

# Universal Social Protection

## Universal old-age pensions in Maldives



**Maldives has witnessed a dramatic reform in its pension system. While a new two-pillar system was successfully established, the reform has been incomplete due to revival of defined benefit pension schemes for government employees and irrational benefit level of non-contributory universal pension. Main lessons learned are:**

- **A universal non-contributory pension can be a good policy instrument to address poverty and income inequality**
- **However, there will be continuing political pressure to increase the universal pension benefit level beyond the optimal value**

### 1. What does the system look like?

#### ➤ **Structure of the overall system**

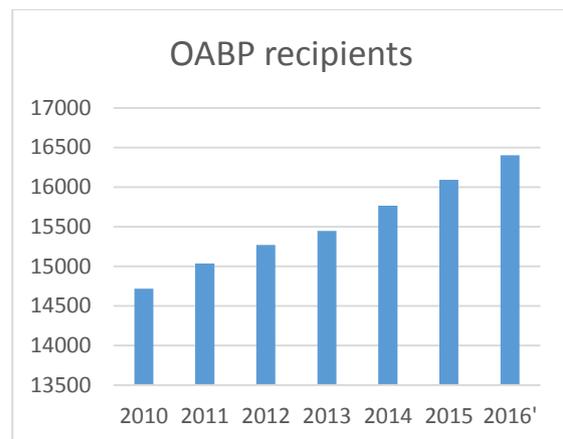
Maldives' pension system has witnessed tremendous reform since 2008. The Maldives Pension Act (2009) establishes a two-pillar pension system, including a new contributory pension scheme based on a defined contribution (DC) model with centralized recordkeeping and a non-contributory citizen's pension (also called *Demogrant*) aimed at providing an income floor for all Maldivians aged 65 and above. The first scheme is called Maldives Retirement Pension Scheme (MRPS) and the second scheme is called Old Age Basic Pension (OABP). The MRPS first replaced the two pension schemes that were operating then solely for government employees and also was extended to the entire formal sector labor force. In the second phase, it has been opened to self-employed workers who can subscribe to MRPS on voluntary basis and are encouraged to do so with some co-contribution incentive provided by the government. Nine government institutions

<sup>1</sup> There are a small number of SCA recipients who do not receive OABP benefit. According to the Maldives Pension Act, OABP benefit is to be reduced if the same beneficiary also receive other pension benefits.

have also set up institution-specific pension schemes for their employees following defined benefit model in addition to MRPS. In 2014, the President introduced Senior Citizen Allowance (SCA) to all Maldivians aged 65 and above on top of OABP.

#### ➤ **Coverage**

As of April 2016, there are 16,401 Maldivians receiving OABP benefits and 16,884 receiving SCA benefits<sup>1</sup>. The coverage is regarded as universal<sup>2</sup>.



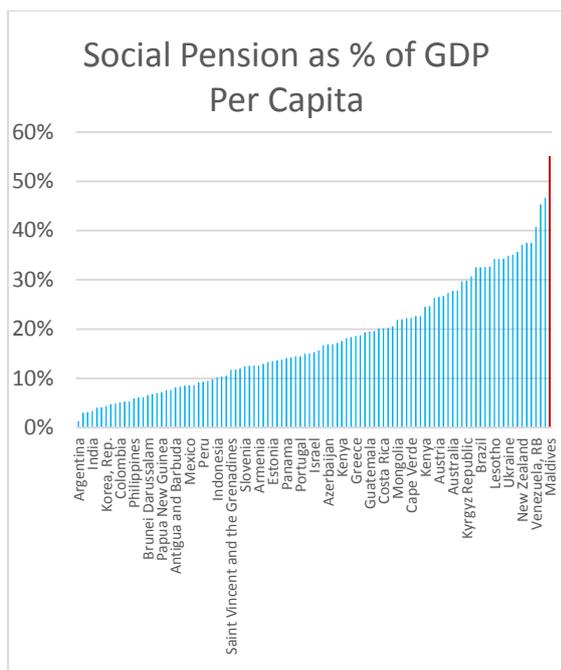
#### ➤ **Benefits**

The monthly pension benefit under OABP is MVR 2,300 while the SCA benefit is such that every eligible Maldivian senior should receive government benefit MVR 5,000 (about US\$ 325) in total. The OABP benefit was MVR 2,000 initially and was adjusted upward in 2012 to compensate inflation.

#### ➤ **Financing**

According to the Maldives Pension Act, employee and employer both contribute 7% of employee's pensionable wage to his or her Retirement Saving Account in MRPS. Employees can contribute more voluntarily. OABP, SCA and the institution-specific pension are all financed from the general budget and in 2015 they account for about 2.6% GDP.

<sup>2</sup> According to the most recent Maldives Population & Housing Census 2014, there are 16337 Maldivians who are aged 65 or above.



### ➤ Legal aspects

The Government of Maldives initiated the policy deliberation upon the reform of its pension system in late 2006 and the reform proposal was enacted in the Maldives Pension Act in 2009. The SCA was introduced under a President decree.

### ➤ Institutional arrangements

Both MRPS and OABP are managed by the Maldives Pension Administration Office (MPAO). MPAO is established under the Maldives Pension Act and operates autonomously under the management of a CEO and a Board of Directors, both appointed by the President. MPAO is mandated to carry out the following tasks:

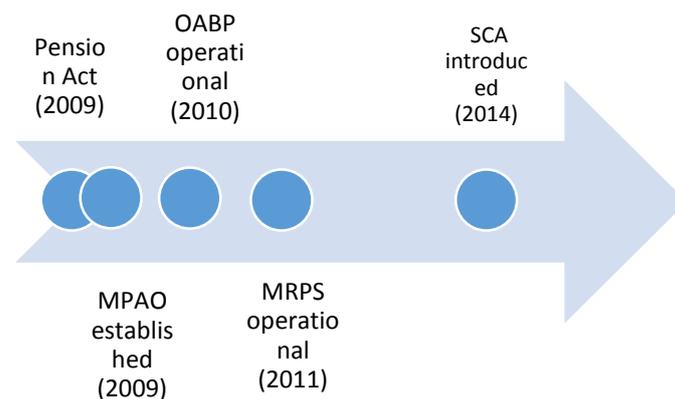
- Administer MRPS
- Pay benefits under OABP, SCA, and institution-specific retirement schemes
- Manage MRPS pension funds
- Establish standards, rules and guidelines related to the schemes
- Create public awareness and educate scheme participants

For OABP, SCA, and institution-specific retirement schemes, the MPAO will receive fund transfers from the Ministry of Finance monthly to pay out those benefits.

## 2. How was this achieved?

### ➤ Timeline

The following timeline summarizes the sequence of main events associated with Maldives' universal old age pension:



### ➤ Political economy, stakeholders involved in the process (include a diagram/graph if relevant), what was the main driving force behind the policy change?

Maldives started a complex political transition to a multi-party democracy with a new constitution in 2008. A wide range of reforms were initiated to modernize its governance structure and to increase and improve service delivery in response to rapid rising demands by citizens. One focus area was to build a comprehensive and effective social protection system to provide resilience and protect the poor.

Two major deficiencies identified then were limited old age security and inadequate protection provided by the existing social safety net programs against poverty. The old pension system only covered public sector employees and had several design flaws that could result in sub-optimal retirement income. And the old social safety net programs also had extremely low coverage

and did not appear pro-poor due to large inclusion and exclusion errors. Only 0.3 percent of the population and 1.6 percent of the poor were covered by recurrent transfers; and total safety net spending (outside of the tsunami benefit) was 0.2 percent of GDP in 2004, much lower than what other countries with a similar level of income spent.

The pension reform plan, initiated by the previous government but received full support of the new government after 2008, was later codified in the Pension Act in June 2009. The new pension system separates the redistributive and savings functions in OABP and MRPS respectively. Furthermore, it is also envisioned that while the real value of OABP benefit is to remain constant over time due to indexation against inflation, continued wage growth would result in a higher contributory pension over time. Hence in the long run, most Maldivians would rely on the MRPS.



#### ➤ **Overcoming constraints**

The MPAO has made great efforts in raising awareness among potential beneficiaries about OABP and MRPS through various channels and partnerships. It has also worked with the banking industry to ensure regular and reliable cash disbursement in remote islands.

### **3. What are the main results in terms of impact on people's lives?**

As both universal old age pension benefits were implemented after the most recent survey data (2008/09), little quantitative evidence is available on the effects of these pension payments to the recipients and their families. The upcoming Household Income and Expenditure Survey (2016) is expected to be the first opportunity to assess to what extent these benefits have reduced poverty within elderly as well as the population as a whole.

#### **4. Key indicators (may be in graphs)**

Both universal old age pension programs are supposed to cover all elderly who are 65 or above. Furthermore, the total benefit level of MVR 5,000 is rather high relative to Maldives per capita income (around MVR 9000 in 2014) and was estimated to cost about 2.3% of GDP in 2014. Hence there has been concern on its contribution to Maldives' continuing fiscal deficit. Furthermore it is believed that the high level benefit may also have potential longer term adverse impact on labor supply and saving behavior.

*This Universal Social Protection brief was produced by Changqing Sun of the World Bank Group. It was reviewed by Isabel Ortiz and Loveleen De of the ILO.*

#### **References**

Maldives Pension Administration Office,  
Annual Report, 2012-2015

[www.pension.gov.mv](http://www.pension.gov.mv)