International Update

Recent Developments in Foreign
Public and Private Pensions

October 2017

Asia and the Pacific

World Bank Group and Arab Monetary Fund Issue Report on Arab Pension Systems

In August, the World Bank Group and the Arab Monetary Fund (AMF) jointly published Arab Pension Systems: Trends, Challenges and Options for Reforms, a report providing a comprehensive overview of the pension systems in the AMF's 22 member countries. The report, a product of conference discussions taking place in January 2017, contains extensive analyses and discussion of possible pension reforms for Arab countries to consider. The report states that member countries face similar pension challenges, but developing a framework to address them is often complicated by country-specific features.

Arab countries, although diverse, generally have young populations, relatively low female labor participation rates, fragmented pension systems that favor public-sector employees, easy access to early retirement benefits, underdeveloped private pension systems, and nascent capital markets. This situation is expected to change with rapid increases in female labor force participation rates and in old-age dependency ratios—the population aged 65 or older divided by the population aged 15 to 64—during the next 20 years (owing to higher life expectancy and reduced fertility). Although the projected labor force participation rate increases will likely expand the contribution base, relatively high levels of informal employment and foreign labor recruitment—particularly among Gulf Cooperation Council countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates) where foreign labor accounts for more than half the population—suggest that more traditional approaches to pension reform will not work.

Given this background, the report outlines the challenges, reform options, and possible role that the redesign of pension systems in AMF countries can play in stimulating economic development. Major challenges include:

- *Data gaps:* More robust data systems are needed to monitor pension system actors (members, employers, regulators, and supervisors) and improve operations. Accomplishing this will enable governments to establish a baseline against which to track reform progress and measure pension costs and investment returns.
- *Benefit funding:* A misalignment of contribution rates and benefit payments exists in many AMF public pension systems financed on a pay-as-you-go basis. As a result, these pension systems increasingly rely on general revenues to fund benefits, especially for the more generous special systems that cover civil servants and military personnel. Low penalties for early retirement and broad access to survivor benefits (eligibility often extends beyond spouses) have also added to the financial strains in many Arab countries.
- *Low coverage:* Low coverage is particularly acute in the private sector, where the absence of a formal employer raises the need to develop pension solutions for labor markets in Arab countries with a high degree of resident foreign workers.
- *High fragmentation:* Most AMF member countries operate multiple pension programs that cover different employee groups and have varying eligibility conditions and benefit formulas. Such differences cause administrative and economic inefficiencies, increase administrative costs, and create inequity.
- *Weak governance:* Inappropriate governance structures may lead to arbitrary adjustments in contributions and benefits, possibly resulting from political pressures that compromise the management and financial sustainability of pension systems.
- *Pension oversight:* Developing regulatory bodies to supervise pension systems is needed in most AMF countries. The long-term nature of pensions means that safeguarding benefits and the assets behind

them will extend over several decades and become critical for countries seeking to build a multi-pillar framework and diversified public-private arrangements.

Given the above challenges, the report discusses a range of reform options that take into account the unique characteristics of Arab pension systems, including:

- Adopting a multi-pillar framework (as opposed to reliance on a single pillar) in countries that employ many foreign workers and have large informal sectors. The goal of system diversification can include the development of mandatory and/or voluntary private pensions to complement the public pension system.
- Implementing parametric changes based on actuarial modeling to help existing systems achieve financial sustainability.
- Strengthening the role of employers in providing pension coverage in both the formal and informal sectors.
- Replacing the traditional approach to extending coverage of informal sector workers through special regimes (which has not generally produced positive outcomes) with an approach relying on simpler pension system designs targeting low-income, self-employed workers. Once established, it may be possible to incentivize workers in these simpler systems to transition into more formalized programs.
- Considering various strategies for consolidating fragmented pension systems and improving administrative efficiencies that take into account the scope of the merger and the speed of implementation.

A final analytical section discusses investment opportunities for pension funds in AMF countries to stimulate economic development. The report gives special attention to institutional (international) investors, methods to improve the governance and scale of pension funds in Arab countries, and opportunities for pension funds to develop capital markets and support infrastructure projects.

Source: "Arab Pension Systems: Trends, Challenges and Options for Reforms," World Bank, August 2017.

Africa

U.S. Social Security Administration Releases Social Security Programs Throughout the World: Africa, 2017

In September, the U.S. Social Security Administration (SSA) released *Social Security Programs Throughout the World: Africa, 2017*, the third volume of a four-volume series. This volume provides a cross-national comparison of the social security systems in 49 countries in Africa. It summarizes the five main social insurance programs in those countries: (1) old age, survivors, and disability (OASD); (2) sickness and maternity; (3) work injury; (4) unemployment; and (5) family allowances. The other regional volumes in the series focus on the social security systems of countries in Europe, Asia and the Pacific, and the Americas.

Changes made since SSA released the 2015 Africa volume include:

- *New country:* Mozambique.
- *New benefits:* Angola (cash sickness benefit), Benin (universal health coverage), Côte d'Ivoire (employer-liability cash sickness benefit, universal health coverage, and unemployment severance pay), Guinea (employer-liability medical benefits, and unemployment severance pay), Liberia (cash sickness and maternity benefits, and unemployment severance pay), and Rwanda (social insurance cash maternity benefit, and public health insurance).
- *Major reforms to existing benefits*: Algeria (OASD), Angola (OASD and unemployment), Burundi (OASD), Cameroon (OASD), Guinea (sickness and maternity), Libya (family allowances), Morocco (work injury), Rwanda (sickness and maternity), Sudan (OASD), Tanzania (work injury), Zambia (OASD), and Zimbabwe (sickness and maternity).
- *Contribution rate increase for OASD programs*: Cameroon.
- *Contribution rate decreases for OASD programs*: Guinea and Kenya.
- *Retirement age increases*: São Tomé and Príncipe (only for women) and Sudan.
- *New administrative organizations:* Sudan (OASD) and Tanzania (work injury).

Source: *Social Security Programs Throughout the World: Africa, 2017*, U.S. Social Security Administration, September 2017.

The Americas

Manitoba (Canada) Implements Law on Pooled Registered Retirement Plans

On August 1, Manitoba implemented the Pooled Registered Pension Plans (Manitoba) Act (PRPP Act), which provides a legal framework for creating and operating voluntary, low-cost, defined contribution pension plans for employed and self-employed persons who do not have access to a workplace pension. The law, which was approved by Manitoba's Legislative Assembly on June 2, largely follows the framework of federal PRPP legislation passed in 2012. Once the provincial government signs a multilateral agreement with the federal government and the other provinces that have implemented PRPP legislation, licensed providers will be able to offer PRPPs in Manitoba. The law is expected to lower administrative costs (by allowing for the pooling of assets from plan participants) and encourage workers to save more for retirement.

Unlike most workplace pensions in Canada, banks, insurance companies, and other licensed financial institutions administer PRPPs rather than employers. (A PRPP administrator may administer more than one plan.) Participation in a PRPP is voluntary for employers and employees; if an employer chooses to participate, its employees are automatically enrolled but may opt out. Self-employed persons and employees of nonparticipating employers may enroll directly with a PRPP administrator. Employee contributions to PRPPs are tax deductible up to a maximum annual contribution limit that varies by individual according to earned income in the previous year and other factors; employer contributions are voluntary. (Contribution rates and the frequency of contributions can vary by plan.) Plan administrators determine the investment options, but each plan must include a default option for members who do not make an investment choice.

Manitoba is the seventh province to adopt PRPP legislation, joining Alberta, British Columbia, Nova Scotia, Ontario, Saskatchewan, and Quebec. (The 2012 federal legislation covers all federally regulated workplaces, such as those involved in navigation and shipping, banking, and interprovincial transportation and communications.)

Sources: "Pooled Registered Pension Plans Act" and "Pooled Registered Pension Plans Regulations," Minister of Justice, 2012; "Pooled Registered Pension Plan (PRPP)—Questions and Answers for Administrators," Canada Revenue Agency, June 6, 2013; "Ontario (Canada) Implements Law on Pooled Registered Retirement Plans," *International Update*, U.S. Social Security Administration, December 2016; "Pooled Registered Pension Plans (Manitoba) Act," "Pooled Registered Pension Plans Regulation (Manitoba)," and "Pooled Registered Pension Plans (Manitoba) Q&A," Office of the Superintendent—Pension Commission, 2017; Manitoba provincial government news release, August 10, 2017.

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Editor: John Jankowski

Writers/researchers: Ben Danforth, John Jankowski, and David Rajnes.

Social Security Administration
Office of Retirement and Disability Policy
Office of Research, Evaluation, and Statistics
500 E Street, SW, 8th Floor, Washington, DC 20254

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