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1. General outline and main features of the current system.
 2. General outline and main features of the new system.
 3. Description of the new system with regards to:-
 - Benefits and risks covered
 - Additional benefits for pensioners and beneficiaries
 - Additional benefits for casual and informal workers
 - Commitments of the treasury.
 4. Structure of the new system.

General outline and main features of the current system.

Background of the existing social security system:

1. The Egyptian Social Insurance System was created more than 50 years ago to administer the following social insurance programs:
 - - Death (or survivorship)
 - - Old Age retirement
 - - Unemployment
 - Disability
 - work injuries
 - sickness and maternity
2. The system is covering around 25 million members and administered by the National Organization for Social Insurance NOSI through two separate pension funds – one relating to Government workers (civil servants, army, police, .. etc) (GSIF) and the other relating to workers in the public and private enterprises, the self-employed, casual workers and Egyptians working abroad (PSIF).

General outline and main features of the current system.

3. There are a number of programs providing assistance to the poor who do not fall within the scope of the social insurance schemes. Most of these programs are administered by or under the general supervision of the Ministry of Finance or the Ministry of Social Solidarity.
4. The system is a Defined Benefit (DB) system with a replacement rate target of 80% of the average salary over the last two years of work with 36 contributory years.
5. Benefits are primarily funded by contributions collected from employers and employees, but there has been a substantial financial support from the Treasury.

General outline and main features of the current system.

6. The current system is considered to be very expensive, as the rate of contributions is 41% of salaries (employers contributes 26%, workers contributes 14% and the treasury contributes 1% in addition to any deficit and any other increases in pension or benefits granted by Presidential or Governmental decision), those very high contribution rates leads both the employers and employees to escape out of the system and tend to be part of the informal sector which exceeds now 14 million workers.
7. Very generous system particularly in the case of death and disability.
8. Both the GSIF and PSIF were established mainly on a fully funded basis but it has been receiving more treasury subsidies until it has become a partially funded system and now it operates nearly on the basis of a PAYG system.

General outline and main features of the current system.

9. The surplus of the two pension funds was, in accordance with the legislation, deposited with the National Investment Bank (NIB).
10. The system has built assets to be invested to pay for future liabilities but the government has used these assets as cheap loans. The current accumulated assets are of around 300 billion Egyptian pound with two thirds is invested in treasury bills and around 20% is invested in national development projects .
11. Annual increases and any additional benefits are funded by the treasury.

General outline and main features of the current system.

- The system currently is running with specific characteristics such as:-
 1. The system is financially not sustainable since around 60% of the benefits currently come in the form of transfers from the state budget.
 2. An expensive system with 41% contribution rate leading to a high level of contribution evasion.
 3. The system is not achieving its replacement target of 80% as a result of low pensionable salary ceiling which results in a significant proportion of members receiving a replacement rate below 50%.

General outline and main features of the current system.

4. Very high administration costs.
5. An increasing life expectancy and changing in the demographic profile.
6. High generosity in the case of death which results in distributing more than 100% of the pension value to beneficiaries which sometimes reaches 150% of the pension value.

General outline and main features of the current system.

7. High unemployment rate, no pension indexation in line with high level of inflation, and low rate of return on the invested assets.
8. Pension increases are given at the Government's discretion and funded by the Treasury.

General outline and main features of the current system.

9. The current financing of the system shows some inconsistencies.
10. Depending on the future experience of the system, including the level of investment return that NOSI earns on its assets in the future, the existing assets and future contributions will not be sufficient to finance the current level of standard benefits as set out in the Social Insurance Law.

General outline and main features of the current system.

11. The latest actuarial valuation indicates that the system is running in an increasing actuarial deficit which will be accumulated by year 2075 to 182 billion Egyptian pound in order to run the system on a fully funded system. It is also indicated that in order to run the system on a PAYG system we will need to increase the old age, death and disability contribution rate which is currently 26% to 67% by year 2075 which is impossible. In any case, the NOSI would unlikely be able to finance most or any of the Treasury's liabilities without additional sources of income.

General outline and main features of the current system.

12. The Egyptian Government has made significant efforts to provide the self-employed and casual workers with the social insurance provisions which take into account the circumstances of those workers. In general, these schemes are difficult to design and implement, and are often subject to adverse selection and evasion which tends to undermine the laudable efforts to provide coverage on an equitable basis. Neither scheme is wholly successful in Egypt. Participation among the self-employed is at a reasonable level but there is little to prevent members choosing their level of participation at the lowest available pensionable salary regardless of their real income levels.

General outline and main features of the current system.

13. The casual workers scheme is a more serious problem. A flat rate pension of LE 85 a month is paid against a flat rate contribution of only LE 1 per month for 120 months with relatively lax qualifying conditions.
14. Given the scale of the subsidy and the number of participants, the scheme has structural similarities to a universal flat rate scheme.

General outline and main features of the current system.

- **Challenges facing the current system:**

1. An increasing reliance on the treasury as the gap between the cash flows in and out increases.
2. Pension is no longer replacing salary particularly for middle and high income people and people have to rely on other sources of pension arrangements or savings.
3. The financial effects of the longevity risk.
4. The management, structure and infrastructure of the system need an urgent reform and modernisation.

General outline and main features of the current system.

5. No investment capability or options available within the system.
6. No professional training or development policy for the human resources.

General outline and main features of the current system.

➤ The following figures illustrate the results of the investigation done by the Ministry of Finance to show the financial impact of continuing on the current social security system with no reform; from which it is clear that the current system can not continue with no reform as it is expected to be incapable of meeting its financial obligations for the new generations on the long run.

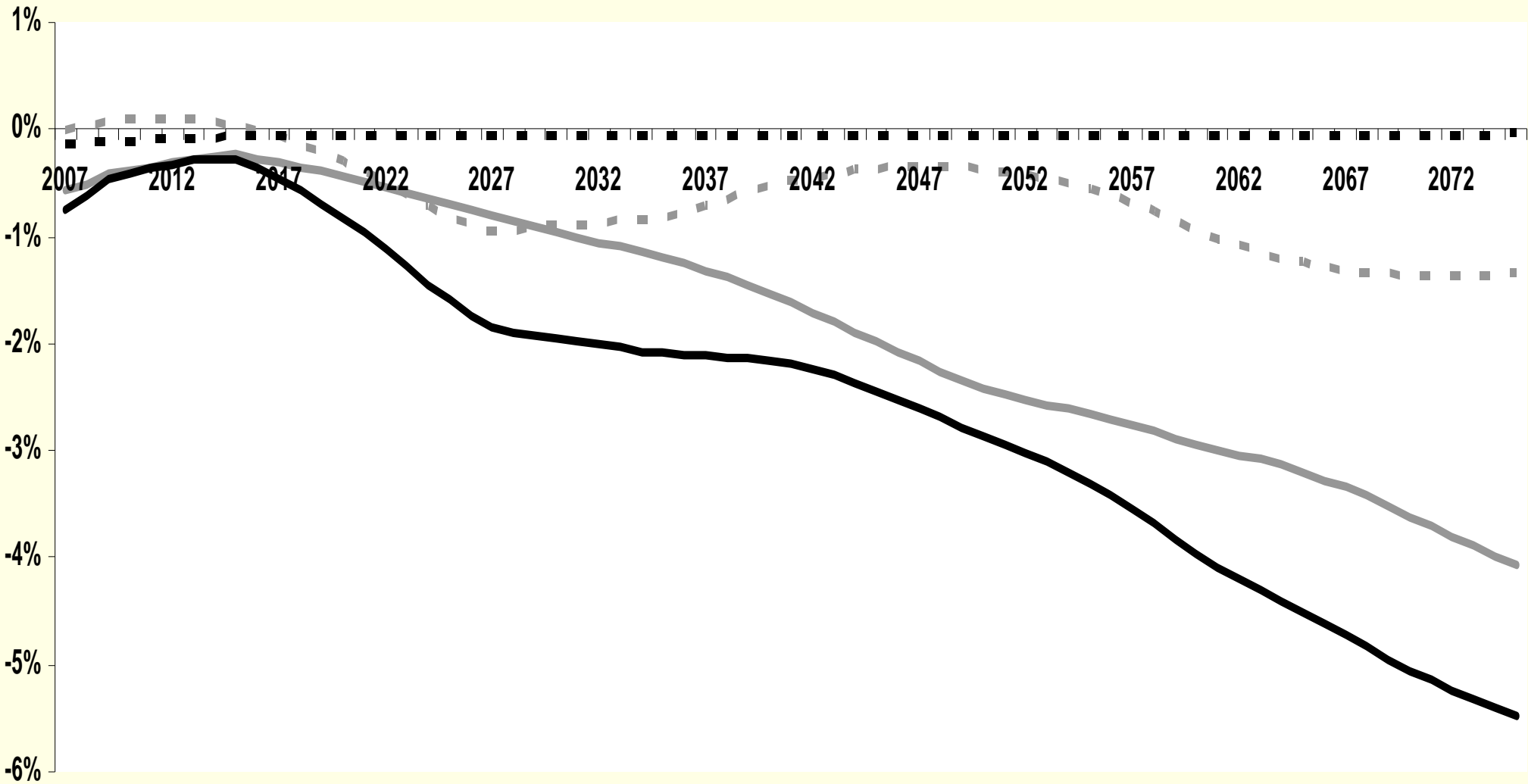
General outline and main features of the current system.

The following figure illustrate the following:

1- Baseline (no reform):

- This scenario illustrate the results whether surplus or deficit as a percentage of GDP if no reform implemented to the current system

Baseline (no-reform): current balance, % of GDP



2- General outline and Main Features of the new System

a) General outline of the new system:

The philosophy of development for the new system is based on overcoming the challenges and problems that faces the current system through applying new developed methodologies considering the changes in the Egyptian Demographic profile, where the new system is based on:

- A unified social and pension system applied to all categories of the population been characterized by transparency and justice among all members of the population and contribute to the simplicity of the administrative procedures.

2- General outline and Main Features of the new System

- Based on the transition from defined benefit system to a defined contribution system which create a direct and strong relationship between the collected contributions and the benefits being paid under the system which encourage individuals for savings.
- Establishing an old age pension system and end of service indemnity system based on individual accounts for the members which encourage contributing and discourage evasion from paying contributions.
- Preserving the element of interdependence among the society with respect to social solidarity risks, such as death, disability, work injury and unemployment.
- The provision of a basic pension for all Egyptian citizens who reach age 65 and are not receiving any pensions even if they didn't contribute to the system.

2- General outline and Main Features of the new System

- Improving and increasing pensions on a regular basis prescribed by law that allow for annual increases to face inflation.
- Allow each insured to add any additional amounts to his individual account in order to increase the value of his pension and benefits due.
- The establishment of a solidarity accounts for all members for death, disability, unemployment and work injury, to ensure that the limits prescribed by law for the disability insurance benefits, death, unemployment and work injury is funded from a portion of the contributions collected from the insured and the employers.
- Determine the role of the public treasury in the care of certain groups, low-income groups and the provision of the guarantees stated by law.

2- General outline and Main Features of the new System

b) The coverage of the new system with regard to the insured:

- Current members will continue to be covered under the current system.
- The new system will be applied for the new entrants and it is expected to be applied from 1/1/2012.
- Members of the current system will have the option to switch to the new system. They will also have the option to insure the difference between the current capped salary and the full salary.

2- General outline and Main Features of the new System

- The new system covers the risks covered by the current system including the old age, disability, death, work injury and unemployment but at a lower cost, especially for low and medium wages and through new and innovative ways of management.

2- General outline and Main Features of the new System

c) The cost of the new system to the insured and the employer:

- The new system aims to reduce the current contribution rates for both the insured and the employer, especially for low and medium wages to fit with the rates established globally and at the same time maintaining the level of benefits and introducing annual increases to maintain the real value of benefits.
- Create a direct relationship between contributions collected and benefits provided by the system especially for the above-average wage earners who will pay higher contributions than they pay now, but in exchange for much higher benefits than they have now.

2- General outline and Main Features of the new System

1. The cost of the new system to the insured:

- The following table illustrate the difference between the contribution rates that the insured bears under the current law and what he will bear under the new law:

Risks covered	Current system	New system (based on the total wage)
Old age, disability and death	10%	9%
End of service indemnity	*3%	½%
Work injury	–	-
Unemployment	–	½%
Flat rate pension	–	-
Health insurance	1%	1%
Total	14%	11%

2- General outline and Main Features of the new System

2. The cost of the new system to the employer:

- The following table illustrate the difference between the contribution rates that the employer bears under the current law and what he will bear under the new law:

Risk cover	Current system	New system (based on the total wage)
Old age, disability and death	15%	13%
End of service indemnity	**2%	0.5%
Work injury	3%	1%*
Unemployment	2%	2%
Flat rate pension	–	-
Health insurance	4%	3%
Total	26%	19.5%

2- General outline and Main Features of the new System

2. The following table illustrates the financial costs that the employer will bear under the new proposed pension system:

wage			Contributions paid under the current system	Contributions paid under the proposed system
Basic	400	800	200	156
Variable	400			
Basic	600	1200	300	234
Variable	600			
Basic	725	1350	338.5	263
Variable	625			
Basic	775	1400	351.5	273
Variable	625			
Basic	800	1600	388	312
Variable	800			
Basic	900	2000	498	390
Variable	1100			
Basic	1000	2600	498*	**507
Variable	1600			

2- General outline and Main Features of the new System

From the previous table it is clear that the financial costs under the new proposed system is less than that under the current system especially for the lower and medium wages.

It is expected that the financial cost under the new proposed system will remain lower than that under the current system until the wage of the member reached 2600 L.E, at which the contributions paid by the employer under the two systems will be nearly equal.



3- Description of the new system

a) Benefits and risks covered:

1. Old age benefits and End of service indemnity:

- The new system aims that the pension will be within 65 - 75% or more of the value of the last total real wage prior to retirement, disability or death, which represents 75 - 88% of the value of the last net wage before retirement.
- Actual value of the pension will depend on the total value of the insured's account balance at retirement which will depend on the duration, the amount of the contributions collected, the rate of return on invested assets and the rate of increase in wages.

3- Description of the new system

- Old age pension will be funded through the establishment of individual accounts to each member where 20% contributions of total real wage will be deposited (9% from the insured and 11% from the employer) distributed between the notional account and the financial account with about 65-80% and 35-20% respectively.
- The balance of the notional account will be invested in guaranteed government assets and the balance of the financial account will be invested in a diversified portfolio.
- At retirement the balance at both the notional and financial account will represent the present value of the insured's accrued pension.

3- Description of the new system

- The public treasury will guarantee all the insured's balances in the new system and will also guarantee a minimum rate of return earned on the savings of the insured that is not less than the average rates of inflation during the period of contribution.
- For the self-employed and workers abroad the contribution rates will be unified to be 20% from the contributable wage that the individual will choose under the new system, where contributing in the new system for those working abroad will be optional as in the current system.

3- Description of the new system

- The new system aims to find a solution to address the impact of the improvements in life expectancy and the increase in the financial obligations of the system, which affects the value of the pension payment.
- The new system will provide end of service indemnity for its members.

3- Description of the new system

Example for old age benefits under the new law:

Pension age	55	60	63	65
Last wage (L.E)	1423	1996	2445	2799
Value of 1 st pension (L.E)	649	1297	1994	2651
Replacement ratio from total wage	46%	65%	81.55%	94.73%
Replacement ratio from net wage	57%	81%	102%	118%

3- Description of the new system

➤ The new system aims at increasing the retirement age gradually to 65 years as shown in the table below to face the increased life expectancy and hence the increase in financial commitments for the system, as the life expectancy for males has reached 16.8 years and 18.4 years for females at age 60 which affect the amount of pensions paid:

year	Age
2015	61
2018	62
2021	63
2024	64
2027	65

3- Description of the new system

Replacement ratio:

Contribution rate	55	57	59	60	63	65
20%	44%	52%	61%	66%	83%	97%
19%	42%	49%	58%	62%	79%	92%
18%	40%	47%	55%	59%	75%	88%
17%	38%	44%	52%	56%	71%	83%
16%	36%	42%	49%	52%	66%	78%
15%	33%	39%	45%	49%	62%	73%
12%	27%	31%	36%	39%	50%	58%
10%	22%	26%	30%	33%	41%	49%

3- Description of the new system

2. Disability and death benefits:

- The new system states that this pension will not be less than 65% from the average wage in the last two years before death or disability or 25% of the average national salaries whichever is larger (which is higher than what the current system offers).
- Death and disability pensions will be financed from the individual account balance and if it proved to be inadequate to cover the minimum stated pension we will use the solidarity accounts of all members to make up any shortfall.
- This solidarity account will be financed from contributions starts from 2% from the total wage of the insured (paid by the employer) up to age 34 which will then increase according to the member's age and will be used to make up any short fall as mentioned above with an upper limit of 65 times the average national wages.

3- Description of the new system

- The new system will maintain the current additional benefits offered in the event of death or disability such as funeral expenses and death subsidy.

3. Work injury benefits:

- All the current benefits for the work injury has been maintained in addition to that it will be calculated based on the total real wage of the insured before the injury.
- The new system offers the insured the right to obtain a compensation for his wage during the period of his absence from work due to injury. If work injury led to total permanent disability, a pension of up to 100% of average net monthly wage in the last two years before injury will be paid with an upper limit of 65 times average net national wage.

3- Description of the new system

- The new system offers the insured the right to combine the work injury pension and his wage with no limits.
- The new law offer the insured and his beneficiaries the right to combine the work injury pension and old age, death and disability pensions with no limits.

3- Description of the new system

4. Unemployment insurance:

- This insurance offer a compensation in the event of unemployment from the 8th day after leaving work and this compensation will continue to be paid until the day prior to have a new job or according to the periods specified in the following table whichever is shorter. This compensation is a monthly sums of 65% from the average net wage during the last 12 months prior to the unemployment, decreased by 3% of that wage monthly.

Period of contributing to the unemployment insurance prior to unemployment	Maximum period of paying the unemployment insurance
One year and less than two years	6 months
two year and less than three years	7 months
three year and less than four years	8 months
four year and less than five years	9 months
five year and less than six years	10 months
six year and less than seven years	11 months
Seven years and more	12 months

3- Description of the new system

- This insurance will be managed through allocating from 70-75% of the unemployment contribution rates to the individual unemployment account and the rest to the solidarity unemployment accounts for all members.
- In the event of unemployment, the unemployment benefits will be paid from the individual unemployment account balance and if it proved to be inadequate, the solidarity unemployment account balance will be used to make up any shortfall.
- Any outstanding balance remains at the individual unemployment account will be given to the insured at retirement or for the inheritors in case of death or can be used to increase the amount of pensions paid for old-age.

3- Description of the new system

5. The Inheritance of pensions in cases of death of the insured or the pensioner:

- A. The main principles for the inheritance of pensions in the current law will be maintained to ensure the protection of the family after the death of the member and to protect the insured's rights, where the new proposed system states for the illegibility conditions for the widows, divorced, sons, daughters, parents, sisters and brothers. The new system has also defined the cases of combining pensions, cutting pensions and the cases of resuming pensions.

3- Description of the new system

- B. In cases of the death of the insured or the pensioner, the illegible members will be allowed to receive pensions according to the rates specified currently from the beginning of the month where death happened.
- C. It is restricted for the illegibility of the widow or the widower that the marriage is certified according to the ways of certifying specified in the regulations.
- D. Pension will stop from the start of the month following the month in which one of the following events occurred:
- Join a job.
 - Marriage of the widower, widow, the daughter or sisters.

3- Description of the new system

- E. **The new proposed system requires for the entitlement of the son and daughter that they haven't reach the age of 21st and excluded from that the entitlement for pension will continue in the following cases:**
- Those who are unable to earn.
 - Students that didn't reach yet the bachelor degree or its equivalents provided that they are full-time students.
 - Within two years from obtaining an educational certificate not more than a bachelor degree or its equivalents provided that the eligible person haven't join a job or worked during those two years.
 - In all cases pension payable will stop in case of joining a job or doing any work or reaching the age of 26.

3- Description of the new system

- E. The new proposed system requires for the entitlement of the brothers and sisters – in addition to the rules specified for the entitlement of the sons and daughters- an evidence that they are dependants of the insured. Those evidence will be determined through regulations.

3- Description of the new system

F. If a beneficiary has met the illegibility conditions for more than one pension from the national organization for social insurance then he/she will only take one pension of them according to the following priority:

- The pension due for himself.
- The pension due for the spouse.
- The pension due for the parents.
- The pension due for the sons and daughters.
- The pension due for the brothers and sisters.

3- Description of the new system

- The beneficiary can combine his wage with pension or combine pensions, with the following limits:
- Sons and daughters can combine between the pensions they receive due to the death of their parents with no limits.
- The widow or widower can combine the pension he/she receives due to the death of his partner and his own pension, he/she could also combine the pension they receive from the death of his/her partner and his/her own wage with no limits.
- The beneficiary can combine pensions due from one person with no limits.

3- Description of the new system

6. Basic pension:

- The public treasury guarantee this pension for all Egyptian citizens who reach age 65 and do not receive any pensions, where this pension will be received from the beginning of the month following the date of applying for this pension, where the annual value of this pension will determined as 18% of the average national wage at the start of each fiscal year, with a lower limit of the value of the monthly pension according to the social solidarity law number 30 for the year 1977.
- The new proposed system has also stated that all pensioners will be eligible for a part of the basic pension equals the difference between the basic pension and 33% of the value of other accrued pensions from the national pension system to enhance the value of lower pensions to act on minimizing the rate of poverty after retirement where the public treasury will bear that cost.

3- Description of the new system

b) Additional benefits for pensioners and beneficiaries:

- The new system guarantees to improve and increase pensions on a regular basis by linking the pension to an index that reflects the inflation rate and will guarantee its increase by law annually to face inflation impacts and will be funded from the investment return on social security funds.
- Simple system that is clear, transparent and not overly complex for members and those who manage it.
- Increase the efficiency and effectiveness of the management system which will result in reducing the administrative expenses of the system where the new law states an allocation of 1% of the contributions received and 2% of the investment returns to cover the expenses of the system.

3- Description of the new system

c) Additional benefits for casual and informal workers:

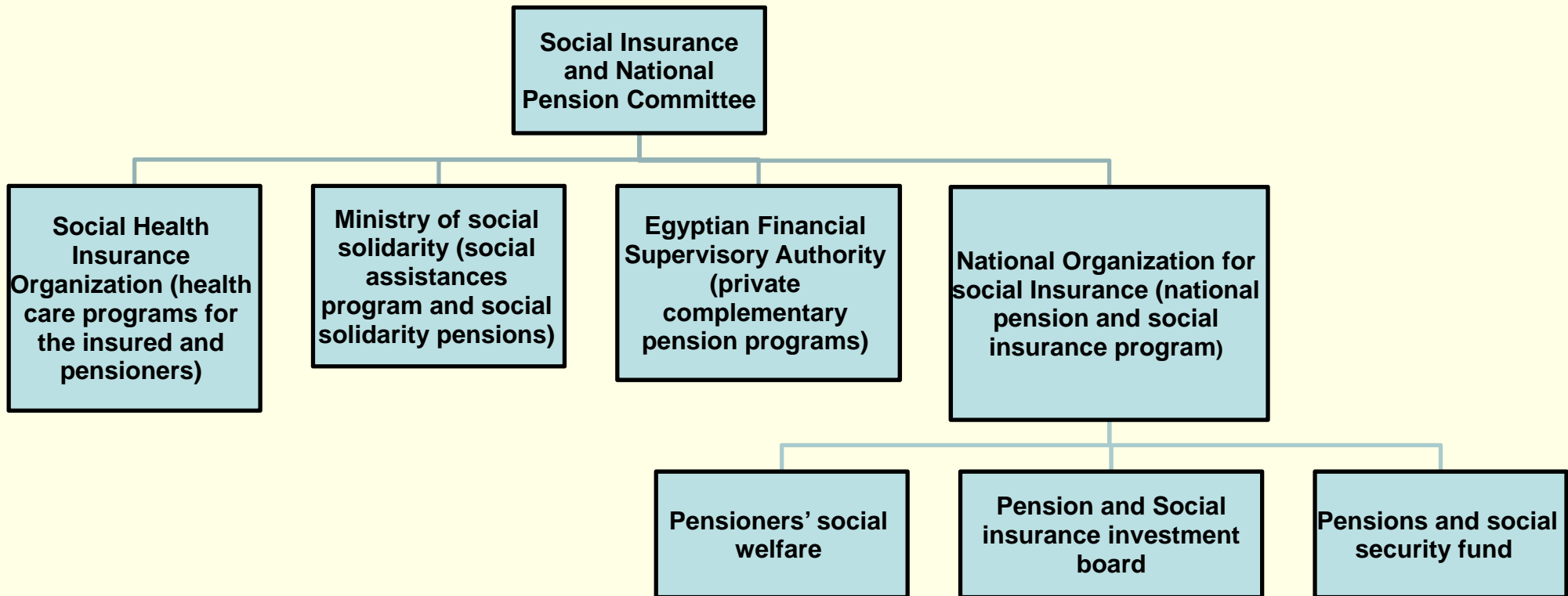
- The new proposed system offers the casual and informal workers the right for receiving the basic pension when they reach the retirement age (65), there is also development of new features and benefits to attract the casual and informal workers to participate in the system by covering the risks of death and disability in addition to old-age pension which guarantees the protection of the worker's family in case of death or disability.
- This is in addition to a 25% partial matching contributions paid by the government which represents an incentive for the participation before the age of 65.

3- Description of the new system

d) Commitments of the treasury:

- The new system ensures that the public treasury will focus on financing the most needy categories in addition to providing the guarantees stated by law.
- Under the new system, the public treasury will bear the following burden:
 - The cost of financing the basic pensions.
 - The cost of funding the pensions increases to the low pensions.
 - The cost of funding the new mechanism of attracting the casual and informal workers.
 - The cost of funding any increase in administrative costs in the new system than the 1% of the contributions collected and 2% of the investment returns.
 - Securing the individual accounts' balance and the minimum rates of return on these balances.

4- structure of the new system



4- structure of the new system

Social Insurance and National Pension Committee:

- A social insurance and national pension committee will be established with a decree issued by the President of Egypt, this committee will be responsible for setting policies, supervision, coordination and following up all issues relating to the national pensions and social insurance, complementary and private pensions, where the decree will specify its roles. It will be headed by the Minister of Finance and the following members:
 1. Minister of Investment
 2. Minister of Labor Force.
 3. Minister of Social solidarity.
 4. Minister of Health.
 5. Chairman of the financial supervisory authority.
 6. Chairman of the national organization for social insurance.
 7. Chairman of the social health insurance organization.
 8. President of the General Federation of Trade Unions of Egypt.
 9. President of the General Union of Chambers of Commerce.
 10. President of the Federation of Industries.
 11. President of the General Union of investors' societies.

4- structure of the new system

Pension and Social insurance investment board:

- A pension and social insurance investment board will be established according to a decree issued by the board of directors of the national organization for social insurance which will be responsible for administrating and investing the assets and the money owned to the social insurance various systems mentioned in this law and that will be according to the rules and regulations .
- The pension and social insurance investment board will set conservative investment policies for investing the assets of the system, these policies will specify the goals of investment in terms of the long term and short term investment returns, the extent for mismatching and accepting risks, and the way for managing such risks.

4- structure of the new system

- The investment board will be funded from the reasonable charges that is levied on the financial defined contribution accounts and it has to prepare an annual budget, including expenses and revenues, e.g. asset management and custodians fees, and it has to introduce this budget for the national organization for social insurance to certify and to include it in the annual budget of the national organization for social insurance in the report that will be send to the committee and cabinet.

4- structure of the new system

Pensioners' Social welfare:

- A fund for pensioners' social welfare will be established, in order to suggest and organize different activities and services to be provided to the pensioners, for example it will :
 - Establish social welfare places for pensioners.
 - Contribute in the cost of the major surgeries (inside Egypt & outside Egypt) for the pensioners.
 - Provide emergency assistance to the needy of pensioners in crises.
 - Reduction in the costs of entertainment places e.g. cinemas, clubs and theatres for the pensioners.
 - Reduction in the transportation costs for the pensioners.

Thanks a lot

for Listening

