

# **The Pension System in Jordan**

## **Main Challenges and Proposed Reform**

**Workshop On Options for Reform of  
Current Defined Benefits  
PAYG Pensions Systems  
Malta , June 9 – 13, 2003**

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May-2003

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# Public Pension Structure

## \* **Three Schemes:-**

- Civil Pension – Introduced 1959
- Military Pension – Introduced 1959
- Jordanian Social Security Scheme (JSSS) - 1980

\* **Total Pension Bill in Jordan (at present) =  
450 Million JD**

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**1JD = 1.4 US Dollar**

# JSSS

## **COVERAGE:**

Comprehensive Social Security System aims at covering all labours working in the various sectors of the economy.

<b>Years</b>	<b>% of total labour force</b>	<b>Total covered</b>
<b>1991</b>	<b>18.6%</b>	<b>171000</b>
<b>2002</b>	<b>25%</b>	<b>416000</b>
<b>2008</b>	<b>-</b>	<b>480000</b>
<b>2023</b>	<b>-</b>	<b>967000</b>

# Insurances Implemented

- \* Old-age , disability and Death
- \* Work injuries + Occupational diseases

**Contribution Rate    16.5%**

**Accrual Rate    2.5%    (1/40)**

# JSSS

## Benefits + Benefices

- \* Pension
- \* Lump-sum compensation
- \* Work injuries benefits (med. Care, allowance, funeral exp...etc.)

## Pensioners + Survivors

Year	No.
2001	116000
2008	120000
2023	246000

# JSSS

## Revenue / Expenditures

<b>Year</b>	<b>Total Revenues Million JD</b>	<b>Total Expenditures</b>
2002	263	142
2008	641	295
2023	2697	1788

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\* Contributions + Investment Income.

# JSSS

<b>Year</b>	<b>Exp. As % of GDP</b>
1985	0.2%
1990	0.6%
2002	2.4%

# JSSS

Ceiling on Covered Wage: No Ceiling

Minimum Pension Policy

❖ Min. Pension = JD 50 / month

❖ Min. increase = JD 30 / month @ 10%

❖ Min. pension since 1<sup>st</sup> June, 2001 = JD 80 / month

≈ 94% min. wage rate.

Impact of Minimum Pension Policy on Accrual Rate applied by the JSSS  
(as applied by SSL No. 30 for 1978 and before amending the SSL).  
Minimum Pension JD 65/month.

Wage JD/month	Nominal Accrual Rate As set by SSL No. 30 (1978)			Effective Accrual Rate Due to Minimum Pension Policy		
	15y	20y	37.5y	15y	20y	37.5y
<b>50</b>	<b>2%</b>	<b>2%</b>	<b>2%</b>	<b>8.7%</b>	<b>6.5%</b>	<b>3.5%</b>
<b>100</b>	<b>2%</b>	<b>2%</b>	<b>2%</b>	<b>4.3%</b>	<b>3.3%</b>	<b>2.4%</b>
<b>150</b>	<b>2%</b>	<b>2%</b>	<b>2%</b>	<b>2.9%</b>	<b>2.5%</b>	<b>2.3%</b>
<b>200</b>	<b>2%</b>	<b>2%</b>	<b>2%</b>	<b>2.5%</b>	<b>2.4%</b>	<b>2.2%</b>
<b>250</b>	<b>2%</b>	<b>2%</b>	<b>2%</b>	<b>2.4%</b>	<b>2.3%</b>	<b>2.2%</b>
<b>400</b>	<b>2%</b>	<b>2%</b>	<b>2%</b>	<b>2.3%</b>	<b>2.2%</b>	<b>2.2%</b>
<b>500</b>	<b>2%</b>	<b>2%</b>	<b>2%</b>	<b>2.2%</b>	<b>2.2%</b>	<b>2.2%</b>
<b>1000</b>	<b>2%</b>	<b>2%</b>	<b>2%</b>	<b>2.2%</b>	<b>2.2%</b>	<b>2.2%</b>
<b>2000</b>	<b>2%</b>	<b>2%</b>	<b>2%</b>	<b>2.17%</b>	<b>2.1%</b>	<b>2.1%</b>
<b>3000</b>	<b>2%</b>	<b>2%</b>	<b>2%</b>	<b>2.11%</b>	<b>2.1%</b>	<b>2.04%</b>
<b>3500</b>	<b>2%</b>	<b>2%</b>	<b>2%</b>	<b>2.1%</b>	<b>2.1%</b>	<b>2.04%</b>

Notes:-

1. 1. Calculations are based on basic pension without allowances for families and dependants.
2. 2. 15y indicates 15 years of contributions.

Impact of Minimum Pension Policy on Accrual Rate applied by the JSSS (as applied by SSL No. 19 for 2001) .

Minimum Pension = JD 80/month.

Wage JD/month	Nominal Accrual Rate 2.5% effective 1/6/2001			Effective Accrual Rate Due to Minimum Pension Policy		
	15y	20y	30y	15y	20y	30y
<b>80</b>	<b>2.5%</b>	<b>2.5%</b>	<b>2.5%</b>	<b>6.7%</b>	<b>5%</b>	<b>3.75%</b>
<b>100</b>	<b>2.5%</b>	<b>2.5%</b>	<b>2.5%</b>	<b>5.33%</b>	<b>4%</b>	<b>3.5%</b>
<b>150</b>	<b>2.5%</b>	<b>2.5%</b>	<b>2.5%</b>	<b>3.83%</b>	<b>3.5%</b>	<b>3.16%</b>
<b>200</b>	<b>2.5%</b>	<b>2.5%</b>	<b>2.5%</b>	<b>3.5%</b>	<b>3.25%</b>	<b>3.0%</b>
<b>250</b>	<b>2.5%</b>	<b>2.5%</b>	<b>2.5%</b>	<b>3.3%</b>	<b>3.1%</b>	<b>2.9%</b>
<b>400</b>	<b>2.5%</b>	<b>2.5%</b>	<b>2.5%</b>	<b>3%</b>	<b>2.87%</b>	<b>2.75%</b>
<b>500</b>	<b>2.5%</b>	<b>2.5%</b>	<b>2.5%</b>	<b>2.9%</b>	<b>2.8%</b>	<b>2.75%</b>
<b>1000</b>	<b>2.5%</b>	<b>2.5%</b>	<b>2.5%</b>	<b>2.75%</b>	<b>2.75%</b>	<b>2.66%</b>
<b>2000</b>	<b>2.5%</b>	<b>2.5%</b>	<b>2.5%</b>	<b>2.66%</b>	<b>2.63%</b>	<b>2.58%</b>
<b>3000</b>	<b>2.5%</b>	<b>2.5%</b>	<b>2.5%</b>	<b>2.61%</b>	<b>2.58%</b>	<b>2.55%</b>
<b>3500</b>	<b>2.5%</b>	<b>2.5%</b>	<b>2.5%</b>	<b>2.59%</b>	<b>2.57%</b>	<b>2.54%</b>

# JSSS

## Funding + Financial Balance

<b>Year</b>	<b>Contribution revenues</b>	<b>Investment Income</b>	<b>Total Revenues</b>	<b>Total Expenditures</b>	<b>Surplu s</b>	<b>Remarks</b>
<b>1990</b>	<b>50.5</b>	<b>25.4</b>	<b>75.9</b>	<b>20.3</b>	<b>55.6</b>	
<b>2002</b>	<b>200</b>	<b>63</b>	<b>263</b>	<b>142</b>	<b>121</b>	
<b>2008</b>	<b>400</b>	<b>241</b>	<b>641</b>	<b>295</b>	<b>346</b>	
<b>2023</b>	<b>1758</b>	<b>939</b>	<b>2697</b>	<b>1788</b>	<b>909</b>	<b>Break-even</b>
<b>2043</b>	<b>8680</b>	<b>0</b>	<b>8680</b>	<b>14400</b>		<b>Fund deterioration</b>

# JSSS

- ❖ Cost of system at present = 8% ( i.e. 50% of 16.5% contribution).
- ❖ Break-even point = 2023
- ❖ Fund Deterioration : 2043
- ❖ Scheme would face financing problem (demographic economic factors).

# JSSS

## Financing Indicators

Year	1985	1990	2000	2010	2020	2023	2030
Financing Ratio*	25	19.8	14.4	11	8.3	7.3	4.7

\* Calculated by dividing fund reserves by expenditures.

Year	1988	2003	2008	2023	2043	2053	2097
Pensioners/ contributors	5.7%	7.6%	8.6%	12.4%	24.4%	30.1%	38.2%

# JSSS

## POLICY MEASURES INTRODUCED SINCE 1980 TILL PRESENT

- ❖ Setting minimum pension at JD 30/month in 1990.
- ❖ Increase min. pension to JD 50/month starting 1/7/1993.
- ❖ Increase pension by (10%) with a min. of JD15 for existing and new pensioners starting 1/1/1996. Such increase has shifted the min. pension from JD 50/month to JD 65/month.

# JSSS

- ❖ Adjustment of the lower limit of the (10%) pension increase effective since 1/1/1996 from JD 15 to JD 30. Such adjustment was put into effect since 1/6/2001 and has shifted the min. pension from JD 65/month to JD 80/month (equal to the 94% of the min. wage rate set by the Labor Law in Jordan at present).
- ❖ Increase benefit factor (accrual rate) from (2%) to (2.5%) for pensioners who already retired and those that will retire in the future, effective 1/6/2001.

# JSSS

- ❖ Increase disability and death pension by (0.5%) for each year if contributory period is 60 months effective 1/6/2001.
- ❖ Increase disability and death pension by (1%) for each year if contributory period is 120 months effective 1/6/2001.

# JSSS

## *Measures and reforms that rationalize system cost and increase revenues*

Rationalization of the early retirement by increasing eligibility period from 15 years to 18 years and by increasing pension reductions from (10%) to (18%) at the age of 46 years. The amended reductions apply to early retirement compared with those provided by the Law of 1978 are:-

<b>Early retirement Age</b>	<b>Amended pension reductions (%)</b>	<b>Reductions in the provisional Law of 1978 (%)</b>
<b>47</b>	<b>16</b>	<b>10</b>
<b>51</b>	<b>9</b>	<b>5</b>
<b>54</b>	<b>6</b>	<b>5</b>
<b>60</b>	<b>0</b>	<b>0</b>

# JSSS

Rationalization of early retirement was put into effect as of 1/6/2001.

- ❖ Increase old-age pension eligibility period from 10 to 15 years effective 1/6/2001.
- ❖ Increase natural disability pension eligibility period from one year to five years effective 1/6/2001.
- ❖ Increase death pension eligibility period from one to two years effective 1/6/2001.
- ❖ Increase old-age contribution rate from 13% to 14.5% of the wage effective 1/6/2001. Accordingly, total contribution rate (to cover insurances implemented by the JSSC) was shifted from 15% to 16.5% of the wage.

# JSSS

***Policy measures that expand converge and increase revenue and improve administration***

- ❖ Allow voluntary contribution for workers employed by private sector firms employing less than five workers.
- ❖ Enrollment of Jordanians working abroad.
- ❖ Allow addition of past years service worked outside Jordan for the purpose of pension eligibility calculation on retirement.

# JSSS

- ❖ Allow more authorization to SSCJ inspection personnel to have more access to employer's records to reduce system evasion and improve collection efficiency.
- ❖ Improve and develop administrative procedures and system management and operation thus reducing administrative costs of the JSSS.
- ❖ Social Security Law No.19 for 2001 allows SSCJ to implement complementary pension scheme under certain regulation issued by the Council of Ministers based on the recommendation by the Board Of Directors (BOD).

# JSSS

Separation of the investment function and insurance function by establishing an independent investment entity called Social Security Investment Commission (SSIC), which started operation in the beginning of 2003.

The establishment and operation of the (SSIC) aims at improving the investment function "Investment reform" and generating return that will increase JSSS sources of financing in the medium and long run.

# JSSS

## Early Retirement

- ❖ Open gate (no distinction between hazardous / non – hazardous job.
- ❖ Penalties are not based on actuarial grounds.
- ❖ No Distinction between males and females.

## Pension Wage Base

Last two years before retirement.

## Indexation to inflation:

pension is not indexed.

# THE CIVIL PENSION

## Coverage

- ❖ Defined Benefits
- ❖ Covers all civil servants (classified hired before 1/1/1995).
- ❖ Total covered contributors at present = 76000 (about 43% of all civil servants in Jordan).

## ***Insurance Implemented***

- ❖ Old-age, Disability and Death.

# The CP

## Contribution Rate

8.75% of basic salary

## Accrual Rate

4.17% (1/24)

# The CP

## Benefits + Beneficiaries

Pension and compensations

<b>Year</b>	<b>Nos</b>
<b>1999</b>	<b>38340</b>
<b>2002</b>	<b>41000</b>

# The CP

## Distribution of Beneficiaries (Pensions)

Old-age Pensioners	75%
Survivors	23%
Other Compensations	2%
<b>Total</b>	<b>100%</b>

# The CP

## Revenue / Expenditures

<b>Year</b>	<b>Revenue Million JD</b>	<b>EXP.</b>	<b>Exp. As % of GDP</b>
<b>1993</b>	<b>7.8</b>	<b>36.5</b>	<b>0.9%</b>
<b>1998</b>	<b>8.7</b>	<b>63.0</b>	<b>1.3%</b>
<b>1999</b>	<b>9.2</b>	<b>65.0</b>	<b>1.31%</b>
<b>2001</b>	<b>10.0</b>	<b>85.0</b>	<b>1.4%</b>

# The CP

**Ceiling on covered Wage : No ceiling**

**Min. Pension Policy : Not applicable**

**Funding Status** Under deficit : in million JD

<b>Year</b>	<b>Revenue</b>	<b>EXP.</b>	<b>Deficit</b>
<b>1993</b>	<b>7.8</b>	<b>36.5</b>	<b>28.7</b>
<b>1998</b>	<b>8.7</b>	<b>63</b>	<b>45.3</b>
<b>2001</b>	<b>10</b>	<b>85</b>	<b>75</b>
<b>2005</b>	<b>12</b>	<b>91</b>	<b>79</b>
<b>2010</b>	<b>14</b>	<b>113</b>	<b>99</b>

# The CP

## Pension Wage Base

**Last year before pension**

## Early Retirement

**Not applicable**

## Indexation to inflation

**Pension is not indexed**

## ***Policy Measures Introduced to the CP***

- ❖ Enrolling all civil servants under JSSS since 1/1/1995.
- ❖ No new entrants to the CP.
- ❖ CP will phase out within 5 or 6 decades.
- ❖ Increase pension eligibility to 25 years.
- ❖ High ranking officials are exempted from this reform (receive 10 years credit years when joining the CP).

# THE MILITARY PENSION

## Coverage

- ❖ Defined Benefits
- ❖ Covers all Military Staff + Officers
- ❖ Estimated current contributors  $\simeq$  132000

## Insurance Implemented

- ❖ Old-age, Disability and Death.

# The MP

## Contribution Rate

8.75% of basic salary

## Accrual Rate

4.17% (1/24) for officers

5.36% for military staff

# The MP

## Benefits + Beneficiaries

Pension and compensation

<b>Year</b>	<b>Nos</b>
<b>1999</b>	<b>140000</b>
<b>2001</b>	<b>156000</b>

# The MP

## Distribution of Beneficiaries

Old-age Pensioners	42%
Survivors	35%
Disability	23%
<b>Total</b>	<b>100%</b>

# The MP

## Revenue / Expenditures

<b>Year</b>	<b>Revenue Million JD</b>	<b>EXP. Million JD</b>	<b>Exp. As % of GDP</b>
<b>1993</b>	<b>6.8</b>	<b>101</b>	<b>2.4%</b>
<b>1998</b>	<b>8.1</b>	<b>111</b>	<b>2.2%</b>
<b>1999</b>	<b>9.4</b>	<b>176</b>	<b>3.4%</b>
<b>2001</b>	<b>11.0</b>	<b>213</b>	<b>3.8%</b>
<b>2010 (est)</b>	<b>-</b>	<b>504</b>	<b>4.2%</b>

# The MP

**Ceiling on covered Wage : No ceiling**

**Min. Pension Policy : Not applicable**

**Funding Status Under deficit : in million JD**

<b>Year</b>	<b>Revenue</b>	<b>EXP.</b>	<b>Deficit</b>
<b>1993</b>	<b>6.8</b>	<b>101.2</b>	<b>94.4</b>
<b>1998</b>	<b>8.1</b>	<b>111</b>	<b>102.9</b>
<b>2001</b>	<b>11</b>	<b>213</b>	<b>202</b>
<b>2005</b>	<b>11</b>	<b>305</b>	<b>294</b>
<b>2010</b>	<b>11</b>	<b>504</b>	<b>493</b>

# The MP

## Early Retirement

- ❖ **Not applicable by Law**
- ❖ **Most contributors can apply to pension before reaching age 45.**

## Pension Wage Base

**Salary of last year before retirement**

## Indexation to inflation

**pension is not indexed.**

## ***Policy Measures Introduced to the MP***

- ❖ All Civil servants employed by the military sectors are under JSSS since 1/1/1984.
- ❖ All new military recruits will be under JSSS since 1/1/2003 (Pending SSCJ fifth actuarial Valuation).
- ❖ Increase eligibility period to 20 years.

# Replacement Rate

## JSSS, MP , CP

<u>Wage 85 JD</u>	15y	20y	30y
<b>JSSS (NRR)</b>	<b>37.5%</b>	<b>50%</b>	<b>75%</b>
<b>JSSS (ERR)</b>	<b>101%</b>	<b>110%</b>	<b>130%</b>
<b>The CP (NRR)</b>	-	<b>83.4%</b>	<b>125%</b>
<b>The CP (ERR)</b>	-	<b>138%</b>	<b>162%</b>
<b>The MP (NRR)</b>	-	<b>107%</b>	<b>160%</b>
<b>The MP (ERR)</b>	-	<b>152%</b>	<b>183%</b>

## ***Cost of living Adjustment to the CP + MP***

- ❖ Adjustments since 1951.
- ❖ Last adjustment 16/4/2002.
- ❖ Allowances provided by CP + MP at present:-

➤ <b>Personal allowance</b>	<b>12.5JD</b>
➤ <b>Cost of living adjustment</b>	<b>47 JD</b>
➤ <b>Dependents (wife + 2 kinds)</b>	<b>11 JD</b>
➤ <b>Additional allowance</b>	<b>5 JD</b>
➤ <b>Total allowance</b>	<b>75.5JD</b>

# *Pension Reform In Jordan*

## **Main Threat . (Challenge)**

- ❖ The common problem in terms of financing of all systems is the danger that the public system will not be able to fulfill (i.e.to pay) the benefits it has promised.
- ❖ Both CP and MP are under deficit.
- ❖ Financial deficit is potential in the JSSS.

# Main Problem/challenges , Facing Pension System

- ❖ All systems will be subject to the impact of demographic and economic factors (being defined benefits).
- ❖ JSSS is partially funded while CP and MP are under deficit for long time.
- ❖ Financial deficits of CP+MP are increasing with time JSSS will reach break-even 20 to 25 years from now. Fund in expected to deteriorate in 2043.

# Main Problem/challenges , Facing Pension System

- ❖ Pensions in Jordan are not rationalized
  - High replacement rate
  - Un rationalized early retirement
  - Contribution rates are not in actuarial balance with benefits (at present for CP+MP) and in the future for JSSS.

## **Main Problem/challenges , Facing Pension System**

- ❖ Both CP and MP will phase out leaving JSSS as the single pension provider in Jordan for all workers in the various sector of the economy.

# Types of Reform Needed

- A. Parametric Reform to reduce costs and strengthen the financial position of schemes (JSSS + CP).
- B. Strategic / Structured Reform of JSSS (being the single scheme in the future).

# Parametric Reform

## CP

- ❖ Establish separate account in order to identify revenue / expenditures.
- ❖ Limit pension increase to low pensions.
- ❖ Consider the possibility of increasing contribution rate.
- ❖ Provide incentives to civil servants to move to JSSS and financing the cost of their contribution period, without additional cost to be paid by JSSS.

## Parametric Reform (JSSS)

### Recommendations of the Fourth Actuarial Review.

- ❖ Increase old-age to 62 for males followed by gradual increase till 65 in 2025.
- ❖ Increase old-age to 58 for females followed by gradual increase till 60 in 2025.
- ❖ Increase pension wage base to 5 years and to 10 years in the long run.

## Parametric Reform (JSSS)

- ❖ Further rationalization of early retirement as recommended by the actuary.
- ❖ Increase contribution rate as system cost increase to achieve actuarial balance.
- ❖ Consider the possibility of ceiling wage rate in order to reduce system cost in the long run (high wage benefit more than low wage without ceiling).

## Parametric Reform (JSSS)

- ❖ Consider proper mechanism to index pension with inflation in order to protect pension from being eroded by inflation.

## STRATEGIC REFORM (JSSS)

- ❖ The best pension reform option is the one that avoids increasing contribution rates especially for developing countries.
- ❖ Past experience with defined benefit pension systems showed that such system come to deficit when they mature and the effect of the demographic and economic factors become significant .

## STRATEGIC REFORM (JSSS)

- ❖ The risk of cost increase and hence financial deficit is a characteristic of the defined benefit pension system.
- ❖ lessons learnt from past experience showed limitations to achieving long-term financial sustainability without considerable increase of the contribution rate.

## STRATEGIC REFORM (JSSS)

it is recommended that the structural change be within the following general framework: -

1. Gradual introduction of defined contribution pension component within the JSSS, within a transitional period with a strategy to switch the system completely from defined benefits to defined contributions.

## **STRATEGIC REFORM (JSSS)**

2. It is essential to implement the parametric reform mentioned above as soon as possible. Delay in implementing such measure will worsen the financial position of the scheme and will make reform more difficult to achieve.
3. The strategic reform would require detailed in-depth studies and analyses that take into consideration, legal, financial, administrative, social, and economical aspects.