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# SOCIAL INSURANCE Scheme

*** Life Insurance. Social Insurance** Basic Concepts
*** Current Egyptian Social Insurance Scheme:** Social Insurance System for Workers - Social Insurance System for Employers and The Like - Social Insurance System for Egyptian Workers Working Abroad - Social Insurance System for Manpower Categories Uncovered by The Pensions and Social Insurance Laws - Social Insurance System for Army Forces - **Future Objectives**.

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Section One

# Life Insurance. Social Insurance

Basic Concepts

# Insurance

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

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

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

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

*** Pooling of losses.**
*** Payment of fortuitous losses.**
*** Risk transfer.**
*** Indemnification.**

## Group Insurance

**Group insurance differs from individual insurance in several respects. A distinctive characteristic is the coverage of many persons under one contract. A master contract is formed between the insurer and the group policyowner for the benefit of the individual members.** In most plans, the group policyowner 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

**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 [1]

**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 [1]

**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**.**

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(1) Principles of Risk Management and Insurance, George E. Rejda,p.p.291-367.

**The Employee Retirement Income Security Act of 1974 in the United States established minimum pension standards to protect the rights of covered workers.**

**More recently, the Pension Protection Act of 2006 increases the funding obligations of employers, makes permanent the higher contribution limits that were scheduled to expire at the end of 2010, encourages automatic enrollment of employees in defined contribution plans, and contains numerous additional provisions that affect the design of private retirement plans.**

**The Internal Revenue Service (IRS)** in the United States **exerts a significant influence on private retirement plans.** The IRS continuously issues new rules and regulations that affect the design and growth of private retirement plans**.**

## Benefit Formulas

**Qualified retirement plans 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 Formulas

**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 for Social Insurance

Although the United States has a highly developed system of private insurance, social insurance programs are necessary for several reasons.

*** 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**.**

*** 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.**

*** 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 nonoccupational disability, and unemployment.**

## Basic Characteristics of Social Insurance

**Social insurance programs** in the United States **have certain characteristics that distinguish them from other government insurance programs:**

- **Compulsory programs.**
- **Floor of income.**
- **Emphasis on social adequacy rather than individual equity.**

*** Benefits loosely related to earnings.**
*** Benefits prescribed by law.**
*** No means test.**
*** Full funding unnecessary.**
*** 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 half 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.**