

Exploring Pension Takaful Proposition

International Takaful Summit –18th Feb 2015



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Introduction

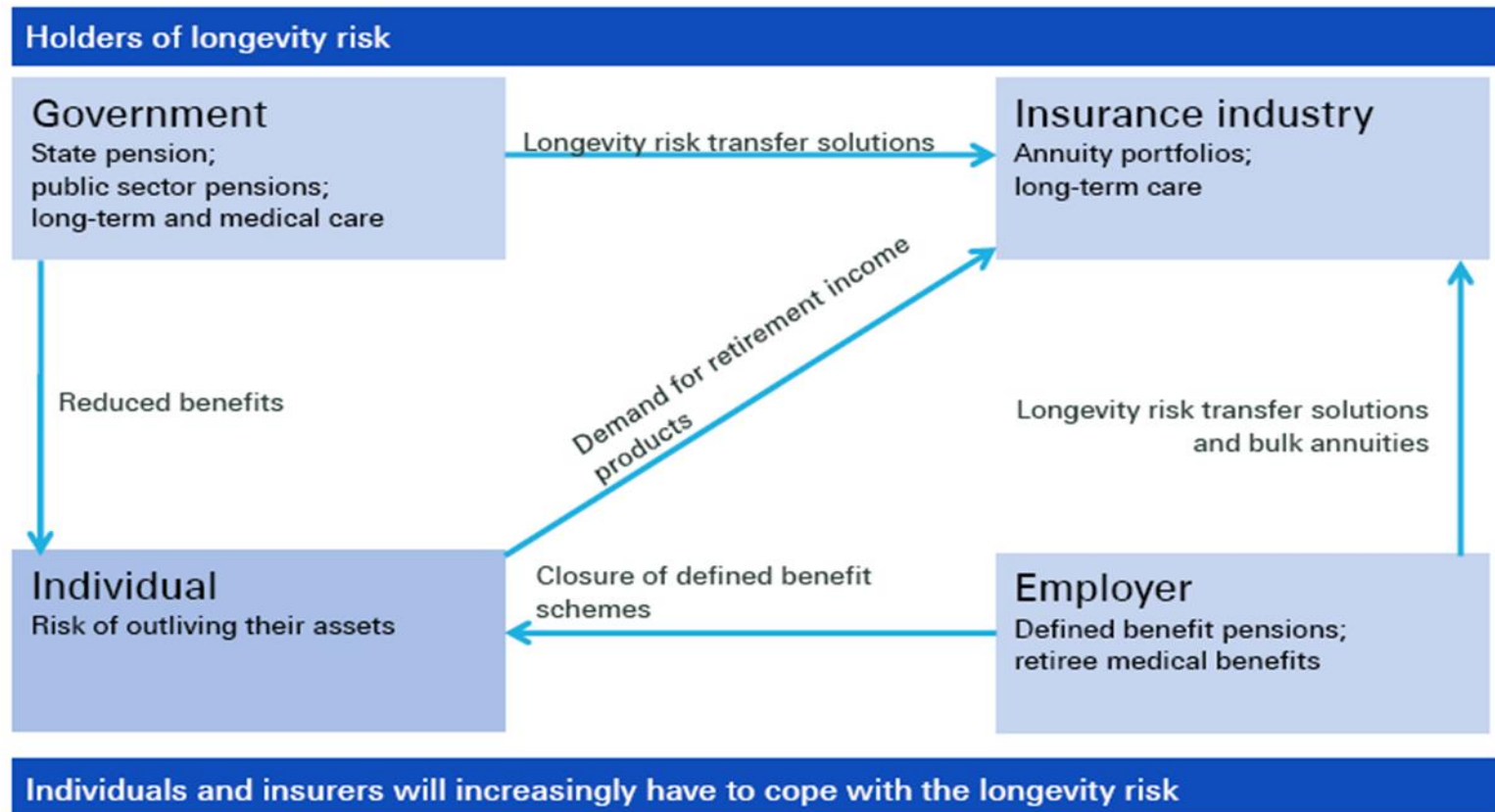
- Historically Muslims could rely on various social arrangements to support them during their old age;
 - An extended family or tribal affiliation
 - The bait al-māl system (Islamic treasury)
 - Awqāf (endowments)
- In the current day and age most of these support systems are no longer viable.
- Due to increases in life expectancy, and corresponding decreases in fertility rates by 2030, the Muslim World will see similar longevity risks that some developed countries are already facing.

Need to cater for the old age



Structural impact of recent trends in pensions

Shifting balance in meeting costs of retirement



Source: Alison Martin (2011), *Meeting the Challenge of Longer Lives*, Presentation delivered at the Conference on *The Future of Human Longevity: Breaking the Code*, organised by Swiss-Re on 7 November, 2011, in Zurich.

Pillars of retirement funding

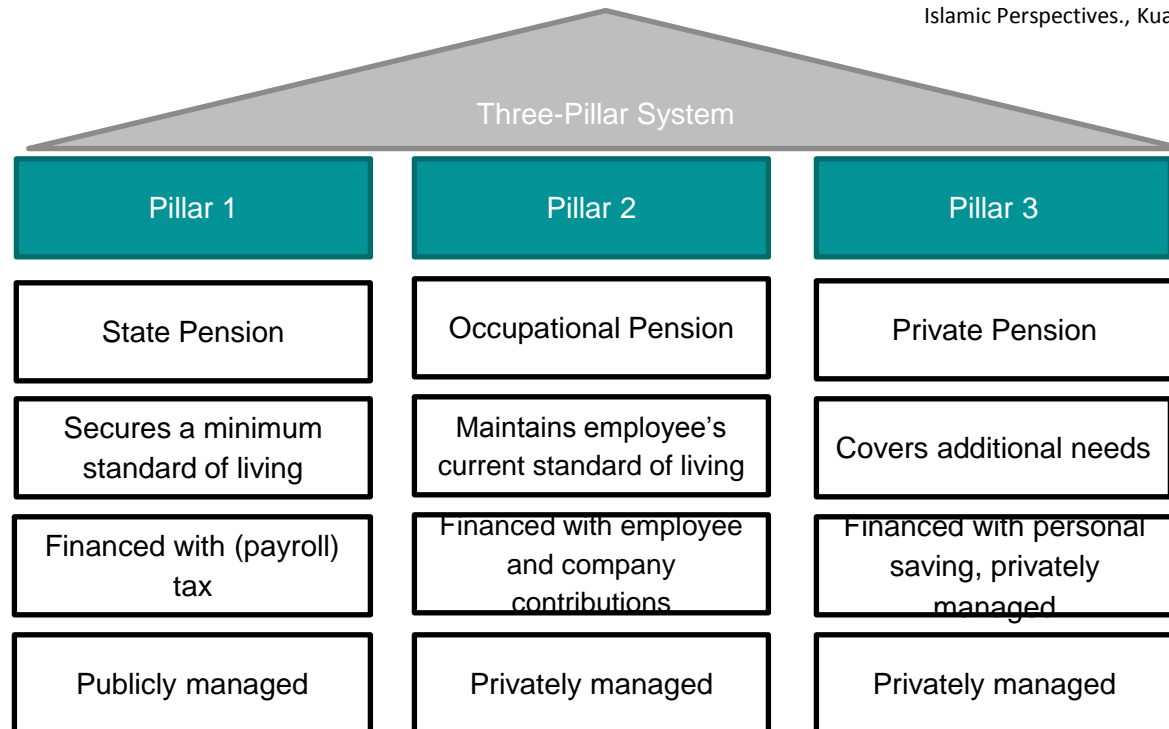
The Pillars of Retirement Funding

Pillar 1: Mandatory, state run system, (usually pay- as- you- go and financed through a payroll tax); Typically designed to reduce poverty among the elderly.

Pillar 2: Occupational pension plans funded by employers or co-workers. These plans are either defined benefit or defined contribution.

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Source: Manjoo, (2012), An Appraisal of Longevity Risk: Conventional and Islamic Perspectives., Kuala Lumpur: ISRA



Pension market and demographics in selected Muslim majority countries



Key data on selected Muslim majority countries

Selected Muslim majority countries	2012 per capita income (USD)	Savings rate as % of GDP	Mid-2012 Population (millions)	Population growth rate	Median age of population (years)	Old age support ratio - 2012	Old age support ratio - 2050	Labour force participation rate	65+ population (millions)	Life expectancy males	Life expectancy females	Retirement age
Malaysia	10,000	35%	29	1.60%	27.1	13	4	65%	1.5	72.0	77.0	60
Indonesia	3,200	32%	248	1.04%	28.5	12	3	68%	15.1	70.0	74.0	55
Pakistan	1,155	20%	179	2.10%	21.9	14	7	54%	7.2	64.5	68.3	60
Bangladesh	838	26%	153	1.37%	23.6	14	4	71%	8.0	68.2	72.0	59
Turkey	10,500	13%	76	1.20%	30.1	11	3	51%	5.3	72.0	77.2	60
Saudi Arabia	24,911	47%	29	2.90%	25.7	22	5	50%	0.9	72.4	76.4	60

- At present, the population demographics in the Muslim World are young with median age in the twenties.
- The old age support ratio (the number of people between ages 15 to 64 to those older than 64) is expected to drop sharply from 11 or higher in 2012 to around 5 in 2050.

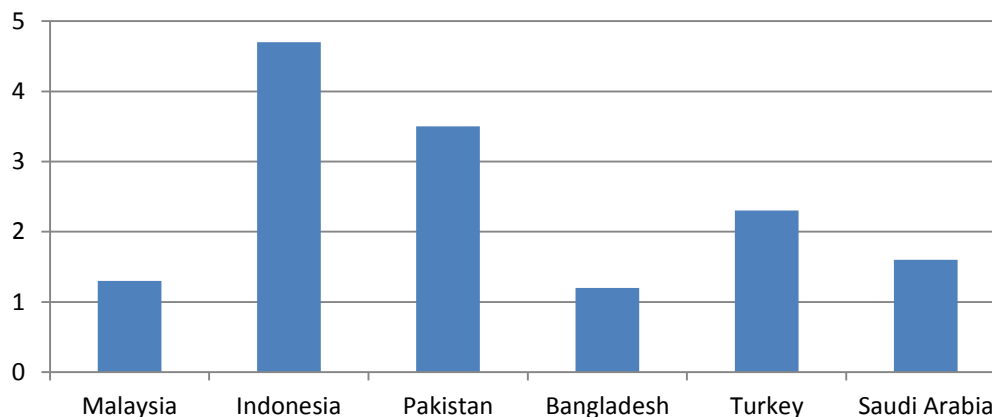
Source : Government Department of Statistics, World Bank, CIA World Fact Book and Indexmundi websites

Active Civil servants and Government pensioners in selected Muslim majority countries

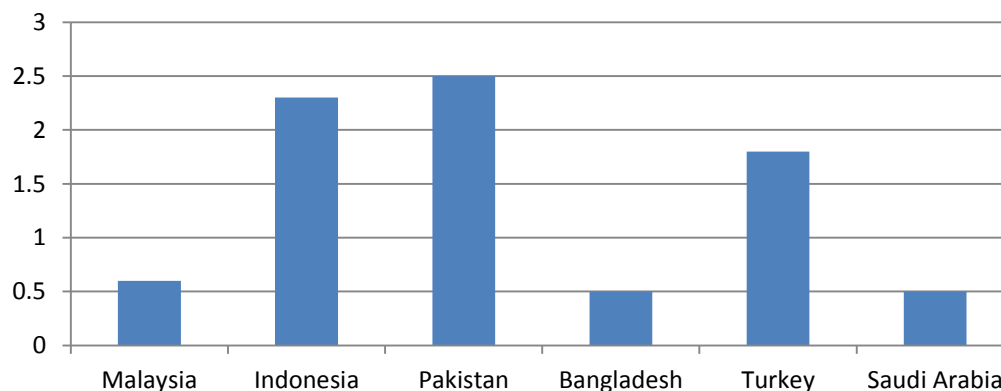
Country	Active Civil Servants (millions)	Government Pensioners (millions)
Malaysia	1.3	0.6
Indonesia	4.7	2.3
Pakistan	3.5	2.5
Bangladesh	1.2	0.5
Turkey	2.3	1.8
Saudi Arabia	1.6	0.5

- The number of active civil servants and government pensioners is high in countries like Indonesia and Pakistan which have high Muslim populations.
- The number of government pensioners is also relatively high in Turkey and Saudi Arabia because of generous pension provisions.

Active Civil Servants (millions)



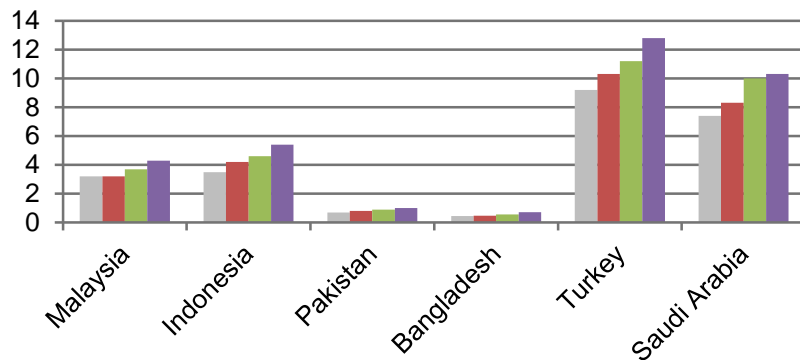
Government Pensioners (millions)



Source : Government Social Security Institutions' websites

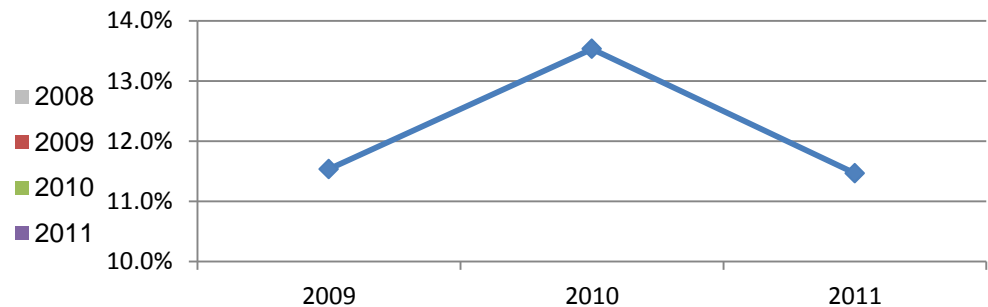
Government Pension Benefit payments in selected Muslim majority countries

Government Pension Benefit Payments (\$ billions)



Country	2008	2009	2010	2011
Malaysia	3.2	3.2	3.7	4.3
Indonesia	3.5	4.2	4.6	5.4
Pakistan	0.7	0.8	0.9	1
Bangladesh	0.5	0.5	0.6	0.7
Turkey	9.2	10.3	11.2	12.8
Saudi Arabia	7.4	8.3	10	10.3

Annual Growth in Government Pension Benefit Payments



	2009	2010	2011
Annual Growth	11.5%	13.5%	11.5%

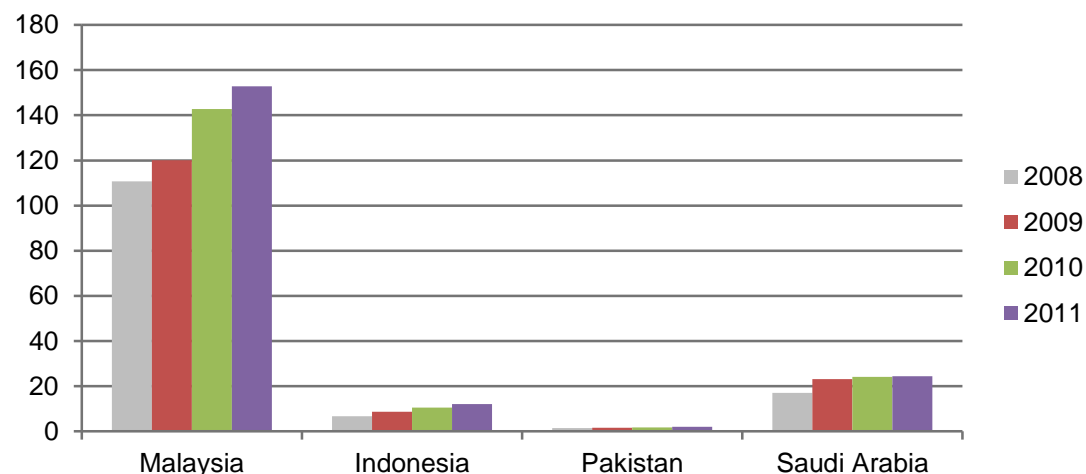
- The government pension benefit payments are relatively high in Turkey and Saudi Arabia because of very generous pension provisions.
- The annual government pension benefit payments have been increasing over the past several years at an average rate of 12.5% per annum and the trend is expected to continue in future as well, albeit at a higher rate, as the population demographics mature and more people reach retirement age.

Source : Government Social Security Institutions' and Ministry of Finance websites

Assets in Government managed private sector pension schemes in selected Muslim majority countries

Assets in Government Managed Private Sector Pension Schemes (\$ billions)

Country	2008	2009	2010	2011
Malaysia	110.8	120.1	142.7	152.8
Indonesia	6.7	8.7	10.6	12.1
Pakistan	1.5	1.6	1.7	2.0
Saudi Arabia	17.0	23.1	24.2	24.4



- Among the selected countries, Malaysia has the highest assets, around \$153 billion in government managed private sector pension schemes.
- The pension assets have been growing over the past few years in all selected countries due to higher contribution inflows and investment earnings.

Source : Government Social Security Institutions' and Ministry of Finance websites

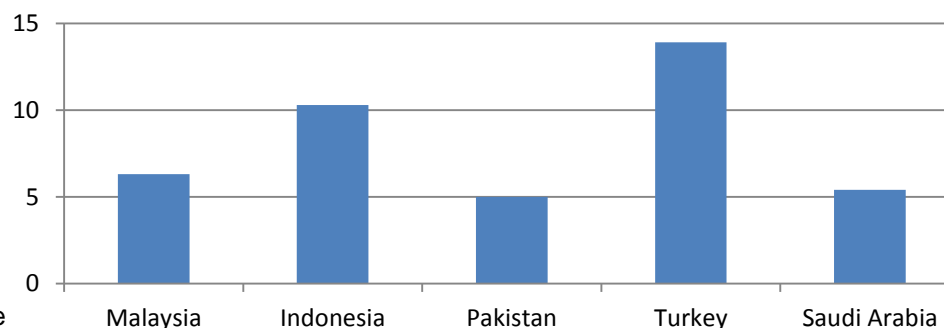
Active participants and pensioners in government managed private sector pension schemes in selected Muslim majority countries

Country	Active Participants (millions)	Pensioners in Government Managed Private Sector Schemes (millions)
Malaysia	6.3	7.1
Indonesia	10.3	16.7
Pakistan	5.0	5.5
Bangladesh*	N/A	2.5
Turkey	13.9	7.7
Saudi Arabia	5.4	0.3

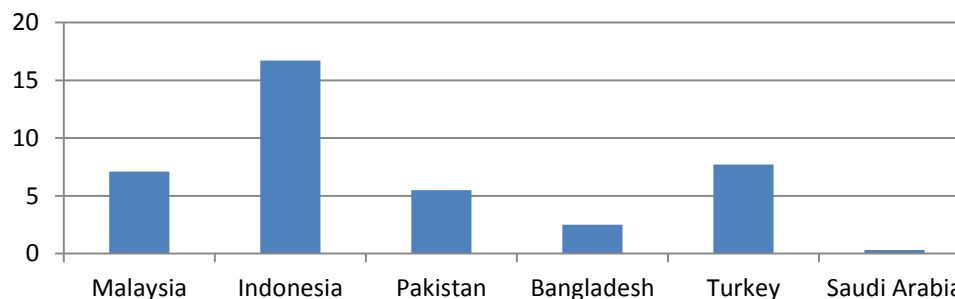
* In Bangladesh there is no government managed private sector pension scheme but the government pays a means tested old age allowance

- The number of active members and pensioners in government managed private sector pension schemes is relatively high in countries like Malaysia, Turkey and Saudi Arabia which facilitate such schemes with good regulatory framework and enforcement.

Active Participants in Government Managed Private Sector Pension Schemes (millions)



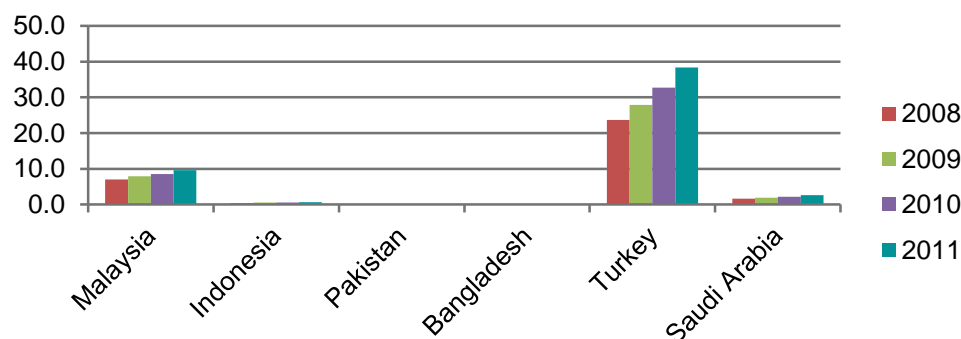
Pensioners in Government Managed Private Pension Sector Schemes (millions)



Source : Government Social Security Institutions' websites

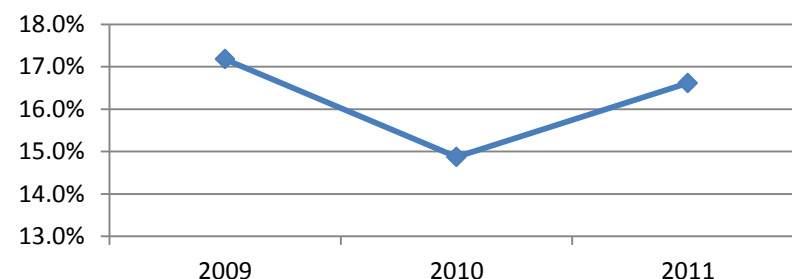
Pension benefit payments in government managed private sector pension schemes in selected Muslim majority countries

Government Managed Private Sector Pension Benefit Payments (\$ billions)



Country	2008	2009	2010	2011
Malaysia	7.0	7.9	8.5	9.6
Indonesia	0.4	0.6	0.6	0.7
Pakistan	0.0	0.1	0.1	0.1
Bangladesh	0.1	0.1	0.1	0.1
Turkey	23.7	27.9	32.7	38.4
Saudi Arabia	1.6	1.9	2.2	2.6

Annual Growth in Government Managed Private Sector Pension Benefit Payments



	2009	2010	2011
Annual Growth	17.2%	14.9%	16.6%

- The pension benefit payments in government managed private sector pension schemes are relatively high in Turkey and Saudi Arabia because of very generous pension provisions.
- The annual pension benefit payments have been increasing over the past several years at an average rate of 16% per annum and the trend is expected to continue in future as well, albeit at a higher rate, as the population demographics mature and more people reach retirement age.

Source : Government Social Security Institutions' and Ministry of Finance websites

Need for an Islamic occupational pension plan



Pillars of retirement funding

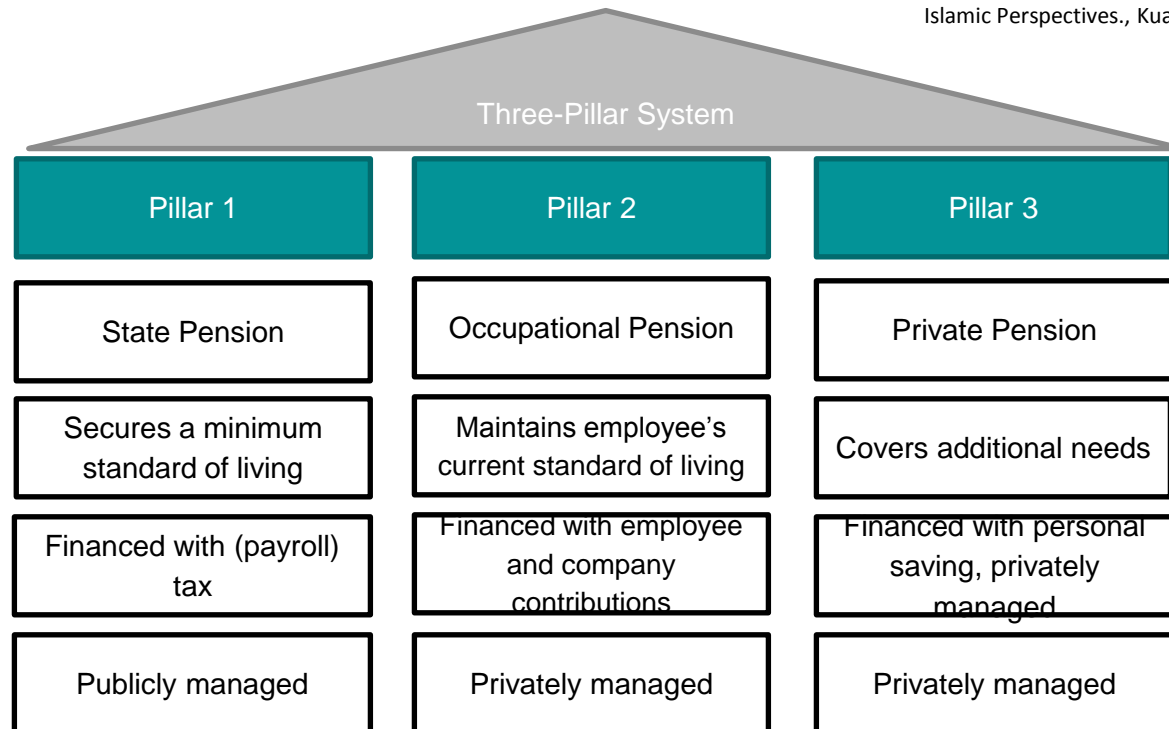
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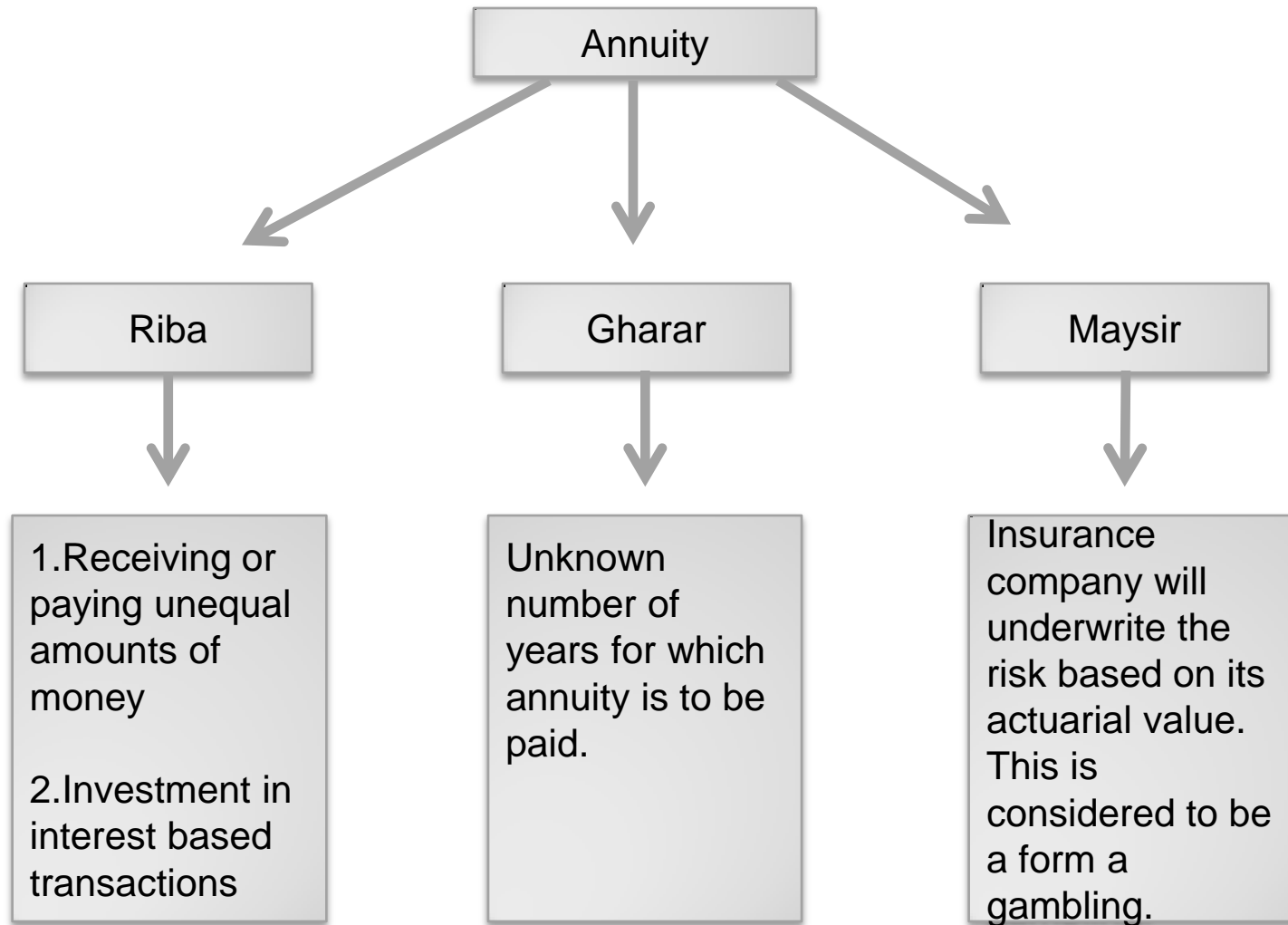


Phases in a pension scheme

There are two phases in a pension scheme:

- The **accumulation phase** when the contribution is made to the pension fund and it is invested in the fund to meet future annuity payments during retirement. This phase is not problematic from an Islamic point of view as an Islamic investment fund can manage this portfolio.
- The **decumulation phase** when the time comes to pay for the lump sum and ultimately to facilitate the purchase of the annuity.
- An annuity is a financial product sold by financial institutions that is designed to accept and grow funds from an individual and, upon annuitisation, to pay out a stream of payments to the individual at a later point in time.

Jurisprudential (fiqh) issues with annuity



Sharia versus conventional DC pensions

	Conventional Defined Contribution Pension	Sharia Defined Contribution Pension
Investments	No restrictions other than local regulations	Sharia compliant options
Cash	May or may not pay interest	Interest is not paid
Withdrawing pension	Drawdown and annuity options	Annuity not permitted
Pre-retirement death benefits	As per expression of wishes, but up to trustees	Islamic Inheritance Law
Post-retirement death benefits	As per annuitant's instructions	Islamic Inheritance Law

Safder Jaffer, FIA
Principal & Managing Director
Milliman LLC , Middle East & Africa

Safder.jaffer@milliman.com

Dubai office:

Liberty House
Suite 809
DIFC
P.O. Box 506784
Dubai, United Arab Emirates

Tel: +971 (0)4 386 6990

Fax: +971 (0)4 386 6950

Email : dubai@milliman.com