Attitude and Behavior Relative to Long-term Saving and Protection: A Challenging Policy Priority

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Actuary
“Education for Retirement”

“A baby born today will retire in 2075 (if not later). We are supposed to educate our children for a future that we have no clue of.

So, since 2015 may be clear (to some of us at least), should we be content with educating people who are 60? Or is it too late?

The obligation to look long term and adjust/adapt as we go along!!!”

i.e. muhanna
MYOPIA of the general public....

- Individuals can have difficulties planning for the future and under-save when young.
- Orientation towards short-term consumption needs
- Cultural stigma associated with sickness, accidents and death
- Religious barriers
- Traditional protection systems still in place in developing societies (family, community....)
- Women are still not educated enough to take the matter into hand for the sake of their family
- Health care is believed to be the sole responsibility of the government
Component of successful public pension/saving/risk awareness campaigns
Communication topics

• We are in this together...
• Importance of social protection
• Future consequences on all generation
• Stakes
• Educating politicians...
• Why it is critical to improve coverage and funding...
• Advantages of being insured
• Risks on non compliance
Channels and appropriate vehicles

• Leaflets
• Booklets
• Telephone
• Television
• Radio
• Posters
• Comics
• Mailing
• Presence on forums or exhibitions
• Organization of special days
Target audiences

- General public
- Workers
- Employers
- Beneficiaries
- Non-insured
- For beneficiaries
- On the street
- In outlets
- At the workplace
It is not enough to be financially educated to be financially protected...

- In our opinion and that of many prominent specialists around the world, and particularly in light of the worldwide financial crisis, systems could become more suitable if combined with mechanisms that will give certain guarantees to the insured employees.
- Volatility of investment return
- Unpredictability
- Severity of the damages
- Minimum Guarantees are still required
REGULATIONS

Most REGULATIONS in the region are CONCERNED in safe-guarding policyholder’s interest through minimizing potential default of an insurance company!!!

Almost no Regulator in the region has looked thoroughly into the methodology used in soliciting insurance business & advising clients of insurance coverage.
At the time of CLAIM, the insurance company:

• Is still operating;
• Is solvent;
• Is able (hopefully willing) to meet it is obligations

The big QUESTION:

• Is the Insurance COVERAGE adequate?
• Did the client receive BEST ADVICE at the time the insurance was DESIGNED & purchased & up to the time of the claim?
INDIVIDUAL RISKS- Severity

• Permanent Total Disability
• Death
• Long Term Disability
• Retirement
• Unemployment
• Temporary Total Disability
• Permanent partial Disability
• Healthcare
• Schooling

The Muhanna Foundation

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### INDIVIDUAL PARAMETERS

<table>
<thead>
<tr>
<th>Principal</th>
<th>Assumption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age</td>
<td>25 years</td>
</tr>
<tr>
<td><strong>Annual Income</strong></td>
<td>$15,000</td>
</tr>
<tr>
<td>Income Increase (before age 35)</td>
<td>5.5%</td>
</tr>
<tr>
<td>Income Increase (Long-term)</td>
<td>4.0%</td>
</tr>
<tr>
<td><strong>Annual Individual Expenses</strong></td>
<td>$12,000</td>
</tr>
<tr>
<td>Price Inflation</td>
<td>3.0%</td>
</tr>
<tr>
<td>Age at Marriage</td>
<td>30 years</td>
</tr>
<tr>
<td>Retirement Age</td>
<td>65 years</td>
</tr>
</tbody>
</table>
## INDIVIDUAL PARAMETERS

<table>
<thead>
<tr>
<th>Spouse</th>
<th>Assumption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age Difference of Spouse</td>
<td>-5 years</td>
</tr>
<tr>
<td><strong>Annual Income</strong></td>
<td>$12,000</td>
</tr>
<tr>
<td>Income Increase (before age 35)</td>
<td>5.5%</td>
</tr>
<tr>
<td>Income Increase (Long-term)</td>
<td>4.0%</td>
</tr>
<tr>
<td>Retirement Age</td>
<td>60 years</td>
</tr>
</tbody>
</table>
### INDIVIDUAL PARAMETERS

<table>
<thead>
<tr>
<th>Children</th>
<th>Assumption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Child 1 expected after</td>
<td>1 year</td>
</tr>
<tr>
<td>Child 2 expected after</td>
<td>6 year</td>
</tr>
</tbody>
</table>

#### School
- Average Tuition (1st year): $2,000
- Increase in Tuition: 5%
- Schooling Period: 15 years

#### University
- Average Tuition (1st year): $7,000
- Increase in Tuition: 5%
- Schooling Period: 4 years
## INDIVIDUAL PARAMETERS

<table>
<thead>
<tr>
<th>Family</th>
<th>Assumption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Expenses</td>
<td>$ 20,000</td>
</tr>
<tr>
<td>Price Inflation</td>
<td>3%</td>
</tr>
<tr>
<td>Return on the Investments</td>
<td>5%</td>
</tr>
<tr>
<td><strong>Mortgage Loan</strong></td>
<td>$ 180,000</td>
</tr>
<tr>
<td>Period</td>
<td>30 years</td>
</tr>
<tr>
<td>Interest</td>
<td>5%</td>
</tr>
<tr>
<td><strong>Pension Funding (% of Income)</strong></td>
<td>7.5%</td>
</tr>
<tr>
<td>Pension Level (% of last family exp.)</td>
<td>90%</td>
</tr>
<tr>
<td>Annual Increase in Pension</td>
<td>2%</td>
</tr>
<tr>
<td>Widow’s Pension Level</td>
<td>80%</td>
</tr>
</tbody>
</table>
MD vs FD

1. MEDICAL DOCTOR
   1. Visited
   2. Diagnosed
   3. Prescribed (the MD signs)
   4. Followed Up (need)

2. FINANCIAL DOCTOR
   1. Solicited (sold not bought concept)
   2. Analysed (inshallah)
   3. Sold (the clients signs)
   4. After sales service (hopefully)
CONCLUSIONS

1. It is NECESSARY to regulate the insurance companies financially but it is not SUFFICIENT.

2. It is imperative to:
   1. Licence consultants
   2. Make the consultant personally responsible
   3. Make companies responsible
   4. Regulate the cost of Sale (Transparency / Disclosure)
   5. Establish a random review
   6. Allow complains
THANK YOU

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