Annex: Pension Issues

This annex presents a general description of the existing pension schemes for public employees and an overall view of arrangements covering private sector workers; examines the problems with existing social security arrangements; reviews the issues involved in the design of pension schemes; and discusses the needed short-term reforms to the existing pension schemes to prevent a fiscal crisis in the years ahead and to move toward the ultimate objective of having a broad coverage social security arrangement in the West Bank and Gaza.

Background

The Palestinian population relies largely on informal family-based arrangements to provide income to the elderly population. Most of the labor force in the West Bank and Gaza is not covered by any social security arrangement.[1] The only centrally organized pension schemes are administered by the Palestinian Authority and cover only public employees, who represent about 15 percent of the labor force. Coverage for private sector workers, on the other hand, is limited to a small number of firms, universities, and NGOs that administer retirement schemes for their employees. There is also some limited coverage for Palestinian workers in Israel.

Pensions for public employees are provided by three different systems, two for civil servants and one for the police. The existence of two pension systems for civil servants, one in the West Bank and the other in the Gaza Strip, is mainly due to historical reasons. The system in the West Bank is based on the Jordanian system, created in 1959, while the Gaza Strip system is based on the Egyptian system of 1964. Both arrangements for public employees were transferred to the PA in 1994 by Israel, which had administered them since 1967. The police force was initially covered by the pension arrangements of the PLO and, since 1996, by a pension system envisaged in a draft law that is still to be approved by the Palestinian Legislative Council (PLC).

All of the public pension systems are of the defined benefit type, but differ significantly with regard to benefits, contributions, financing, and administration (Box A.1). The two systems for civil servants provide similar benefits, but the scheme in the Gaza Strip has higher contribution rates and has accumulated a small reserve fund. The pension scheme for the police was broadly modeled after the Gaza system; however, a smaller contribution base and more generous benefits have resulted in a system that is financially nonviable.

Although none of these systems is actuarially sound, the pension system in the Gaza Strip could become viable with minor adjustments to contributions and benefits. The financial standing of the other two systems, however, is cause for concern. The pension system for civil servants in the West Bank is estimated already to be running notional operating deficits, which are projected to increase rapidly in the future, while the pension scheme for the police is expected to encounter financial problems within a few years.[2] The

[1]For the purpose of this appendix, social security refers to old age, disability, and survivors pension schemes.

[2]The West Bank pension scheme operating balance cannot be calculated accurately because contributions and benefits are paid in and out of general revenue at the ministerial level.

Box A.1. Common Terms Used in Characterizing Pension Systems

Actuarial fairness	A method of setting insurance premiums according to the true risks involved and financial returns that can be expected.
Contribution rate	Normally expressed as the ratio of the total contributions paid by the employer and employee as a percentage of gross wages.
Defined benefit	A guarantee by the pension agency that a benefit based on a prescribed formula will be paid.
Defined contribution	A pension plan in which the periodic contribution is prescribed and the benefit depends on the contribution plus the investment return.
Full funding	The accumulation of pension reserves that total 100 percent of the present value of all pension liabilities owed to current members.
Implicit public pension debt	The value of outstanding pension claims on the public sector minus accumulated reserves.
Pay-as-you-go	A method of financing whereby current outlays on pension benefits are paid out of current revenues from a payroll tax.
Population dependency rate	Equals the ratio of population above a given age (typically 60 or 65) to the working age population (typically 15–60 or 15–64).
System maturation	The process in which young people who are eligible for pensions, in a new system, gradually grow old and retire, thereby raising the system dependency ratio to near the demographic dependency ratio. In a fully mature system, all old people in the covered group are eligible for full pension.

problems of the police pension system are aggravated by the fact that the surpluses generated during the last five years, which amount to some $53 million, have not been invested in a reserve fund as the draft law requires.

Existing pension schemes for public employees in the West Bank and Gaza, as currently structured, pose an important threat to the PA's finances, and significant reforms are needed to prevent a financial crisis in the years to come. Reforming the pension schemes for the police and for civil servants in the West Bank is especially important. Bringing the former to a sound financial standing would require broadening the contribution base and significantly scaling down pension benefits; while the West Bank system would require a significant increase in the contribution rate. Ideally, contributions and benefits in the West Bank pension system should be aligned with those in the Gaza system, with a view to merging both systems into a unified scheme. The unified pension scheme for public employees could eventually become the basis of a broader social security arrangement to cover also private sector workers.

The Public Pension Systems

All three pension schemes administered by the PA for public employees are defined benefit schemes and operate on a pay-as-you-go (PAYG) basis (Box A.2). They differ substantially, however, in their contributions, benefits, financing, actuarial soundness, and administration. The pension scheme for civil servants in the Gaza Strip is in better financial status than the other two. Regarding administration, the Gaza system is administered centrally by the Insurance and General Pension Corporation (IGPC); the system for the police is administered by the police department; and the system for civil servants in the West Bank is administered by each ministry or agency through budgetary allocations.

The lack of actuarial soundness of these pension systems raises important questions regarding the

Box A.2. Summary of Present Pension Schemes for Public Employees

	Gaza Strip	West Bank	Police (draft)
Main elements			
Contribution rate			
Employer	12.5 percent	0 percent	12.5 percent
Employee	10.0 percent	2 percent	10.0 percent
Contribution base	Wages plus professional allowance	Wages plus professional allowance	Basic wage
Benefit formula (normal)	2.5 percent of last monthly wage per year of service	2 percent of last monthly wage per year of service	50 percent of basic wage plus 50 percent of COLA
Social allowances (monthly)	Self: NIS 300 Spouse: NIS 40 Child: NIS 16	Self: NIS 8 Spouse: NIS 40 Child: NIS 16	Self: 0 Spouse: JD 10 Child: JD 3
Inflation adjustment	Ad hoc	Ad hoc	Ad hoc
Retirement age	60	60	45–62
Service years (automatic)	20	30	15
Tax treatment	Contributions taxed, pensions nontaxable	Contributions not taxed, pensions taxable	Contributions and pensions are tax free
Take-out provisions	None	Can opt for 25 percent of pension at time of retirement	None

fairness vis-à-vis the Palestinian population at large of sustaining these generous systems. In the coming years, sustaining the existing pension schemes would require higher taxes on the general population, lower public expenditure (including social expenditure), or a combination of both. The equity problem arises because public employees in the West Bank and Gaza, as is the case in the rest of the world, are not among the poorest groups in the population. At the same time, the differences between the pension schemes for public employees raise important issues about the inequitable treatment of different public employees. While arguments can be made in favor of different treatment for the police force, it is hard to justify asymmetric treatment of civil servants solely on the basis of whether they are located in the West Bank or in the Gaza Strip.

The West Bank Public Pension System

The origin of this scheme dates back to 1959 when Jordan established a pension scheme for civil servants. The scheme was based on the principle of budgetary financing of pensions, with pension contributions and benefits paid into and out of general revenue at the ministerial level.[3] Initially, the contribution rate was set at 7 percent of basic salary, but in 1987 the Israeli Civil Administration lowered the rate to 2 percent and expanded the contribution base to include professional allowances.[4] The changes were expected to be revenue neutral and did not aim at solving the existing imbalance between contributions made over employees' working years and benefits during retirement.

[3]Under this type of arrangement, there is no explicit contribution by the government, but an implicit commitment to cover any financial gap between total contributions and benefit payments. Administration of the scheme is decentralized, with each ministry or agency deducting contributions from the employees' salaries, keeping the employee's records, and paying pension benefits out of budgetary allocations.

[4]Public employees salaries have two components: a basic salary and professional allowances. The latter are paid on top of basic salary to compensate for years of service, grade, and qualifications of the employee (for example, doctors, judges, engineers, etc.). These allowances do not include overtime payments nor transportation and family allowances.

Benefits are weakly linked to total contributions and consist of a fixed amount and a variable component based on years of service and the last monthly salary. The fixed amount comprises NIS 8 personal allowance, NIS 40 wife allowance, and NIS 16 for each qualifying child, all of them on a monthly basis.[5] The variable component consists of 2 percent of the last monthly wage times the number of years of service. The maximum replacement rate is 70 percent of the last monthly wage and is reached after 35 years of service. Additional years of service do not result in higher pension benefits.

For both men and women, retirement is allowed at age 60 or after 30 years of service.[6] Early retirement is possible after 15 years of service if the resignation is approved by the employing ministry. If resignation occurs without approval, male workers do not receive any compensation, and female workers receive a lump sum payment equal to 2 percent of the last annual salary times the number of years of service.

The West Bank system, like the other two systems, provides very generous survivors' benefits. Beneficiaries include the widow; other dependents, such as parents; and qualifying children, as defined for the fixed allowances. Especially burdensome for these systems is the coverage for all unmarried and divorced daughters.

The Gaza Public Pension System

This system, set up by Egypt for civil servants in 1964, consists of an autonomously administered pension fund. Initially, the contributions were set at 22.5 percent of basic salary, of which employees paid 10 percent and the government 12.5 percent. In 1991, the contribution base was broadened to include professional allowances. The employees' contribution comprises a 1 percent contribution to the martyr's insurance and 9 percent for old age pensioners. As for the West Bank system, benefits and contributions are weakly linked.

Contrary to the West Bank system, this scheme is centrally administered by one agency, the IGPC. Currently the IGPC collects on a monthly basis NIS 8 million in contributions from 24,000 workers, and pays NIS 6 million to 5,000 retirees. Since Israel transferred the administration of the Gaza pension system to the PA in 1994, a reserve fund of $20 million has been accumulated. This fund is invested in dollar-denominated deposits in the local banking system. In addition, in 1996 Israel transferred to the PA the fund accumulated during the years of Israeli administration.[7] However, this fund is currently not under the control of the IGPC, and information on the accumulated fund and its investments is not available. As with the West Bank pension scheme, the PA is implicitly the ultimate underwriter of pension liabilities. In the Gaza system, however, the reserve fund is intended to fund in advance future pension liabilities.

As in the West Bank system, pension benefits comprise a fixed and a variable component. The fixed component provides the same allowances for wife and children, and a more generous personal allowance of NIS 300. In 1996, the accrual rate of the variable component was raised over the West Bank rate by half a percentage point to 2.5 percent of the last monthly wage per year of service. The maximum replacement rate was left at 70 percent of the last wage; however, at the age of retirement, workers with more than 28 years of service, which is the number of years needed to obtain the maximum replacement rate, now qualify to receive a lump sum equal to 1.8 months of pay for each extra year of service.

The retirement age in the Gaza pension scheme is 60 years, and a minimum of 15 years of contribution is required. Workers below age 60 can retire with a reduced pension if they have at least 20 years of contributions.[8] Workers resigning before 20 years of service are entitled to receive a lump sum payment equal to 1.8 months of salary for each year of service.

The Pension System for the Police Force

After the creation of the PA in 1994, the police force was covered by the existing pension scheme

[5]Qualifying children are sons younger than 18 years of age, or students younger than 26. All unmarried and divorced daughters qualify.

[6]The statutory age of retirement is 60 years; however, the government cannot deny retirement applications once the worker has made a minimum number of contributions (30 years), regardless of the applicant's age.

[7]At the end of July 1997, total funds accumulated in the Gaza pension system are reported to have amounted to about $180 million (Hamed and Al-Botmeh, 1997).

[8]Pension benefits for workers opting for early retirement are reduced according to the worker's age as follows: 5 percent for workers age 56–58, 10 percent for workers age 51–55, 15 percent for workers age 46–50, and 20 percent for workers younger than 46 years old.

for members of the PLO. In 1996, the authorities decided to create a pension scheme to cover the police. Since then, the police forces have been covered by the system envisaged in a draft law still to be approved by the PLC. The law models the police pension system after the pension system for civil servants in the Gaza Strip. The contribution rates were set as in the Gaza system: 10 percent for the employee and 12.5 percent for the employer. However, a narrower contribution base was established, including only the basic wage, while benefits were set in relation to the total wage.[9] The draft law envisages the creation of a pension fund, separate from the Gaza fund, to deposit these contributions and designates the police department to administer the fund. Despite the fact that contributions are being deducted from the wages of the police forces, the pension fund has not yet been created because the Ministry of Finance has not transferred to the police department the deducted contributions. Since July 1994, about $53 million in contributions had not been transferred to the police department, of which about $23 million corresponds to employees' contributions that have been deducted from their salaries.

Pension benefits are linked to the last wage including COLA, independent of the number of years of contribution. Pension benefits comprise allowances for spouses and each child of JD 10 and JD 3 (NIS 57 and NIS 17 at the current exchange rate), respectively; and a variable component equivalent to 120 percent of the last basic wage. The latter consists of a basic monthly pension equivalent to 50 percent of the last basic wage and 50 percent of the COLA (70 percent of wage).

The retirement age varies from 45 to 62, depending on the officer's rank.[10] A minimum of 15 years of service is required to qualify for pension benefits.[11] Retirement after the minimum years of service, but before the rank retirement age, results in the loss of the COLA component. Police officers leaving the force before the minimum years of contribution are entitled to receive a lump sum payment related to the number of years of service, up to 60 months of basic salary.[12]

Pension Schemes for Private Workers

The pension systems for civil servants and the police force are the only centrally organized pension schemes in the West Bank and Gaza. The working population at large still relies on informal old age insurance arrangements, mainly family based. However, a number of formal arrangements in the private sector have developed over the years. These arrangements, which function as provident funds, are usually available for employees at universities, NGOs, and UNWRA. For example, each university has a scheme for its staff in which employees and the university contribute to a common fund. At 65 years, the retirement age, employees can claim a lump sum payment proportional to their years of service. In the event of separation before age 65, the employee receives only the contributions paid.

Palestinian workers with permits in Israel are covered by Israeli social security arrangements, which include the National Insurance and the Histadrut-negotiated collective bargaining agreements.[13] In the case of the National Insurance, a contribution rate of 6 percent of wage earnings gives Israeli workers access to several social insurance benefits ranging from old age insurance to maternity leave. However, Palestinian workers are entitled to claim only two of these benefits, which they can choose.

In the case of the Histadrut-negotiated agreement, contribution rates and pension benefits are differentiated by industry. In this scheme, Palestinian workers and their Israeli counterparts accrue the same retirement benefits. At age of retirement, workers can opt between receiving a pension or a lump sum payment. The latter has been the preferred option by Palestinian workers.

Since September 1994, in accordance with the Economic Protocol, contributions to the Histadrut-

[9]In addition to the basic salary, policemen receive a cost-of-living allowance (COLA) equivalent to 140 percent of the basic salary.

[10]Retirement ages for police officers are as follows: 45 years for soldier-captain, 48 for major, 50 for lieutenant colonel, 55 for colonel, 60 for brigadier general, and 62 for major general.

[11]For pension purposes, policemen receive credit for years of service in the PLO and PLA.

[12]The lump sum payment for early retirement is calculated as follows: one month for each of the first five years of service, two months for each of the next five years, and three months for each additional year in excess of ten years.

[13]Histadrut is the Israeli Trade Union Federation, to which Palestinian workers in Israel do not belong but are required to contribute a 0.7 percent of wage earnings membership fee.

negotiated system by Palestinian workers have been deposited into a bank account set up by the Israeli government with an initial deposit of NIS 220 million, corresponding to past contributions made by Palestinian workers.[14] The bank account earns a real interest rate of 4.2 percent. Under Article III of the Economic Protocol, the funds in this account are to be transferred to the PA once certain conditions are met, including establishment of a "relevant pension institution."

Main Problems with Existing Old Age Insurance Arrangements

Existing old age insurance arrangements in the West Bank and Gaza provide limited and inadequate coverage to the working population at large. Palestinian workers rely on private savings and informal family-based arrangements to provide for income during their old age. Family-based arrangements have been sustainable as a consequence of the high rate of population growth, which has resulted in a large number of children sharing the burden of supporting their elder parents. However, at one point in the future, a demographic transition in the Palestinian population, similar to the one experienced in other middle-income countries, is expected to occur. Declining fertility rates and improved access to health care will lower the population growth rate and increase the average age of the population.[15] As a result, fewer workers in families will have to support a larger number of retired relatives and for longer periods of time. The burden on children will increase and family-based old age security arrangements may prove unsustainable. Other countries faced with a similar problem have resorted to the development of broad coverage social security arrangements. Although, this is not an imminent problem in the West Bank and Gaza, given the demographic characteristics of the population, an early solution to the problem is likely to be less costly than postponing action.

In the case of public employees, statutory benefits in the existing pension schemes provide an adequate level of income for retirees. However, current levels of contribution in these schemes are insufficient to ensure their financial viability over the medium term. The system for civil servants in the West Bank is already running an operational budget deficit, and the scheme for the police is expected to start running operational deficits after 2005. The government, in its capacity as final underwriter of pension liabilities, is obliged to contribute its own resources to close any financial gap in the pension systems. In the absence of pension reform, resources to support the public pension systems will necessarily come from increased taxes, lower expenditure (including for social programs), or most likely from a combination of both. Alternatively, the systems would have to default on their promises to workers by scaling down pension benefits, including increasing the retirement age.

The pension scheme for public servants in the Gaza Strip is in better financial condition than the other two schemes administered by the PA, due to both the existence of a reserve fund and the higher level of contributions. Under reasonable assumptions regarding economic growth, demographics, and growth of public employment, the system is expected to run operational surpluses and further build up its reserves over the foreseeable future. However, the relatively good financial standing of the scheme may be jeopardized in principle by the accumulation of arrears by the PA in its employer contributions, by inappropriate investments, or by use of the reserve fund resources, especially since the fund is not under the control of the IGPC, and information on the accumulated fund and its investments is not available.

During the last five years, the PA has employed a significant number of Palestinian expatriates returning to the West Bank and Gaza. The PA recognizes past years of service in the PLO and the PLA for pension benefits qualification purposes. This policy has resulted in a significant increase in the implicit liabilities of the existing public pension schemes. For transparency purposes and to facilitate the financial management of the pension systems, it would be desirable to finance these benefits out of general revenue, in the context of a clearly defined program for former PLO and PLA members.

[14]Before the bank account was set up, contributions by Palestinian workers were regularly transferred to the Israeli Ministry of Finance.

[15]It could be argued that the lack of formal social security arrangements is one of the causes of the high rate of growth of the population. Even if this were the case, it constitutes an additional reason to develop sound social security arrangements, since the current rate of growth of the Palestinian population poses a number of problems, including the burden it imposes on economic development.

Box A.3. The Design of Pension Systems[1]

The main objective of any social security system is the provision of adequate income during retirement to the working population. In principle, workers could provide for retirement income by saving and accumulating assets during their active working life, and using these assets and the return on them during their old age. The creation of centrally organized social security systems usually has been justified on two grounds: paternalism, and income redistribution objectives. Paternalistic arguments are based on the idea that workers are time inconsistent in their saving decisions, meaning that during their working life workers do not save enough to obtain an adequate level of income during retirement.[2] Thus, establishing a social security system with a compulsory saving component ensures that workers will receive a certain minimum level of income during their old age. Arguments related to income redistribution are based on the fact that some workers will not earn enough income during their working lifetime to allow them to save enough for their old age. The latter is the basis for establishing social security systems with a redistributive component, which usually take the form of means-tested pension benefits or a system with weak links between contributions and benefits.

The ideal social security system would cover a large portion of the working population, be actuarially sound, and provide a level of benefits that could be financed with a reasonable level of contributions. At the outset, it is necessary to decide the pace at which the coverage of the system is to be broadened. In many countries, public social security schemes initially provided coverage only to public employees, with certain groups of private workers organizing occupational pension plans. At some point, governments decided to broaden the coverage of the system, which was usually based on the existing system for public employees.

Providing adequate income to workers during their old age requires developing a social security system that is financially sound from the beginning. This in turn requires establishing an adequate contribution rate that will provide the desired level of retirement benefits. A common problem is that social security programs are, from the outset, actuarially unsound. A financially unsound system can create an untenable burden on public finances over the medium term as the system matures, and the authorities may be forced to reduce benefits, increase contributions, or both. In some extreme cases, governments have been forced to stop payments to retirees during certain periods.

The social security system should not constitute an excessive burden on employers and employees, be-

[1]For a comprehensive review of issues involved in the design of pension systems see World Bank (1994).

[2]It can be argued that workers are not necessarily time inconsistent in their saving decisions, but they know that the government cannot allow a large segment of the population (in this case the elderly) to live in extreme poverty creating a moral hazard problem. Although there may be some truth in this type of arguments, its applicability to low- and middle-income countries is questionable.

The few existing pension schemes for private sector workers do not provide workers with adequate coverage for their old age. Most of these systems provide a lump sum benefit at age of retirement; which, in the absence of well-developed financial and insurance markets, cannot be used by retirees to insure their income. Retirees have to invest directly in the financial market, assuming all financial and longevity risks. In the absence of developed financial and insurance markets, a centralized pension scheme can provide insurance for the risks mentioned above.

Needed Reforms to Existing Pension Systems

The existing social security arrangements for public employees need to be reformed if they are to form the base for an enlarged system covering also the private sector. The most important task at present is to make these systems actuarially viable to prevent a fiscal crisis. Special attention should be paid to the systems for civil servants in the West Bank and for the police. For a general discussion of the issues involved when designing pension systems see Box A.3.

Ideally, the West Bank and the Gaza schemes should be merged into a unified system that eventually would form the basis of a broader social security system covering also private sector workers. This would require aligning contributions and benefits in both systems. Although the financial situation of the Gaza system is still sustainable, there is little room for lowering contributions or increasing benefits, whereas the West Bank system is in such precarious financial condition that major changes are necessary. The first step should be to close the system to new entrants by incorporating all new cause it can have a negative impact on formal labor employment and on the economy's competitiveness vis-à-vis its trading partners. Because of its large scale relative to the economy, broad coverage social security systems have an impact on different aggregate economic variables, including national savings and capital accumulation. Therefore, it is important that the system be financed in the least distortionary possible way. The impact on national savings is minimized by designing a system that does not discourage private savings and that works by the accumulation of a reserve fund during the years the system runs surpluses. The government must resist the temptation of financing cheaply its budget deficits with the surpluses of the social security system.

In addition, the government must decide on the extent of the system's role in income distribution, if any. Alternatively, the government could decide to establish a separate welfare agency financed out of general revenue to provide income to the poor segments of the population, including low-income workers and the elderly.

Independence of the social security management from the political process is a highly desirable characteristic, especially during the early days of the system when significant operational surpluses are generated and a reserve fund needs to be accumulated. At this stage, politicians are usually tempted to grant generous benefits to retirees, the costs of which are not evident at the time, but which would compromise the financial viability of the system in the future. In addition, reserves of the social security funds must be invested in market instruments according to clearly specified regulations, and the administrators of the reserves need to be free of political pressures in their investment decisions.

In terms of practical implementation, the authorities must decide on the design of the social security system. First and foremost, the authorities need to decide what is the desired level of coverage that the system will provide, bearing in mind that an appropriate contribution rate and base must be established. Second, it must be decided if the system will operate on a defined contribution or a defined benefit basis. In the former case, retirees assume the risks of fluctuations in economic activity, while in the latter workers bear that risk. Third, the level of funding of the system must be determined.[3] If the system is designed to accumulate financial reserves to back future liabilities, the authorities need to establish clear investment regulations for the fund administrator. These regulations should seek to establish a balance in the investments to maximize returns without incurring excessive risks. Finally, the government needs to decide on whether it will be directly involved in the administration of the pension system or if the administration will be delegated to the private sector.[4]

[3]Hemming (1998) presents a good review of the arguments related to the appropriate degree of funding.

[4]Heller (1998) presents the case for having a well-formulated, public defined benefit pension scheme as the main source of old age support.

civil servants into the Gaza system. The contribution rate also needs to be increased to a level compatible with the benefits provided by the system. This change in the system might be resisted by participating employees; however, the authorities need to make clear that the system is not sustainable with its current structure and that, unless changes are implemented now, it would be necessary to scale down benefits significantly in a few years.

It would be desirable for the unified system for civil servants to be designed similarly to the Gaza system, especially regarding the accumulation of a reserve fund with the surpluses generated by the system during its early stages. If the above-noted amount of $160 million transferred from Israel were pooled with the $20 million reserve fund currently managed by the IGPC, the unified system would have a solid financial base to start operations. In this regard, it is extremely important to issue investment regulations for the pension fund in order to prevent excessive risk taking by the administrators. Alternatively, the authorities could delegate the administration of the pension fund to private financial institutions under clearly defined investment parameters.

In the case of the police fund, the excessively generous benefits need to be scaled down and the contribution base broadened to include also the COLA. The extent of the reduction in benefits is debatable. Arguments can be made to support a generous retirement system for certain occupations, including the police, but what is important is that the system be transparently financed, with its cost to the authorities explicit in the fiscal accounts. In this regard, once a desirable level of benefits is decided, an appropriate contribution rate must be set, and the fiscal authority must start making its corresponding contributions to the system. If these contributions prove unaffordable to the fiscal authority, the level of benefits will have to be revised downward.

With only a few retirees at the moment in the pension scheme for the police, it generates significant operating surpluses, which should be adequately invested to advance fund future pension liabilities. Although the system for the police will be separate from the unified pension system for civil servants, the administrators of both systems should consider merging the administration of their reserve funds.

Finally, a reform of the existing pension schemes should separate the provision of pensions to public employees from the transfer of payments to other groups, including to expatriates who formerly served in the PLO and the PLA. While it is legitimate to undertake this type of transfers to certain groups to compensate for past services, as is the case with war veterans, these transfers should be financed out of general revenue and the cost borne by society at large and not only by the participants in the pension system.

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