Executive summary

1. The following is a summary of the principal findings of the sixth actuarial valuation of the Kuwait Public Institution for Social Security (KPISS), carried out by the International Actuarial Service of the International Labour Office (ILO) in co-operation with the technical staff of the Institution.

2. The customary way to assess the financial condition of a social insurance system is to prepare an “actuarial valuation”. This consists of projecting the future contribution and investment income and the benefit outgo during the remaining lifetime of the active and retired participants involved in the valuation, and thereby determining whether adequate provision has been made to finance the benefits that have been promised. This report consists of several such actuarial valuations prepared for the consolidated civilian scheme. Actuarial valuations of the same nature were made for the self-employed scheme and the military, but their scope is more limited because of incompleteness of data.

3. An actuarial valuation was prepared as of 30 June 1995 for the active insured lives, pensioners, and other beneficiaries on that date, based on the system as revised by the 1995 amendments, and is summarised in table 1.1. This actuarial valuation indicates that the present value of future assets is only 64 per cent of the present value of future liabilities, resulting in an "actuarial deficit" of 36 per cent of such liabilities for the basic scheme. This actuarial deficit is larger than shown in the previous valuation, primarily because previous valuations were based upon later retirement ages (and thus lower costs) than - in retrospect - were justified by actual experience and because interest naturally accrues on a deficit when no specific contribution for its amortisation is added to the fund. Graph 1 shows that without the inflow of new entrants, the fund associated with the basic system would be depleted by 2017.

4. The 1995 amendments partly reversed the amendments made in 1992 which were expected to place the income and outgo in equilibrium and to produce an actuarial surplus with respect to new entrants. The expected surplus from new entrants has decreased and the economic and demographic conditions which would enable the financing of the actual deficit uniquely through this source appear improbable. Moreover, sensitivity analysis using an alternate scenario considering retirement ages similar to those observed in the past indicate that a deficit of KD 900 million could be added to the deficit calculated in the core valuation.

5. The supplementary scheme seems may tend to a self supportive state in long run but is deficient at its onset. However, there is no experience data on the supplementary scheme and uncertainty still remains high about major cost drivers. Given this situation, it is not appropriate to recommend that immediate measures be taken to eliminate the deficit. According to this valuation, a yield of 7.0 per cent on investment would be necessary to balance this system. The next actuarial valuation should scrutinise thoroughly the emerging experience. According to the actuarial valuation, the total deficit for the basic and the supplementary schemes is likely to grow indefinitely unless appropriate measures (recommended for the basic scheme only) are taken. Table 1.2 shows the balance sheet 20 years from now corresponding to the balance sheet in table 1.1 if the assumptions used are realised. The deficit would increase to KD 13 billion and would represent about 41 per cent of liabilities estimated at KD 31 billion. On a closed group basis, the financial situation would be worse than at 30 June 1995.

6. A projection of income and outgo for a much larger number of cohorts would lead to a picture where the deficit would continue to decrease in relation to liabilities. For example, Table 1.4 shows that the deficit is 15 per cent of liabilities at 30 June 1995 when 77 cohorts of new entrants are considered. Although the financial situation has deteriorated since the previous valuation and has become weaker, this result indicates that there remain plausible scenarios under which the system
could be considered financially sound in the context of the general average premium. However prudent management might not rely on these uncertain long term prospects and more immediate action should be taken through adding money to the fund or decreasing benefits or a combination of both.

7. Different strategies can be explored to improve the financial situation. It is recommended to take immediate action to fund the deficit related to the basic system and to start a national debate on its design. In particular, it is recommended to clarify if certain social objectives related to the respective role of parents of each sex in the family structure should be met by this scheme or a separate one. Chapter 4 explores different avenues related to the modifications in the financing formula.

8. Favourable deviations related to assumptions on investment earnings would contribute positively to improve the financial situation. Sensitivity of projections to the investment earning assumptions is discussed in Chapter 5.

9. Chapter 2 presents the result of selected demographic and financial projections for each of the next 20 years. Although of limited use in assessing the financial condition of the social security system, these year-by-year projections may be useful to the Institution for other purposes.

10. The valuation of the military fund is based on incomplete information. Table 7.1 is based on data of actual pensioners and demographic and economic assumptions on active insured that are considered appropriate for the purpose of this balance sheet. Calculations referring to the cost of a new participant at age 20 indicate that the current level of contributions exceeds the financial needs. Given this later information and that the balance sheet shown in Table 7.2 does not indicate any material surplus or deficit, it can be concluded that the financial situation of the scheme is healthy and no specific measure is recommended.

11. The self-employed scheme is still immature and the actuarial valuation is based on very few experience data. However, calculations indicate that the assets exceed the liabilities at 30 June 1995 by as much as KD 100 million. Past experience might not be representative of the future and may not be the best basis to forecast the cost of cohorts of new entrants. Although the level of contributions now appear sufficient to cover the cost of new generations. No action is recommended. Close scrutiny of the emerging experience imposes itself.