will have accumulated significant assets
 - A devaluation at that time will be partially hedged by the asset allocations between currencies.
- A devaluation in 20 years will even have a smaller impact!

Impact on Total Operating Cost

Impact on Total Operational Cost

When we look at the total required contribution for the Plan under the Base Scenario: 7.5% of Reference Compensation

This represents approximately:

- 7.1% of Basic Salaries; or
- 4.3% of Total Compensation; or
- 2.0% of Total Operational Cost

If funding is assumed to be shared 50/50 by employees and employers, then the cost of this program is about 1.0% of total operational cost

WHAT IS NEXT

What is Next

- This preliminary study gives a general direction of the cost implication and factors that could affect future cost
- Next step is to discuss the way forward
 - What options to be investigated further
 - Additional scenarios
- Full actuarial study will be needed
 - Complete and up to date data information
 - Detailed scheme design and provision to be set
 - Adopting cost control mechanisms
- Discuss financing and funding alternatives
- Implication of third-parties in scheme management and investment

Questions & Discussion