



WORLD BANK GROUP

Social Protection & Labor

Pension Reform in the Maldives

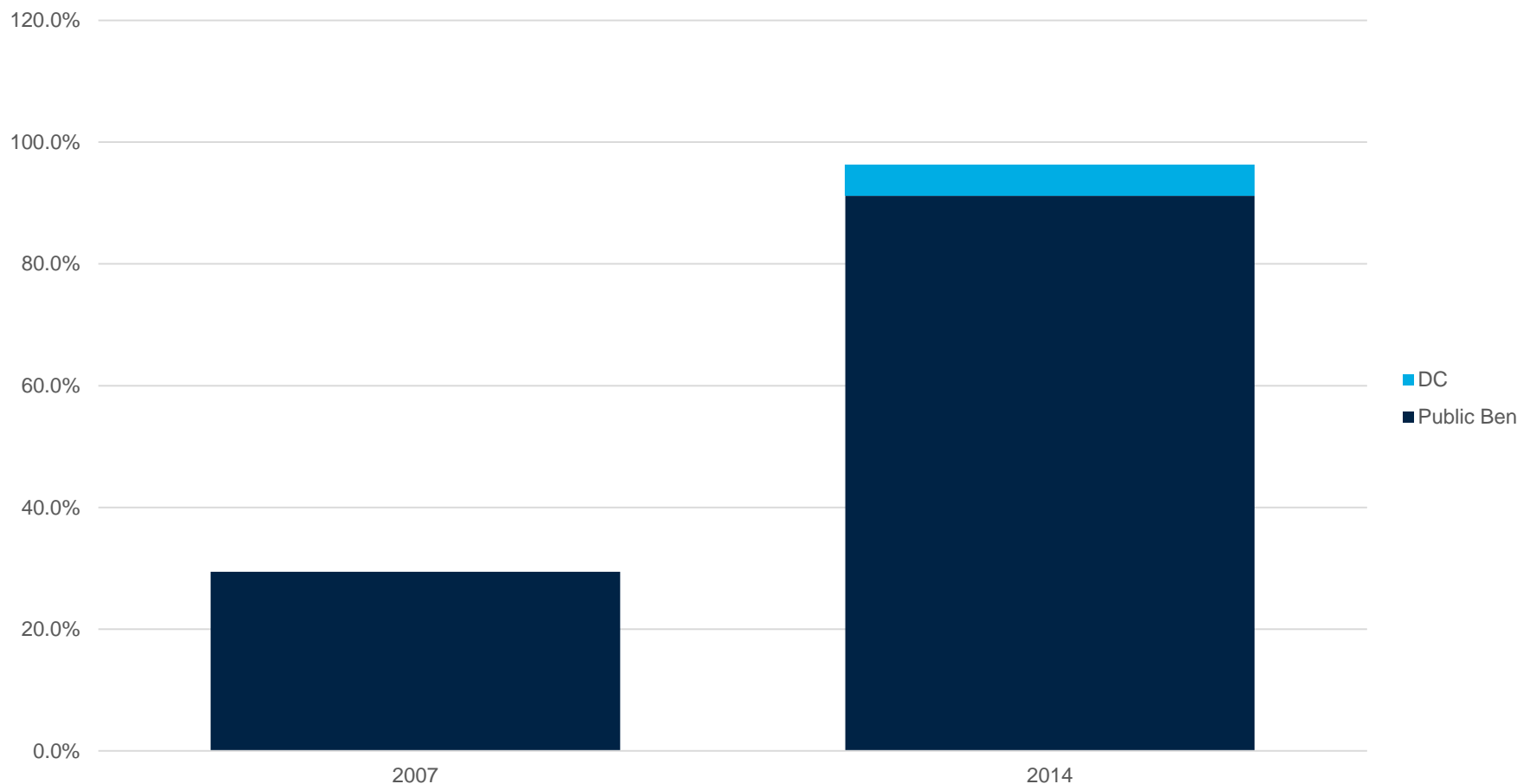
Anita M. Schwarz

Lead Economist

Social Protection & Labor

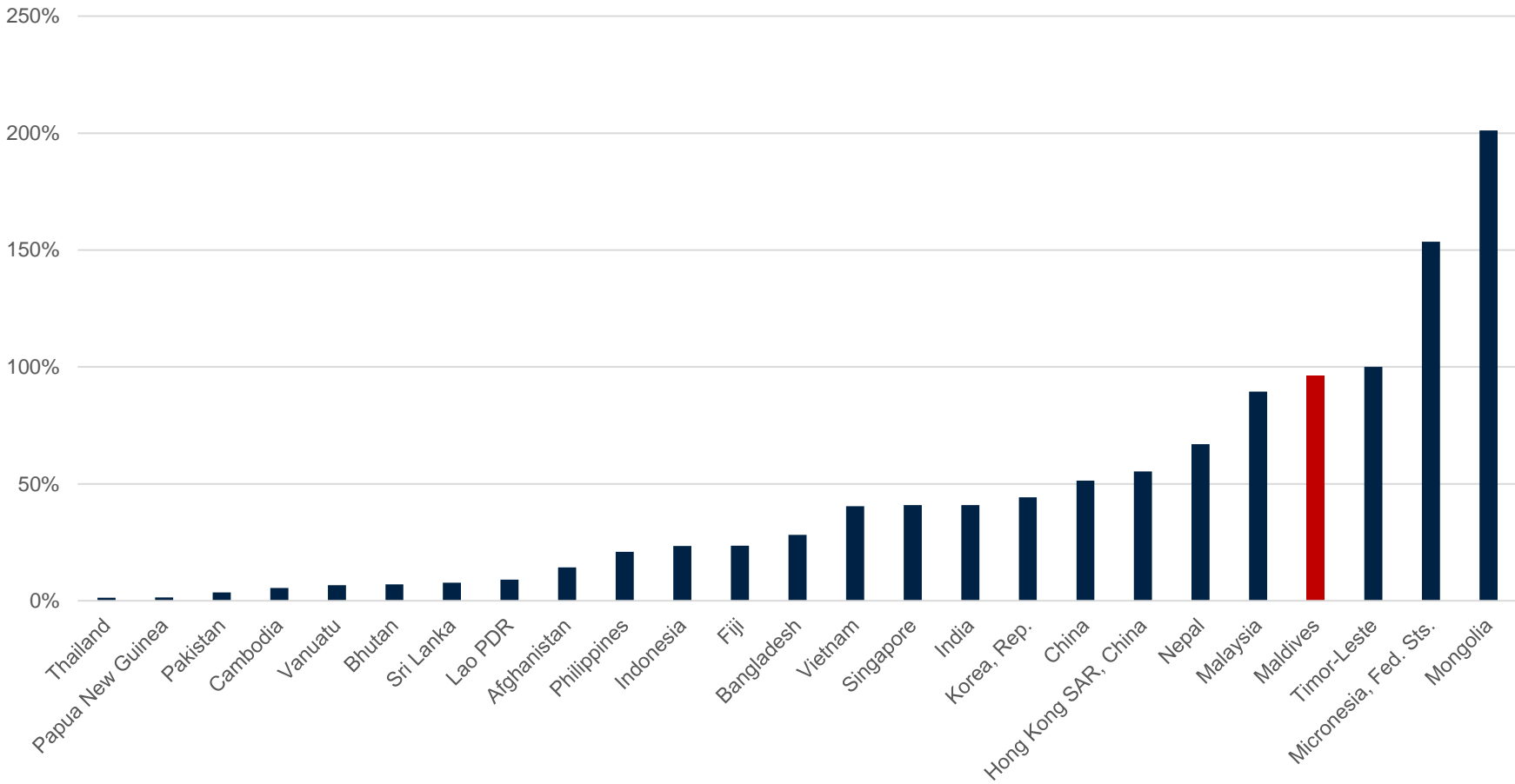
Tremendous Achievement in Expanding Coverage

Percentage of Elderly Receiving Pensions



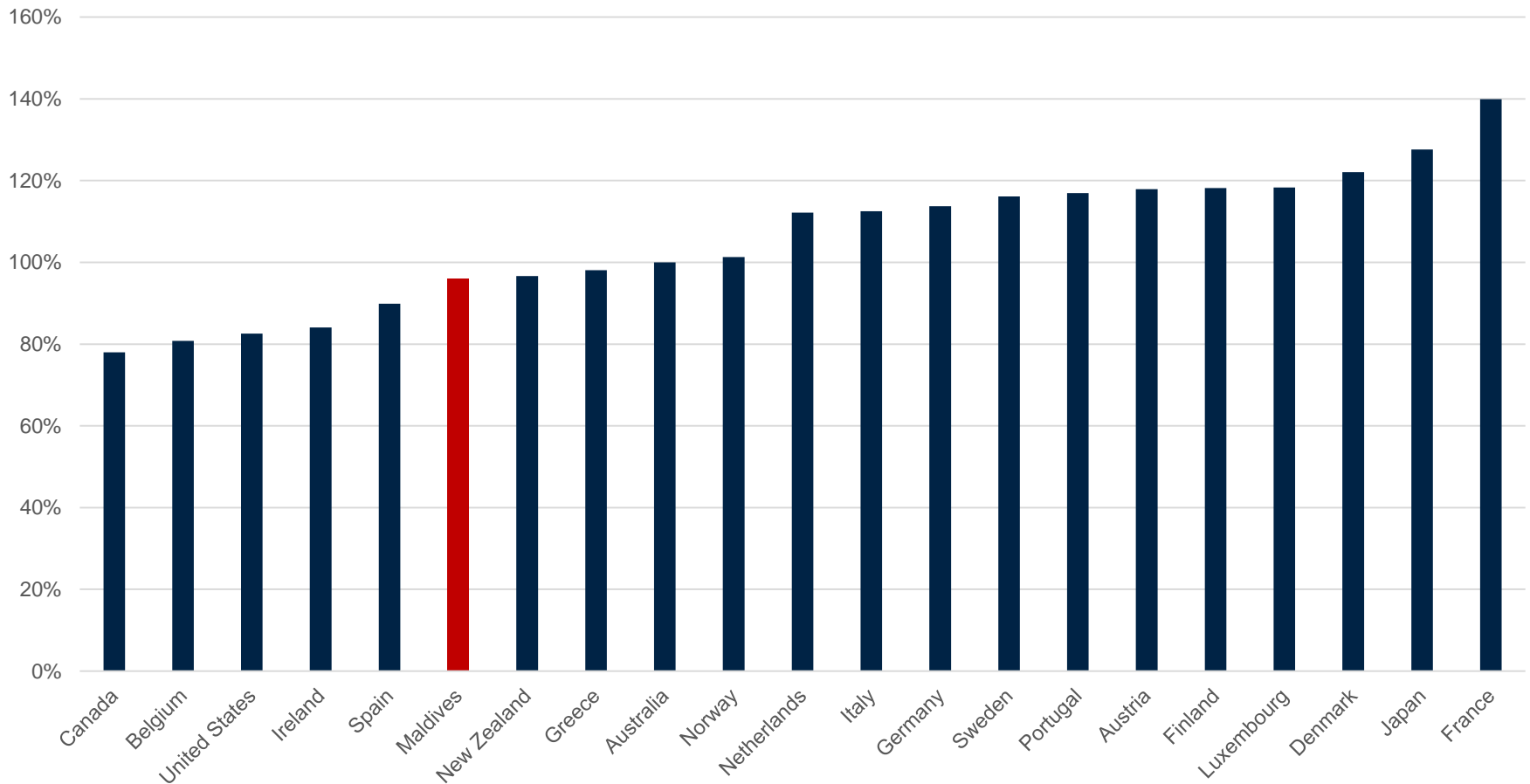
High Performer Relative to Other Countries in Asia

Old-Age Beneficiaries Relative to Population >65



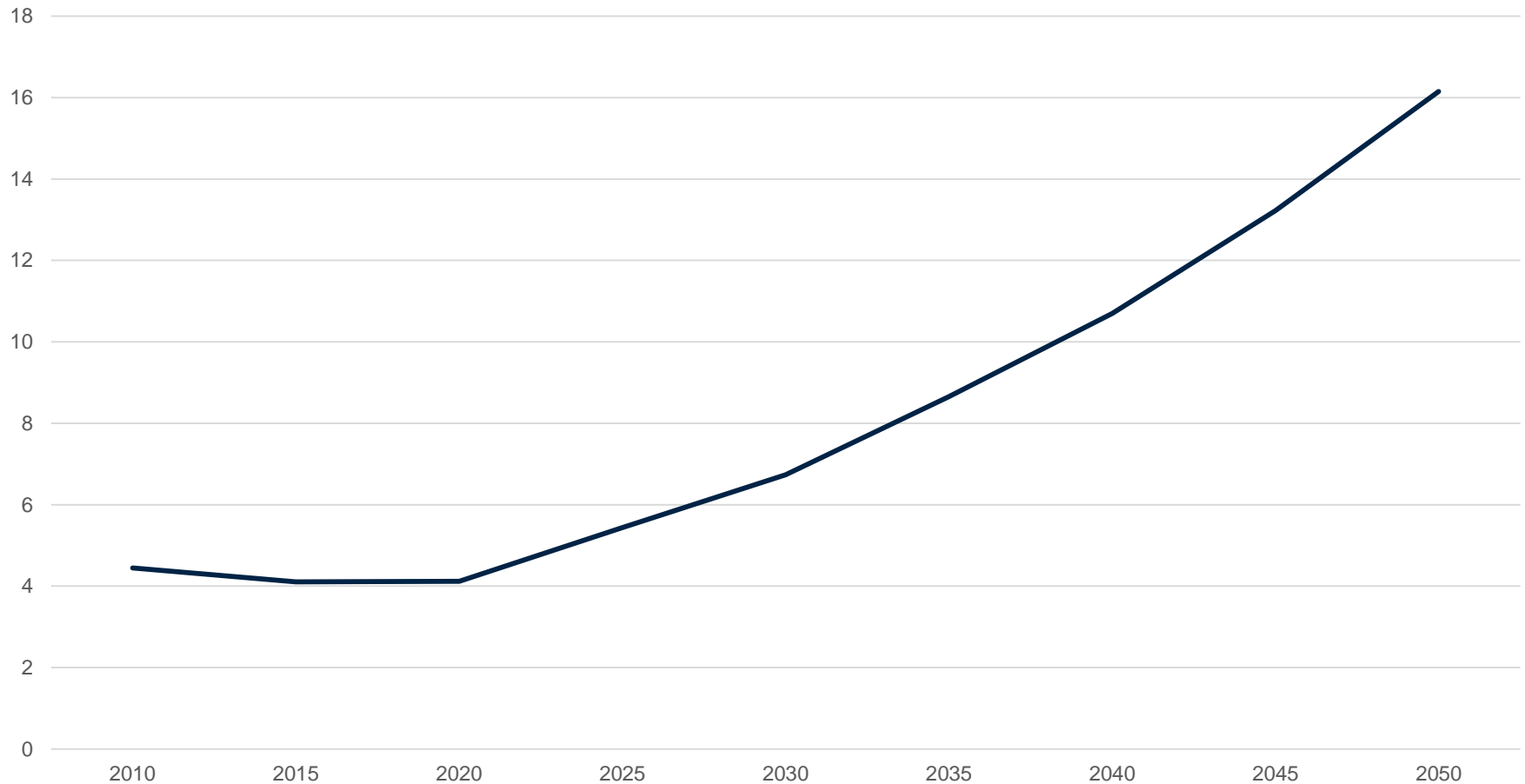
High Performer Relative to High Income Countries As Well

Old Age Beneficiaries Relative to Population >65



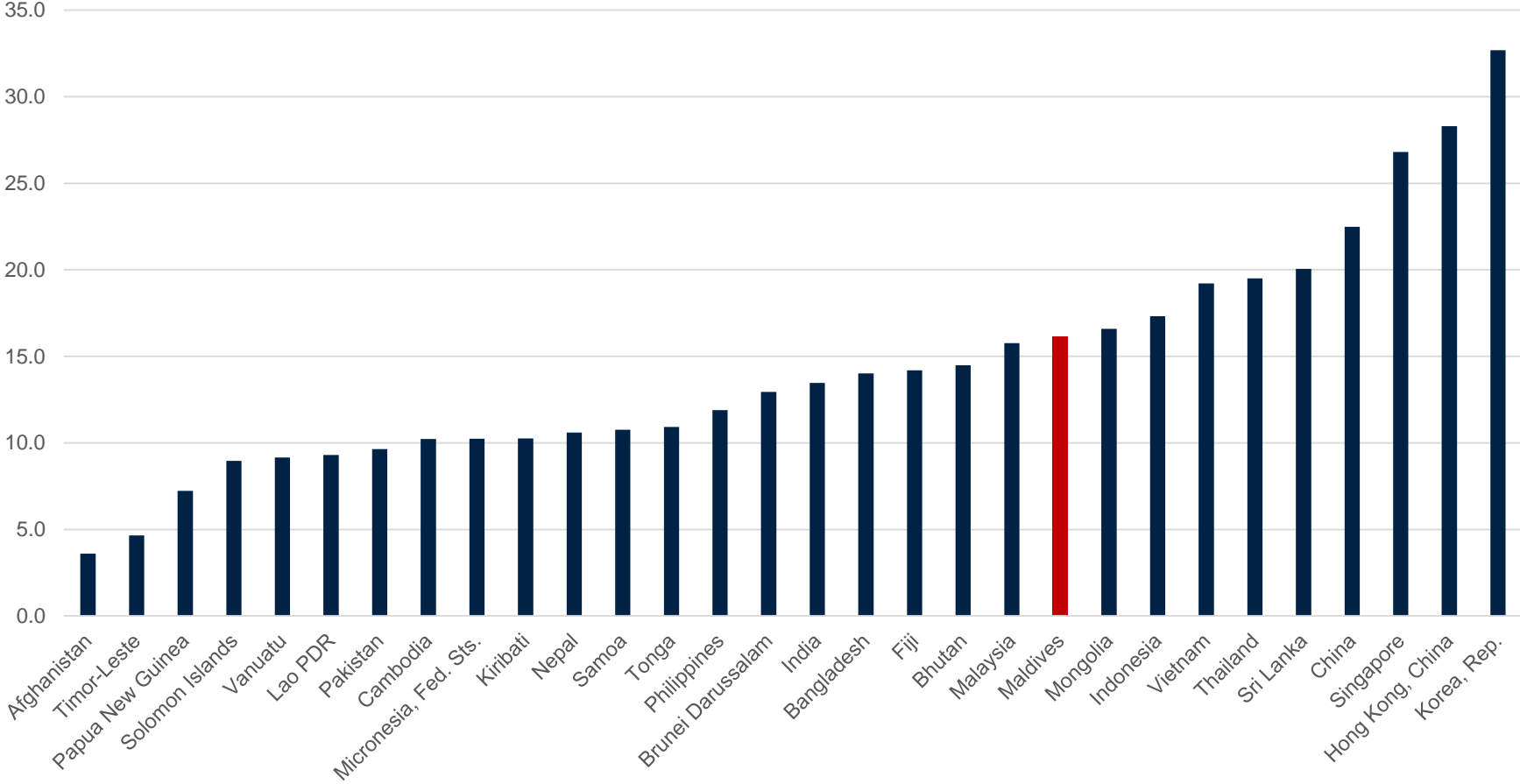
But Like All Countries, the Maldives Will Be Aging

Percent of Population Over the Age of 65



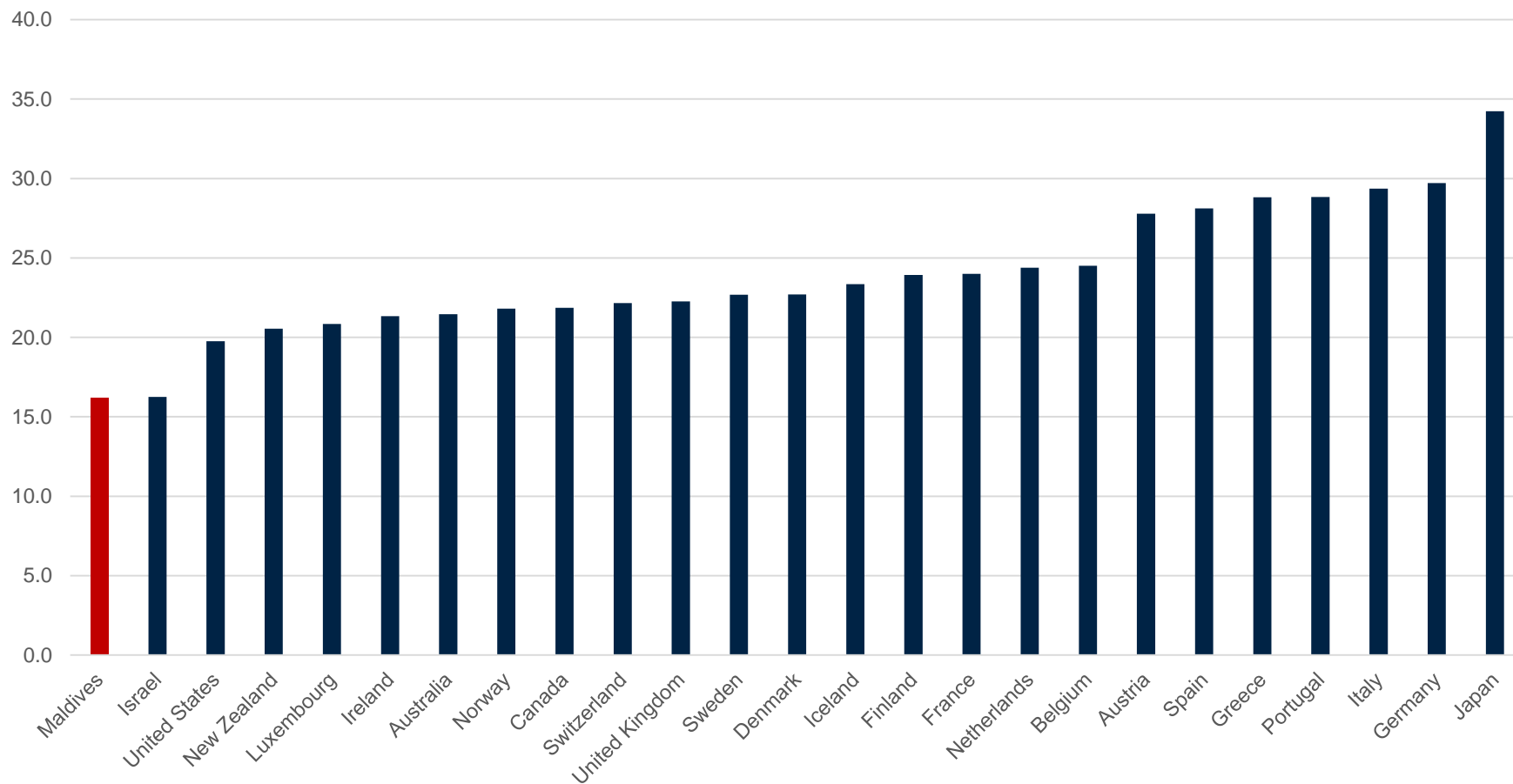
Maldives is Projected to Be Among the Older Countries in Asia in 2050

Projected percentage of population >65 in 2050



But Maldives Will Remain Young Relative to the Highest Income Countries

Projected Percentage of Population >65 in 2050



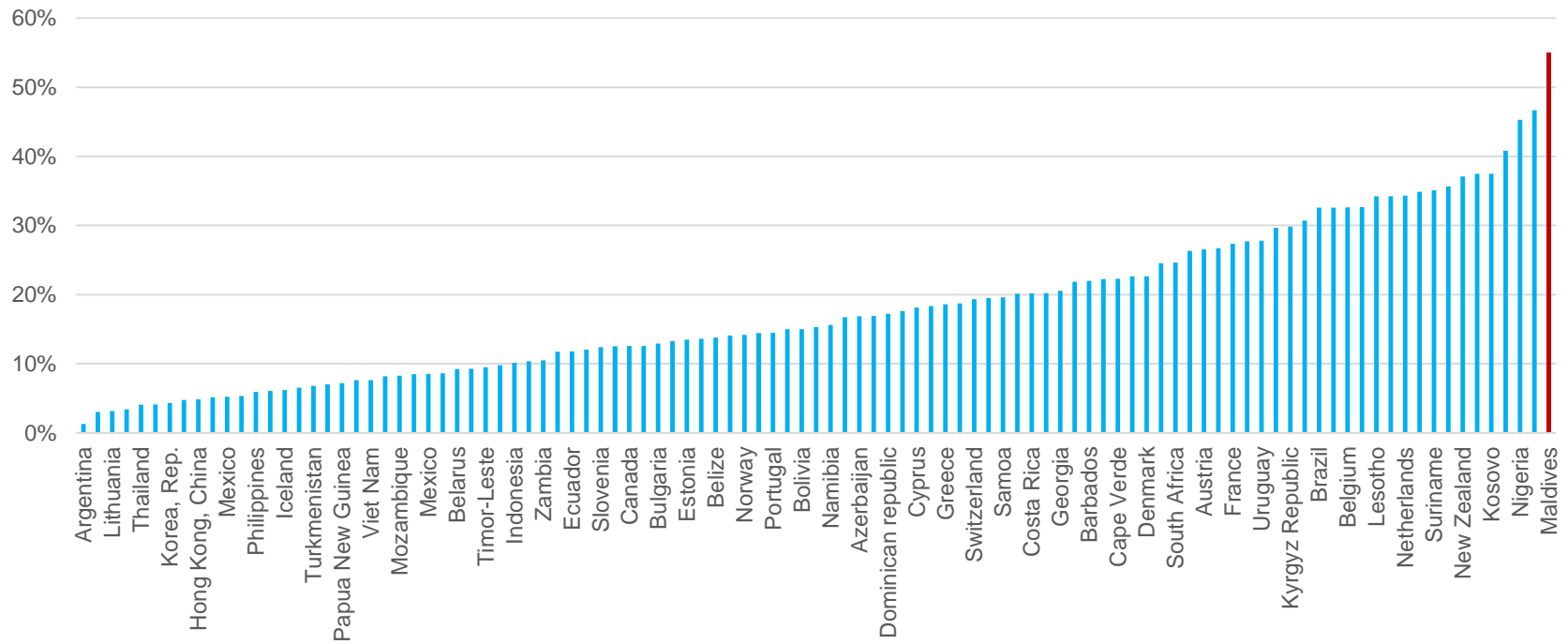
Lessons from High Income Countries

- Pension systems began in 1890's with Germany providing a supplement to those who were 70 years of age and had lost 1/3 of their work capacity
- Gradually moved to view that people should not have to work beyond a certain age and should receive benefits that keep them out of poverty
- Age kept falling and benefits kept rising
- 1990's – sudden awareness that systems were no longer affordable
- But much harder to cut benefits than expand them



Level of Basic Pension is Highest Non-Contributory Pension in the World

Social Pension as % of GDP Per Capita



And Some Individuals Receive Benefits from Savings Pensions as Well as Civil Servant Top-ups as Well

- Pension Spending Expected to Increase Sharply
 - Estimated at 2.5% of GDP today
 - Could rise to 10% of GDP as elderly population quadruples as percentage of population
- Benefits themselves may be too high
 - If individuals are getting 55% of per capita GDP from basic pension or at least that from MRPS and then getting additional from MRPS and some are getting even more additional from Civil Service Commission, consumption is being skewed to old age from current working age

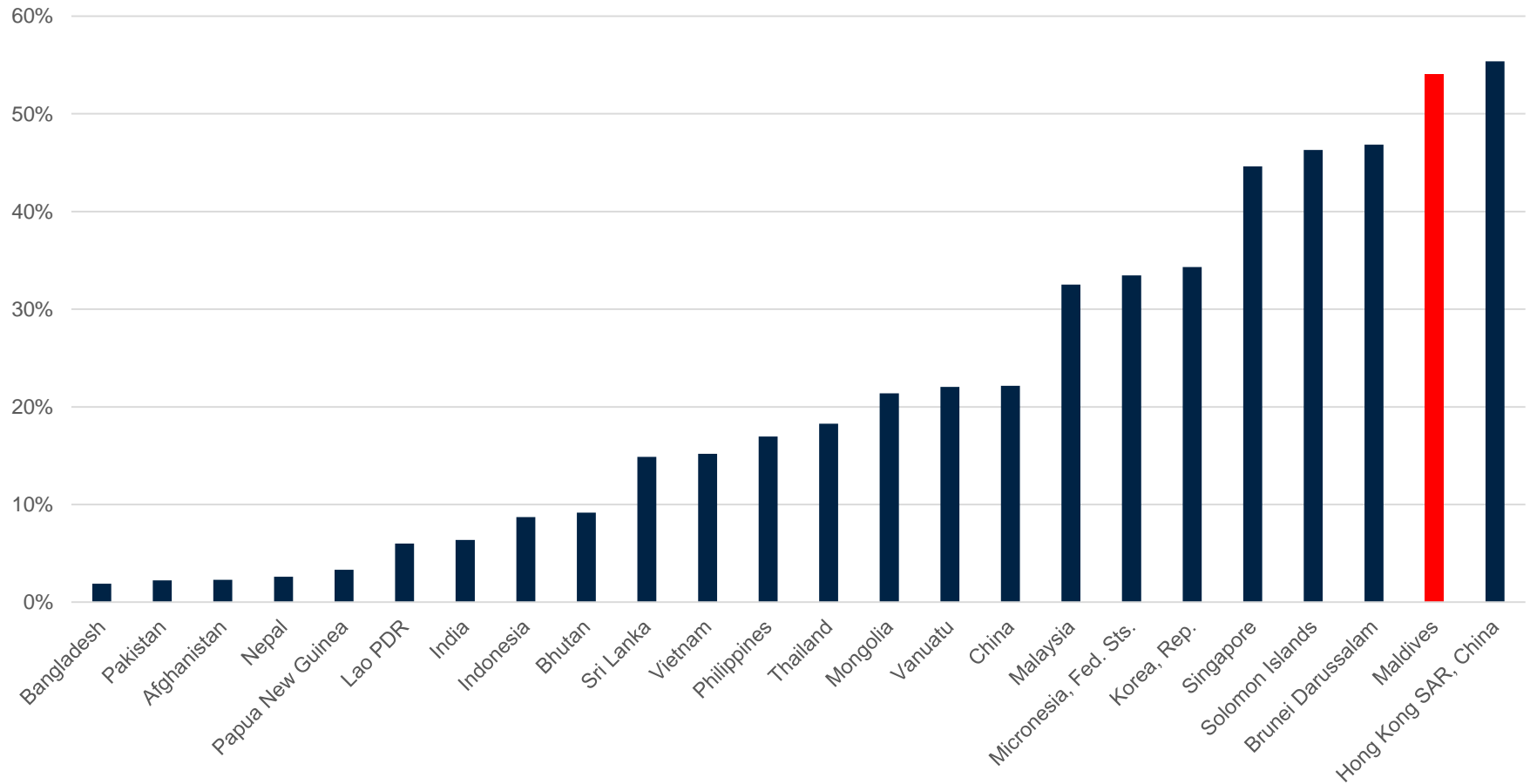


Maldives Retirement Pension Scheme

- Contribution coverage in a short span of time has expanded admirably
 - ❖ Still options for further coverage in self-employed
- Contribution rates of 14% seem reasonable

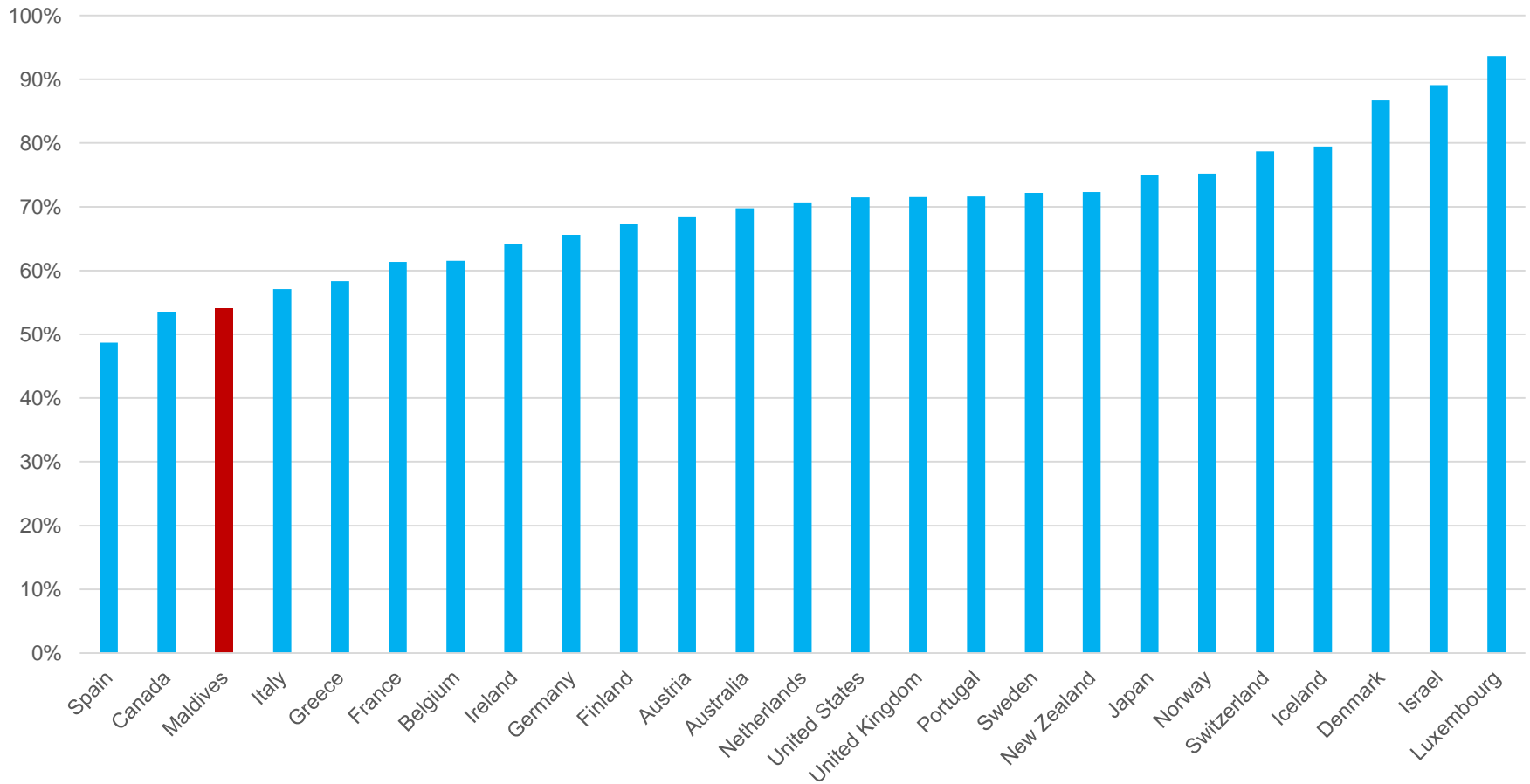
Contributory System – Maldives Pension Retirement Scheme Compared to other Asian Countries

Percentage of Working Age Population, Aged 15-64, Contributing



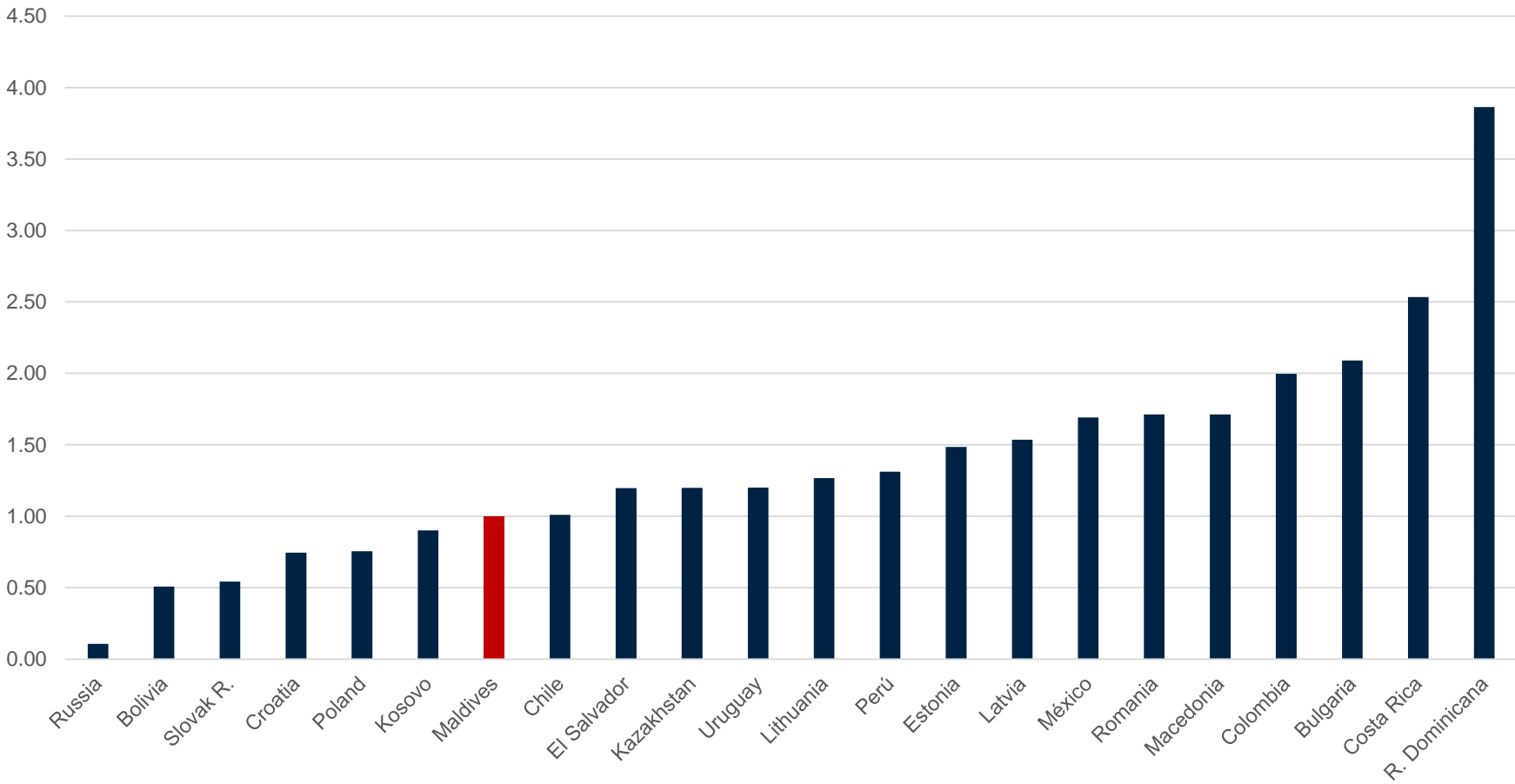
And Contributors Fall Within the Range of Highest Income Countries

Percentage of Working Age Population, Aged 15-64, Contributing

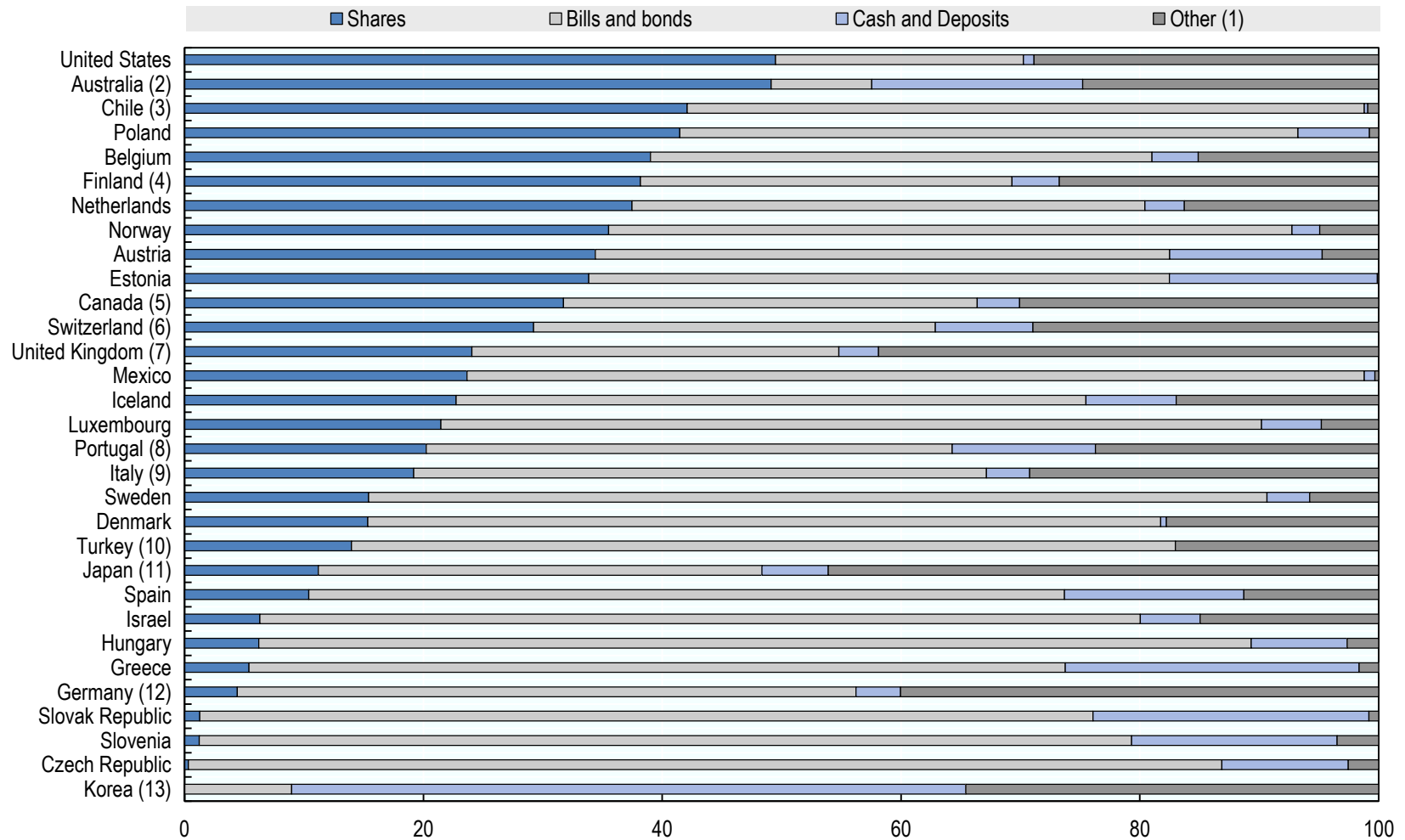


Investment In-House Has Managed to Keep Administrative Costs Relatively Low

Pension Fund Management Fees as % of Assets

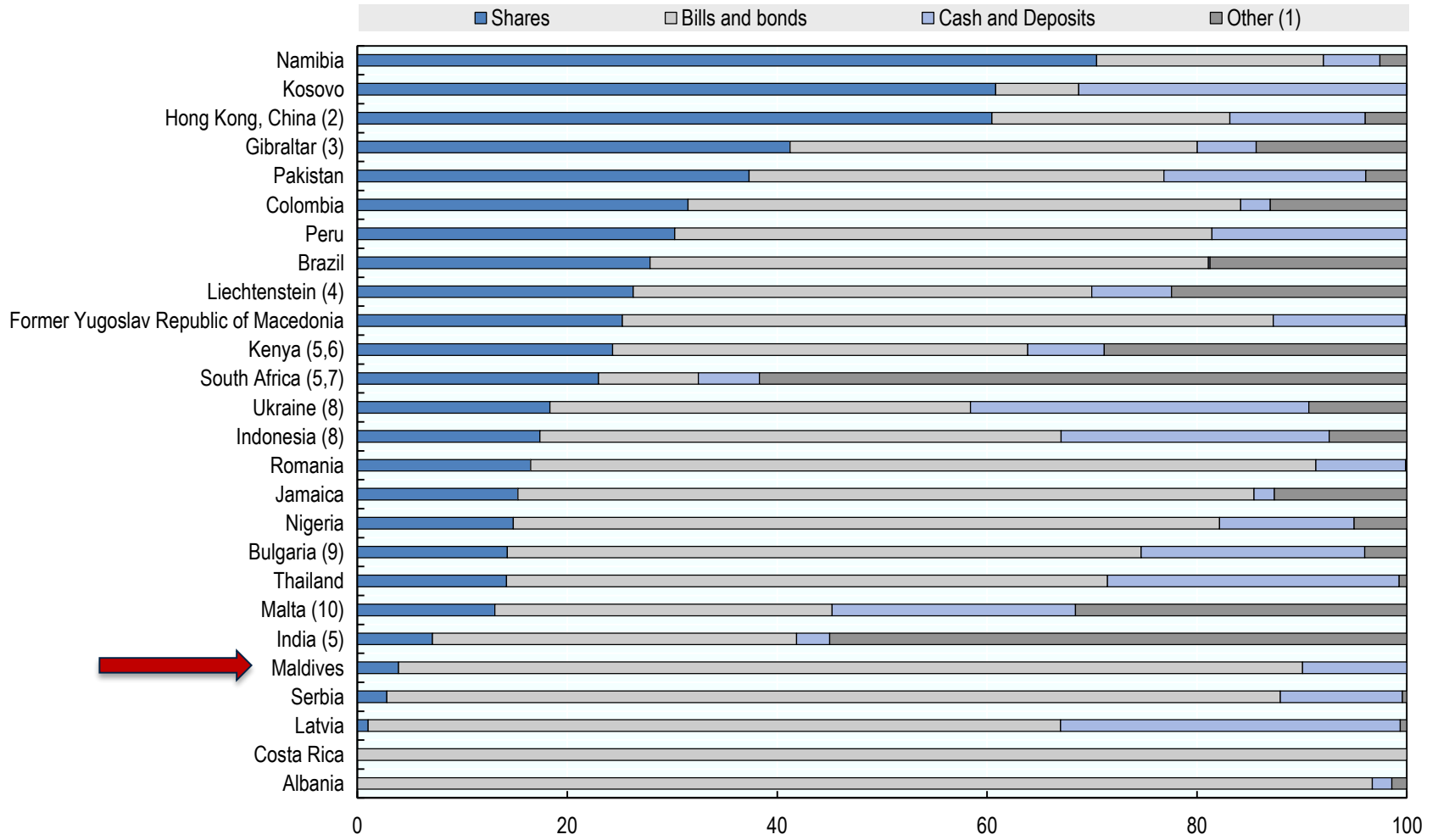


Investment Policy for OECD Countries Heavily Weighted Toward Equities



Source: OECD

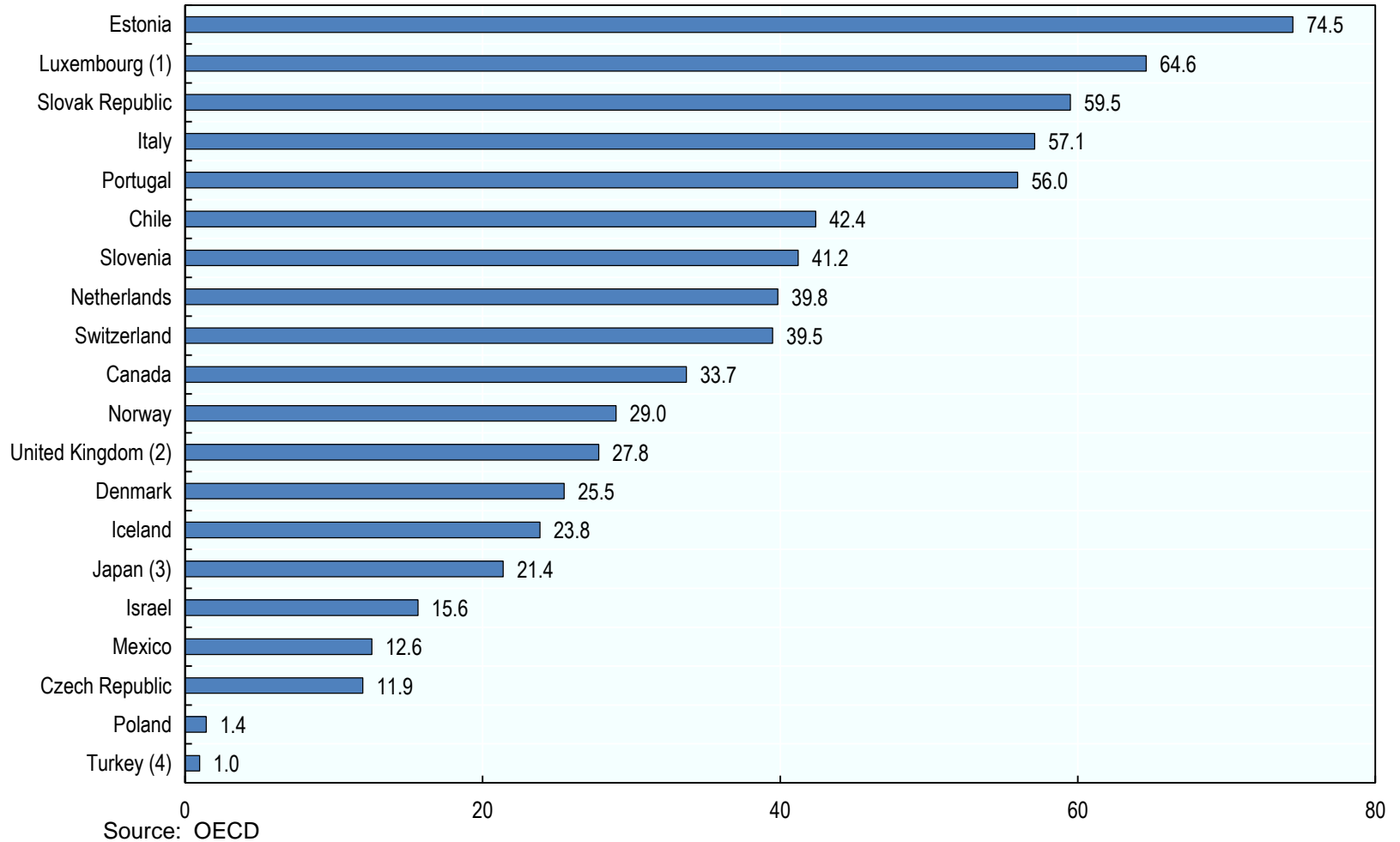
Recommended Increase in Diversification for Maldives



Source: OECD

Investment Abroad is Another Way to Get Diversification

Percentage of Total Assets Invested Abroad



Further Considerations of Payout Phase

- Pensions from MRPS currently paid as phased withdrawals until the money runs out and then individual gets only basic pension
 - Appropriate when sums are relatively small (non-civil service contributors)
 - Individuals receive relatively high retirement income in the early years (when they also might have some work capacity) and low pension when they are very old and vulnerable
- Longer Run Issues
 - Annuities preferable since they protect against the risk of longevity
 - Lowers pressure to raise basic pension
 - Annuities can be costly
 - Do involve some redistribution between longer-living higher income individuals and shorter-living lower income individuals



Disability Considerations

- Currently individuals who become disabled do not receive basic pension early or MRPS pension
- Giving access to MRPS account is typically not enough
 - Individual might not have accumulated enough
 - Has to cover longer life period
- Disability is an insurable risk – not everyone gets disabled
 - Most countries charge a percentage of wage to provide this insurance coverage
 - Need to take special care in how disability is defined, level of benefit, and in how it is determined



Other Savings Needs

- **Housing**
 - Countries have had relatively bad experiences with using pension savings to cover housing needs
 - People arrive at old age with very low balances in their savings accounts
 - Possibly easier in Maldives since there is the basic pension, but will put pressure on raising basic pension
 - Better idea might be to allow an additional contribution on voluntary basis, that can be used for housing or other needs
 - Pension fund could invest in mortgage bonds which might make mortgages more available to individuals
- **Other needs like travel, marriage, education**
 - Again recommend an additional savings option for these other needs

Conclusions

- Pension reform in the Maldives has been highly successful
- Issues for further consideration
 - Finding a level of basic pension that is sustainable in the long run
 - Looking at diversification of investment assets
 - Developing an annuities market to protect against longevity risks
 - Providing protection against disability
 - Providing financing for other needs while protecting retirement income

