Maldives Pension System, Governance, Investment Policy and Challenges

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THE MALDIVES FINANCE FORUM 2012
Fostering Long-term Economic & Social Development

Coverage

- Socio-economic context
- Pension Reform in the Maldives
- Governance
- Investment Policy
- Challenges

Socio-economic context

Socio-economic achievements

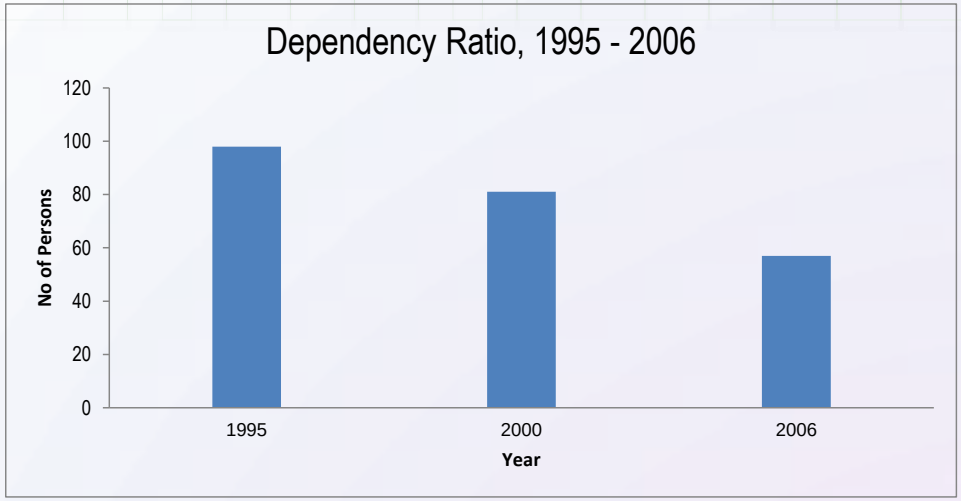
- Historically good GDP growth
- GDP per capita 2011 US$4,000
- Millennium Development Goals on Child Mortality, Basic Healthcare, Basic Education already achieved.

Socio-economic Issues

- Transient poverty especially beyond Greater Male' reflecting irregular employment opportunities
- The low labour force participation throughout Maldives; Economy increasingly dependent on tourism
- Increasingly high unemployment rate among young
- Traditional intergenerational support structure under pressure

Socio-economic Issues (Cont..)

- Overall reduction in dependency ratio between 1995-2006
- Decline associated with slow growth in < 15 age group
- > 65 age group on the rise
- in fact faster than the growth in working population



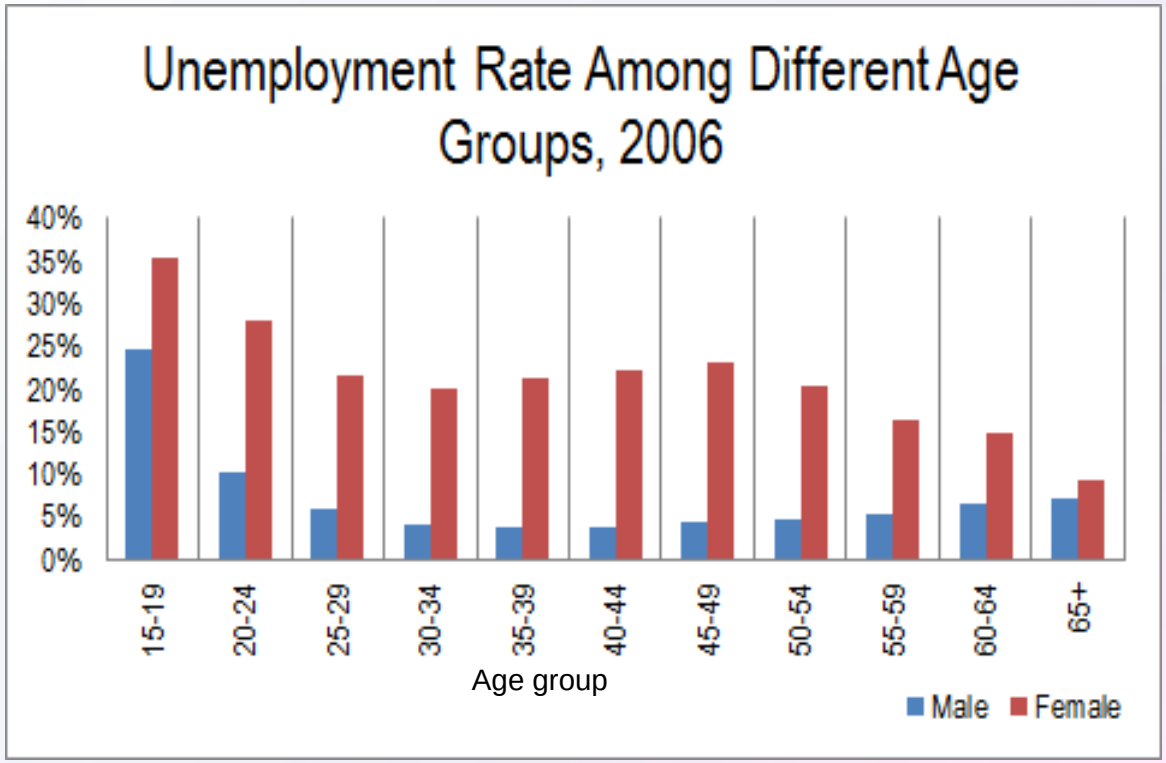
Source: DNP

Population Dynamics, 1995 - 2006

Year	<15 years	15-64	>65
1995	113,601	123,122	8,091
2000	109,928	148,868	11,305
2006	93,037	186,904	19,027
CAGR	-2%	4%	9%

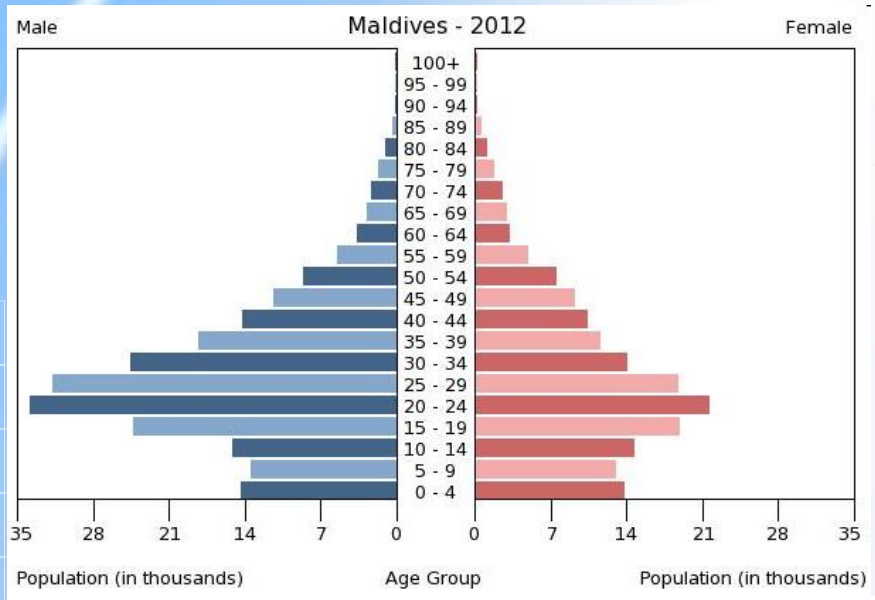
Socio-economic Issues (Cont..)

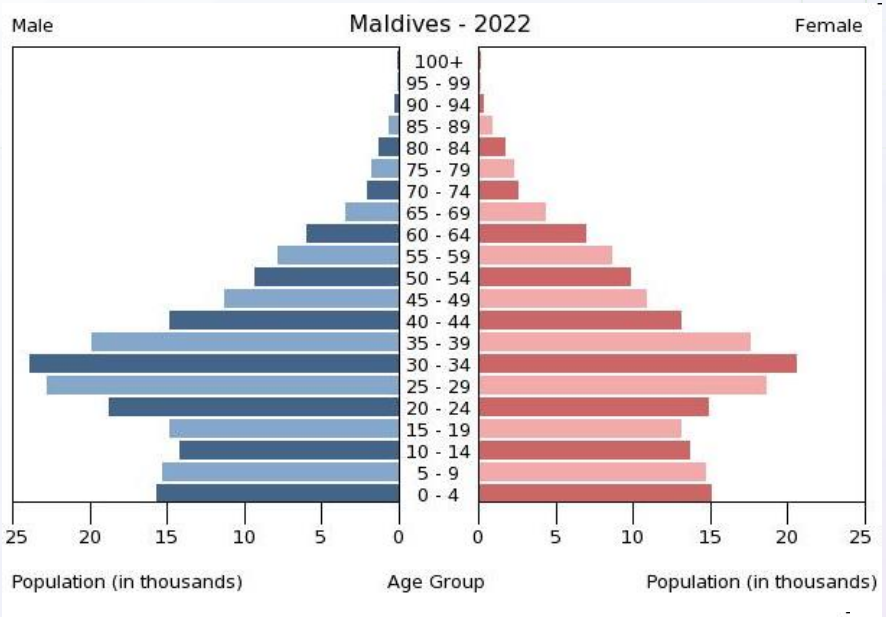
- Low labour force participation
- 60% of the population is economically active
- unemployment among the young people, especially among females

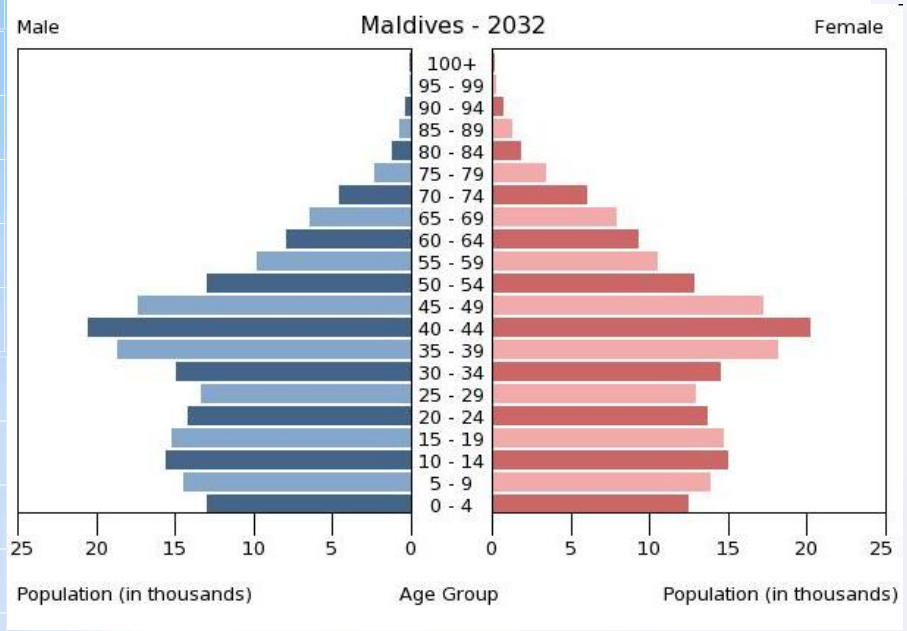


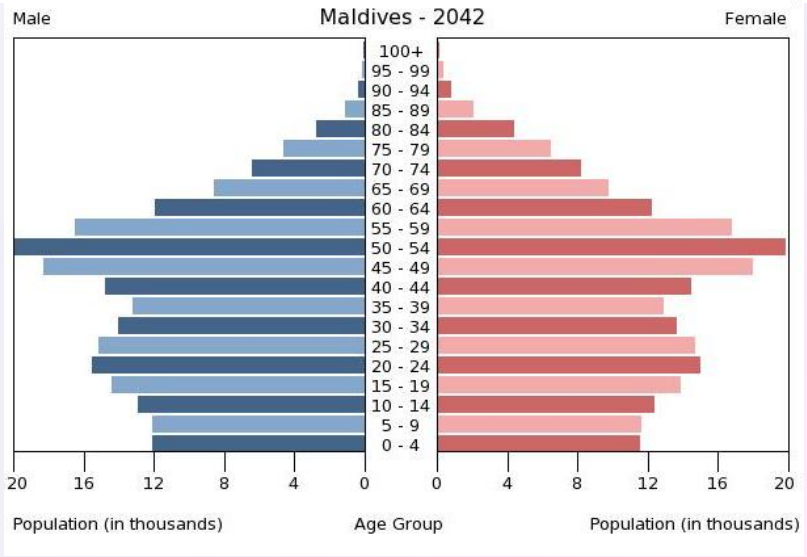
Source: DNP

Maldives Population Pyramids









Source US Census Bureau

Pension Reform in the Maldives

Purpose of Pension

The purpose of pension is to achieve two social objectives;

- reduce poverty among the elderly; and,
- smoothing consumption between the working years and the retirement years, such that an individual does not suffer a huge drop in living standards when old age or disability reduces his earning ability.

World Bank Study, 2006

- World Bank Study: Social Protection in The Maldives 2006
  - Harmonise the Social Security System
  - Pensions for Government Employees moving from defined benefit to defined contribution
  - Government recognising accrued pension rights
  - Mandatory pensions for all employees, first involvement of private sector, in a defined contribution system

The Pension Act, 2009

Resultant Reform… Two Pension Systems

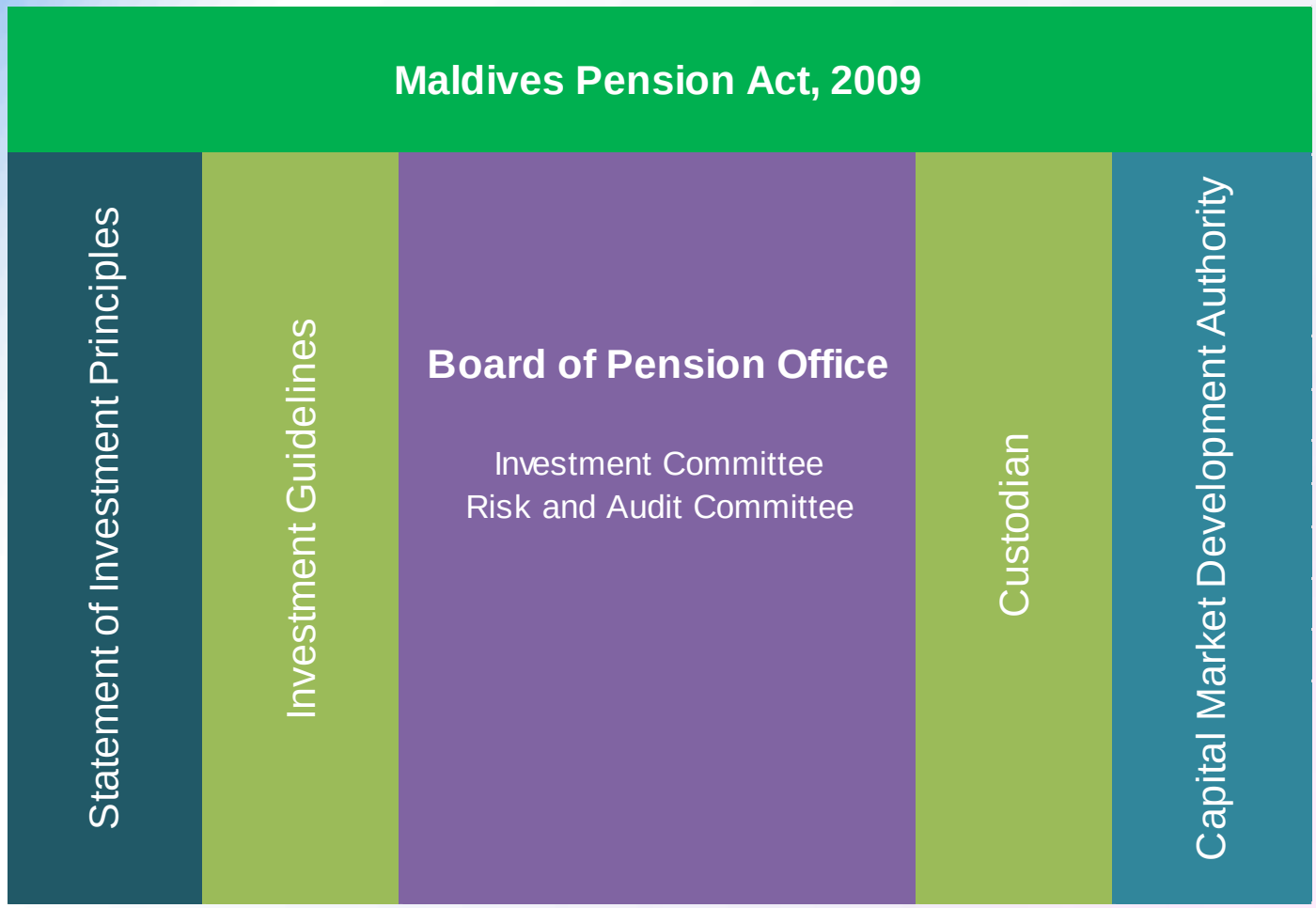
- Old Age Basic Pension – a demogrant at age 65
- Maldives Retirement Pension Scheme, for private and public sectors

- Abolition of the old 20/40 year pension system for Government Employees

Maldives Retirement Pension Scheme

- Defined Contribution Scheme
  - employee and employer together contribute 14% of the monthly basic salary to the MRPS.
  - Goal of a retirement income would at least be in the order of 50% of lifetime revalued average wage for a full career worker.
  - Actual pension dependent on timing of contributions, investment return, balance at aged 65 and also affected by inflation
  - For Government employees potentially larger returns for longer service employees than pre May 2010 system.

Maldives Retirement Pension Scheme- Governance Structure



Investment Policy and Objectives

- Maximize the value of the Pension Contributions to the MRPS
- Maintain the purchasing power of Participants savings in real (i.e. post-inflation) terms
- Provide reasonable benefits commensurate with the cost of living at retirement.
- Provide protection for accumulated assets in the years approaching retirement against a sudden (downward) volatility in the capital value.

Maldives Retirement Pension Scheme - Portfolios

MRPS Investment Portfolio

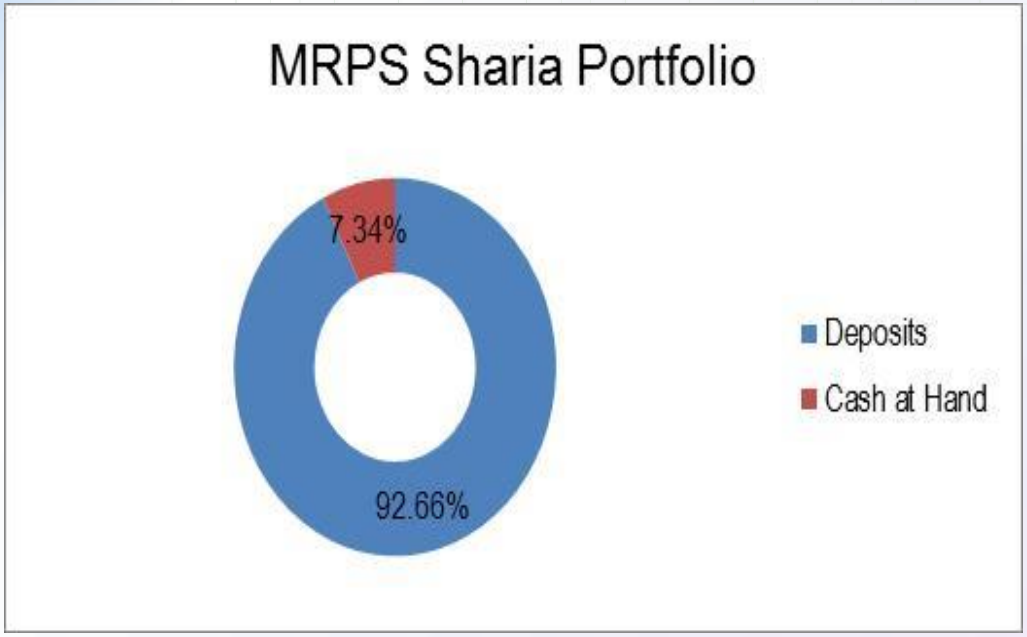
MRPS Sharia Portfolio

Recognition Bond Portfolio

MRPS Retirees Conservative Portfolio

- Portfolios valued daily, members allocated units at the next day's price, aggregated and valued, so that each member's balance can be accurately calculated.

Composition of the Fund



End of April 2012

Composition of the Fund

End of April 2012

Challenges

Challenges (1) - Pension Coverage

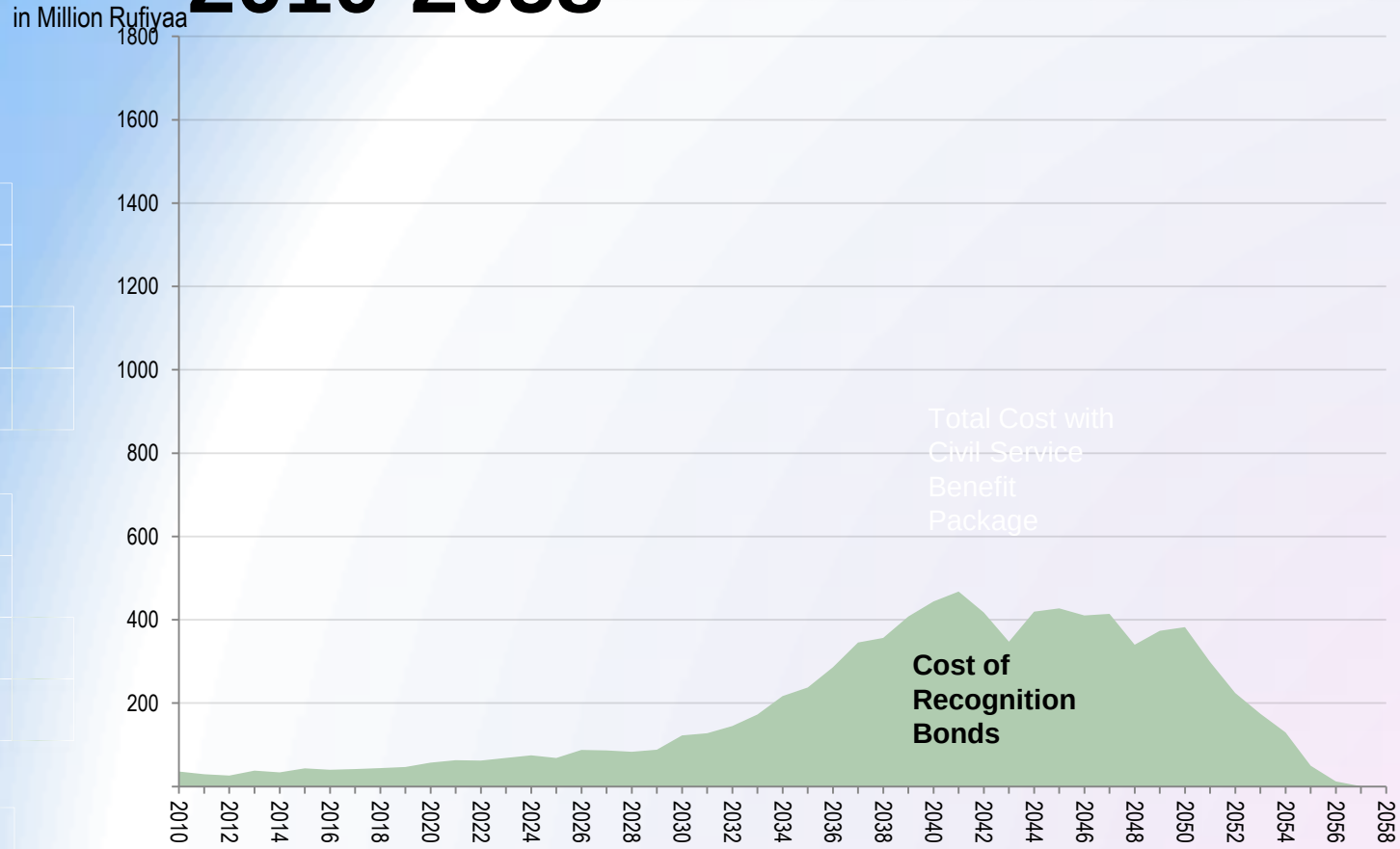
- 70,942 in MRPS, all employees
- 29,381 – public sector : 41,551 – private sector
- Coverage near 100% public sector, estimated 70% plus in the private sector
- Unemployment rate among the young means a delayed history of pension savings, at best
- Self employed are making no provision for retirement, not mandated by MRPS
- MRPS currently excludes foreigners for mandatory contributions, may make voluntary contributions; mandatory by 2014.

Challenges (2) – Double Pensions

Ongoing Public Sector Pensions

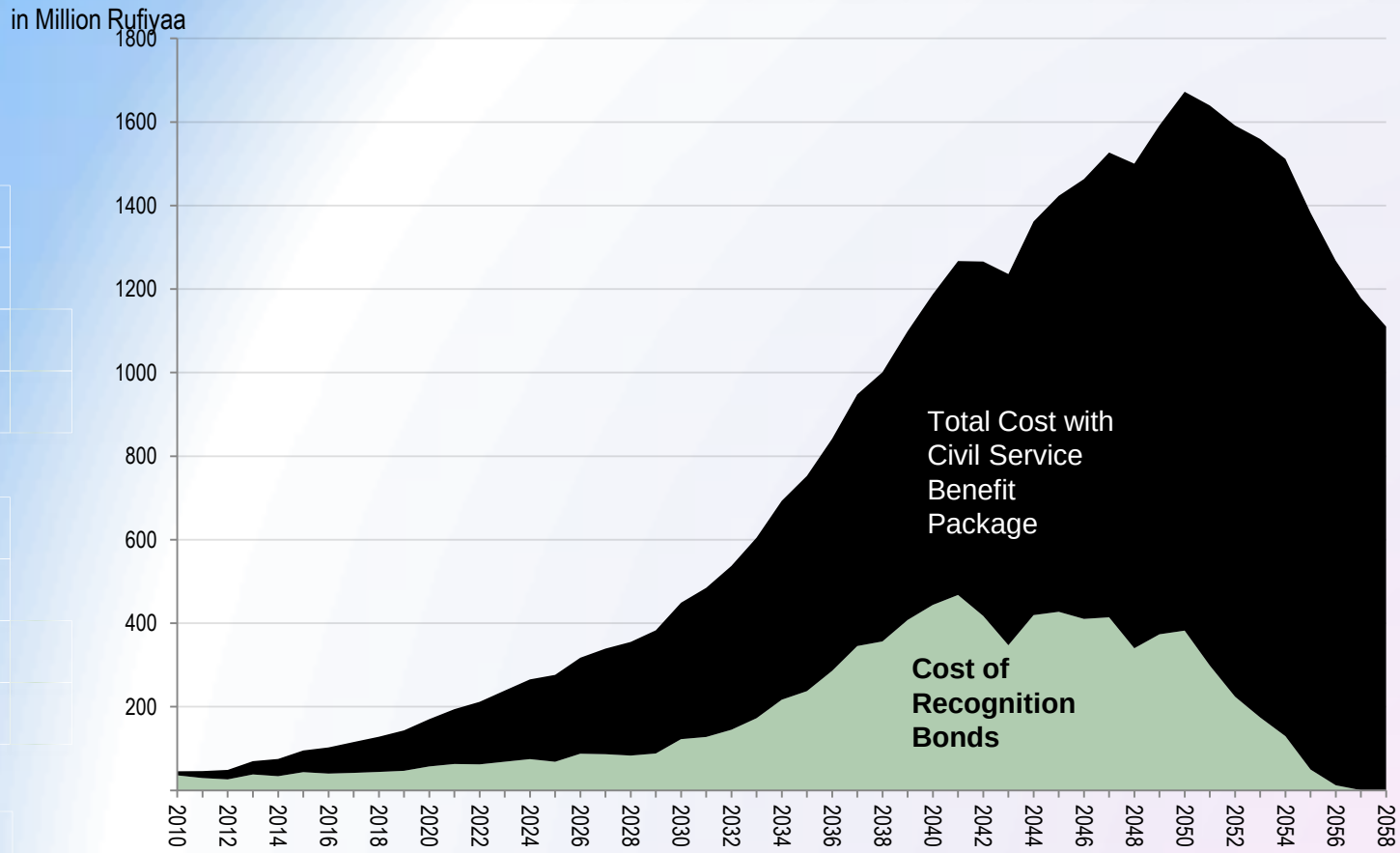
- Defined benefit systems continuing despite recognising accrued rights, double pensions on some Rf 2.3 billion of assets

Cost of Pension Liability Towards Recognition Bonds 2010-2058



Source: MPAO Staff Forecast

Total Cost of Pension Liability, 2010 - 2058



Source: MPAO Staff Forecast

Challenges (3)- Disability Provision & Annuities

- Provision with regard to disability payout is still to be resolved. Regulation expected by 2014.
- Both Pension Act and Disability Act refer to disability payouts.

- Pension Act refers to provision of annuities, no annuities available or regulatory structure in place

Challenges (4) - Investment Issues

Current inflows Rf. 50 million per month;

76% of portfolio in Treasury Bills, balance in equities (10%) Fixed Deposits (15%); <1% in Sharia funds

The Investment Environment

- Illiquid equity market
- No bond market
- Issues on investing overseas

Challenges (4) - Investment Issues (cont..)

On current investment policy and environment

- MRPS will become a dominant supplier of deposits to banking system
- MRPS will become a dominant investor in Treasury Bills
- Effective liability to pay pensions will go to the Government, for both public and private sectors, swapping pension liabilities for Treasury Bill liabilities.

Challenges (4) - Investment Issues (cont..)

Broadening the Investment Policy, research shows;

- An established need for Rf capital expenditure programmes by
  - State Owned Enterprises, such as utilities, ports, infrastructure
  - Housing finance and development
  - Construction industry
  - Trade and commercial enterprises

Challenges (4) - Investment Issues (cont..)

- MRPS
  - A potential buyer of good quality corporate debt
- Issues under review include
  - Companies Act restrictions on debt issuance
  - Pension Act 2009 restrictions on buying corporate debt, listing qualifications
  - CMDA require debt to be listed

Thank You