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SOCIAL INSURANCE Scheme

- **Basic concepts:** life insurance-social insurance-Mangement of social insurance.
- **Social Insurance SYstem for workeers:** Scope of application and Definitions-Financing-Old Age invalidity and Death Insurance_ Work Accident Insurance - heath Insurance Unempioyment Insurance- Beneficiaries and Additional Benefits.
- **Social Insurance system for other categores:** for Employers and The like- for other categories: Working Abroad - for Manpower Categories Uncovered by The pensions and Social Insuance Laws-for Army Forces.
- **Future Objectives** and Statistic Schedules.

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* **Basic Concepts:** Life Insurance- Social Insurance - Management of Social Insurance

* **Social Insurance System for Workers:** Scope of Application and Definitions- Financing- Old Age, Invalidity and Death Insurance - Work Accident Insurance - Health Insurance - Unemployment Insurance - Beneficiaries and Additional Benefits.

* **Social Insurance system for other categories:** for Employers and The Like - for Egyptian Workers Working Abroad - for Manpower Categories Uncovered by The Pensions and Social Insurance Laws - for Army Forces.

* **Future Objectives** and Statistic Schedules**.**

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Section One

Basic Concepts

Life Insurance - Social Insurance - Management of Social Insurance

- **Insurance:** definition – individual and Group Insurance.

- **Life Insurance:** Group Life Insurance - Annuities.

- **Private Plans:** Defined benefit – Defined Contribution

- **Social Insurance:** Reasons - Basic Characteristics.
  - Integration with Social Security.

- **The Egyptian Constitution** (Article 17 and 18).

- **Social Insurance Systems in Egypt** (5 systems)

- **Managing the Social Insurance Scheme:** Two Funds – Resources - National Social Insurance Organization (NSIO)

- **The Yearly Final Accounts and Periodical Actuarial Investigation.**

Insurance

- Definition:

Insurance is <u>a device to handle risk</u>. Its primary function is to substitute certainty for uncertainty as regards the economic cost of disastrous events.

Insurance may be defined more formally as <u>a system under which the insurer, for a consideration, promises to reimburse the insured</u> or to render services to the insured <u>in the event that certain accidental occurrences result in losses</u> during a given time period.

The article is divided into the following sections:
- Property and liability insurance.
- Life insurance.

Based on the preceding definition, <u>an insurance plan</u> (or arrangement typically) **<u>includes the following characteristics</u>:**

1- Pooling of losses.
2- Payment of fortuitous losses.
3- Risk transfer.
4- Indemnification.

- Individual and group Insurance:

Group insurance differs from individual insurance in several respects. A distinctive characteristic <u>is the coverage of many persons under one contract</u>. <u>A master contract</u> is formed between the insurer and the group policy owner for the benefit of the individual members. In most plans, the group policy owner is the employer. Employees receive a certificate of insurance that shows they are insured.

A second characteristic is that group insurance usually costs less than comparable insurance purchased individually. Employers usually pay part or all of the cost, which reduces or eliminates premium payments by the employees**. In addition, administrative and marketing expenses are reduced as a result of mass distribution methods.**

Another characteristic is that individual evidence of insurability is usually not required. Group selection of risks is used, not individual selection.

Life Insurance

Group Life Insurance - Annuities - Private Retirement Plans

- Definition:

Life insurance may be defined as a plan under which large groups of individuals can equalize the burden of loss from death by distributing funds to the beneficiaries of those who die. From the individual standpoint life insurance is a means by which an estate may be created immediately for one's heirs and dependents.

- Group Life Insurance:

Under group life insurance an employer signs a master contract with the insurance company outlining the provisions of the plan. Each employee receives a certificate that gives evidence of his participation in the plan. The amount of insurance depends upon the employee's salary or job classification; usually the

employer pays a portion of the premium and the employee pays the rest, but sometimes the employer pays the entire cost of the plan.

A major advantage of group life insurance to an employee is that usually he may obtain coverage regardless of his health. If he leaves the group he may, without a medical examination, convert his insurance to an individual policy. The premiums on group life insurance are considerably less than on comparable individual policies, mainly because the selling and administrative costs are minimal.

- Annuities:

An annuity can be defined as a periodic payment that continues for a fixed period or for the duration of a designated life or lives.

An annuity is the opposite of life insurance. Life insurance creates an immediate estate and provides protection against dying too soon before financial assets can be accumulated. In contrast, an annuity provides protection against living too long and exhausting one's savings while the individual is still alive. Thus, the fundamental purpose of an annuity is to provide a lifetime income that cannot be outlived. It protects against the loss of income because of excessive longevity and the exhaustion of savings.

Insurers sell a wide variety of individual annuities. For sake of convenience and understanding, the major annuities sold today can be classified as follows:

* Fixed annuity.
* Variable annuity.
* Equity-indexed annuity.

The vast majority of workers who retire today receive Social Security retirement benefits. Some workers also receive benefits from their employers' retirement plans. Individual annuities can also be purchased to provide additional retirement income.

Private Retirement Plans

Millions of workers participate in private retirement plans. These plans have an enormous social and economic impact on the nation. Retirement benefits increase the economic security of both individuals and families during retirement. Retirement contributions are also an important source of capital funds to the financial markets**.**

- Defined benefit:

In a defined benefit formulas plans (qualified retirement) **are designed to pay retirement benefits, which, together with Social Security retirement benefits, will generally restore about 50 to 60 percent of the worker's gross earnings prior to retirement.** A benefit formula is used to determine contributions or benefits**.**

- Defined Contribution:

In a defined-contribution formula, the contribution rate is fixed, but the retirement benefit is variable. For example, both the employer and employee may contribute 6 percent of pay into the plan. Although the contribution rate is known, the retirement benefit will vary depending on the worker's current age, earnings, investment returns, and retirement age**.**

Social Insurance

Reasons - Basic Characteristics
Integration with Social Security

- Reasons for Social Insurance

Social insurance programs are necessary for several reasons as follows:

1- Social insurance programs are enacted to solve complex social problems. A social problem affects most or all of society and is so serious that direct government intervention is necessary. For example, the Social Security program came into existence because of the Great Depression of the 1930s, when massive unemployment required a direct government attack on economic insecurity**.**

2- Social insurance programs are necessary because certain risks are difficult to insure privately. For example, unemployment is difficult to insure privately because it does not completely meet the requirements of an insurable risk. However, the risk of unemployment can be insured by state unemployment insurance programs.

3- Social insurance programs provide a base of economic security to the population. Social insurance programs provide a layer of financial protection to most persons against the long-term financial consequences of premature death, old age, occupational and non-occupational disability, and unemployment.

- Basic Characteristics of Social Insurance:

Social insurance programs have certain characteristics that distinguish them from other

government insurance programs:

1- **Compulsory programs.**
2- **Floor of income.**
3- **Emphasis on social adequacy rather than individual equity.**
4- **Benefits loosely related to earnings.**
5- **Benefits prescribed by law.**
6- **No means test.**
7- **Full funding unnecessary.**
8- **Financially self- supporting.**

- Integration with Social Security:

- Social Security : The sum of measures taken by a government against shortfalls in income and to provide help at times of special need. One measure commonly employed is social insurance.

- Many qualified private pension plans are integrated with Social Security. Because employers pay part of the total Old-Age, Survivors, and Disability Insurance (OASDI) payroll tax, they argue that OASDI retirement benefits should be considered in the calculation of private pension benefits**. As a result, pension costs can be reduced. Also, integration provides a method for increasing pension benefits for highly compensated employees without increasing the cost of providing benefits to lower-paid employees.**

the Egyptian Constitution

(article 17) of the Egyptian Constitution

The state guarantees social insurance services. Every citizen that doesn't benefit from the social insurance system has the right for social security so that they are guaranteed a dignified life in case they are not capable to support themselves and their families and in cases of disability, old age and unemployment.

The state provides a suitable pension for small peasants, agricultural workers, fishermen and irregular workers according to the law.

Insurance and pension funds are private funds that rejoice of all aspects and forms of protection prescribed for public funds. These funds and their yields are the right of their beneficiaries, should be invested safely and managed by a separate entity according to the law.

The state guarantees insurance and pension's funds.

(article 18) of the Egyptian Constitution and Social Insurance

Every citizen has the right for health and a comprehensive health care according to quality standards. The state maintains the health facilities that provide services to the public, supports them, raises their efficiency and geographically spreads them fairly.

The state ensures the allocation of a percentage of government expenditures not less than 3% of the gross national product on health. This percentage has to increase gradually to reach the global averages.

<u>The state guarantees the setting of a comprehensive health insurance system covering all Egyptians and all sicknesses</u>. The law regulates payable portion of the citizens to its contribution or relieving them according to their average incomes.

The refrain from providing various forms of treatment for each person is penalized in cases of emergency and risk of death.

<u>The state ensures the improvement of the conditions of doctors, nursing entities and workers in the health sector</u>. All health establishments, products, materials, means of publicity are regulated by the state.

<u>The state encourages the participation of the private and non-governmental sectors in the health care services according to the law</u>.

Social Insurance Systems In Egypt

- There are five Social Insurance Systems:

1- Social insurance system <u>for workers</u> promulgated by law no 79/1975.

2- Social insurance system <u>for employers</u> <u>and the like</u>, promulgated by law no. 108/1976**.**

3- Social insurance system <u>for the Egyptian workers abroad</u> promulgated by law no. 50/1978.

4- Social insurance system <u>for manpower categories uncovered by the pensions and social insurance laws</u> promulgated by law no. 112/1980.

5- Social insurance law <u>for army forces</u> promulgated by law 90/1975.

Managing the Egyptian Social Insurance Scheme

- Two Insurance Funds:

Two funds for managing social insurance system for workers as follows: (Article 6)

1- Insurance fund for governmental workers and those working in the state administrative bodies, and in public authorities.

2- Insurance fund for workers in general institutions, economic units, and in cooperative and private sectors.

- The Funds Resources:

The resources for each of the above two funds shall consist of the following resources: (Article 7)

1. **Contributions payable by employers** on behalf of their workers, **whether the share which the employer is committed to pay, or the share of contribution of the insured person** pursuant to the provisions of this Law.
2. **Amounts payable by the public treasury** for account of old age, invalidity and death insurance.
3. Amounts payable by the public treasury, or the employer, or the insured persons for accounts of previous service periods calculated within the period of contribution to insurance.
4. Special premiums payable by employers or the insured persons according to the provisions of the Law.
5. **Yield of investing the fund's reserves.**
6. Additional amounts due for payment in accordance with the provisions of the Law.
7. Other resources resulting from the fund's activity.
8. Subsidies, donations approved by the board of directors.

- The National Social Insurance Organization (NSIO):

-The social insurance Organization shall be in charge of managing the Social Insurance Scheme.

-The mentioned Organization shall be considered as national authority having its own moral entity as well as its own separate budget to be annexed to the general budget of the state, and shall be subject to the general rules, and provisions in force concerning the national authorities and organizations, Minister of Insurance. (Article 9)

-The social insurance Organization shall have a board of directors whose formation, its chairman is the minister of insurance, the method of electing its members and their remunerations shall be in a decree of the President of the Republic.

The workers shall be represented in the directorate of the general federation for workers; by four members who are nominated by the general federation of workers also, the employers shall be represented in the said directorate by the chairman of the federation of chambers of commerce, and the chairman of the federation of Egyptian industries. (Article 10)

-The Board of Directors shall direct the organization affairs, and managing its activities, and shall in particular have the right to: (Article 11)

1- Enacting decrees and internal regulation connected with the financial, administrative and technical affairs of the authority, as well as personnel affairs, without being bound by governmental rules and systems.

2- **Study the plans and approve the planning draft-budget of the organization** which shall specify the various items of expenditure and the amounts allocated to each.

3- **Study follow-up reports, valuation of international conceptions** and issuing necessary resolutions for raising standard of performance.

4- **Approve the final balance sheet** and the general account of income and expenditure.

5- **Study legislations** concerning the social insurance.

6- **Appoint the actuaries** to examine and prepare the financial position.

7- **Approve the financial, administrative and technical matters** which are within the competence of the directorate according to Laws, decrees and regulations.

The directorate is allowed to form among its members one or more committees and entrust them a part of its powers. The directorate may also mandate to its chairman or to one of the directors of the authority some of the directorate competences. It may also entrust one of its members or one of the directors to carry out a specified job.

The directorate may form consultative committees to help it in performing its tasks. (Article 12)

8- **Lay down the general rules** relative to the investment of the funds of the Organization.

9- **Lay down the internal financial, administrative and technical regulations** of the Organization, which shall ensure that it discharges the functions in fulfillment of its purposes.

10- **Propose the draft laws** relative to Social Insurance.

-The decisions of the directorate shall be submitted for the Minster's approval, that is in connection with items (1, 2, 3, 4 and 5) of Article (11). (Article 13)

-The chairman of the board shall represent the authority before judgment, and in its relations with others; and shall be in charge of the following

competencies: (Article 14)

1- Implementation of the decisions of the board of directors.

2- Managing the authority, and evolving its system of work and following up the implementation of work in it.

3- Studying & approving the financial, administrative and technical matters, which are within his competence as stated by Laws, decrees and regulations.

4- Submission of the authority's draft budget and closing accounts to the board of directors, within six months from the end of the fiscal year together with a report on the follow up of the authority work, and assessment of its performance.

5- Notifying the competent departments of the authority's draft closing account, within one month from the date of the directorate approval thereof.

6- Providing the ministry and the state agencies with all data and reports requested by them about the authority.

-The Chairman of the board may mandate some of his competencies to the directors of the authority.

-The minister of insurance shall delegate a substitute to the board's chairman in case of his absence, or if his post becomes vacant.

The minister is entitled to mandate some of his competencies stipulated upon in this Law to the board of directors, or to board's chairman. (Article 15)

-The supervision on accounts in the concerned authority shall be carried out by financial officials among the authority personnel, whose names shall be notified to the ministry of finance, and who shall alone have the right to sign the cheques and payment vouchers.(Article16)

-The Organization shall have a Board of Management whose formation and the method of selecting its members and their remunerations are to be determined in a Decree of the President of the Republic.

The Yearly Final Accounts and Periodical Investigation

- The Yearly Final Accounts:

-The Chairman shall submit the following of the Board of Management within the six months following the end of the financial year:

a) The final balance sheet of the Organization supported by detailed statements of assets and liabilities.

b) A general account of income and expenditure.

c) A general report on the Organization activities, its financial position and the ways of investing its reserves.

He shall likewise submit the final accounts to the Authorities concerned within one month from date of its approval.

- The Periodical Actuarial Investigation of the Scheme Financial Position:

- The financial position of each of the two funds shall be examined once at least every five years, such examination shall be carried out by one or more of actuaries.

That examination should handle the value of existing assets and liabilities, and if a deficit is found in the moneys of the fund, and the various reserves and appropriations are not sufficient for its settlement, the public treasury shall be bound to pay it. The actuary in this case should indicate the reasons of such deficit, and the suitable means for avoiding it.

But if the valuation reveals the existence of surplus money, this money shall be transferred to a special account, and is not allowed to be disposed of except by

the approval of the board of directors, and for the following purposes: (Article 8)

1. Full or partial settlement of the deficit previously paid by the public treasury.

2. Setting up a general reserve and special reserves for the various purposes.

3. Raising the pensions in the light of the standard prices, in a proportion to be determined by a Republican Decree on the proposal of the Minister of Insurance.