

# Policy-in-practice case study: Maldives

## *Old-Age Basic Pension and Retirement Pension Schemes*



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**8.3%** of the population of the Maldives are aged over 60 years.

**18,139** older people per month, on average, received the Old-Age Basic Pension in 2020.

**1.03 billion** MVR was the total in Old-Age Basic Pension payouts in 2020.

In Maldives, people aged over 60 years constitute 8.3 per cent of its 400,000 population, and this proportion is set to rise. To provide income security for the growing number of older people, the Government of Maldives introduced two pension schemes in 2010 after the Pension Act was passed in 2009: the Maldives Old-Age Basic Pension and the Maldives Retirement Pension Scheme.

The Pension Administration Office administers the Basic Pension and is responsible for investing contributions in the Retirement Pension Scheme. Together, these two schemes offer potential good practice as national ageing policy interventions. This well-integrated pension system, through a combination of different schemes, components and programmes, provides universal pension coverage and at least basic income security in older age. Before these schemes existed, only public sector employees had access to income security in old age.

The Old-Age Basic Pension is a non-contributory and universal pension scheme available to all citizens aged 65 years and over, and whose other pension income does not exceed twice the amount of the basic pension. The basic pension is set at 2,300 Maldivian rufiyaa (MVR) (US\$150) per month, which is reviewed periodically. This sits alongside a social insurance scheme, which covers unemployment benefits, universal health insurance and other social insurance such as disability benefits.

The Old-Age Basic Pension is designed to complement the Retirement Pension, which is a contributory scheme that is mandatory for all public and formal sector workers, but voluntary for all informal sector workers; it is also available to migrant workers. The Retirement Pension is funded by a total contribution of 14 per cent of salary split evenly between employers and employees. Workers can begin claiming monthly pension payments as early as 55 years of age, provided they have sufficient funds in their account to provide a monthly annuity that is at least twice the amount of the Basic Pension. The Retirement Pension reaches all employees in the public sector and more than 70 per cent of those in the private sector.



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The schemes are supported by the country's first ever National Elderly Policy, launched in 2018 by the Ministry of Gender, Family and Social Services, and the subsequent 2019 National Elderly Action Plan. The National Elderly Policy is guided by the basic principles enshrined in multiple frameworks, including the Constitution of Maldives, the United Nations (UN) Principles for Older Persons (1991), the World Health Organization's (WHO) Global Strategy and Plan of Action on Ageing and Health (2016–2020), and the targets enshrined in the UN Sustainable Development Goals (SDGs). The policy has four main areas of focus: care and protection; independence and participation; health and wellbeing; and preparation for old age.

The National Elderly Policy encourages working adults and those in old age to join these two pension schemes to support their economic security in later life. Although the schemes help to protect older people from poverty, they impact significantly on the national budget of Maldives.

Investments such as the Basic Pension and Retirement Pension form an essential part of the Maldives' social protection floor,<sup>1</sup> which comprises nationally defined sets of basic social security guarantees. These are designed to ensure that, as a minimum, over the life-cycle, everyone in need will have access to essential healthcare and to basic income security.

The government has adopted a minimum social protection floor (see Figure 1 below) and established the National Social Protection Agency to coordinate and implement social protection programming.

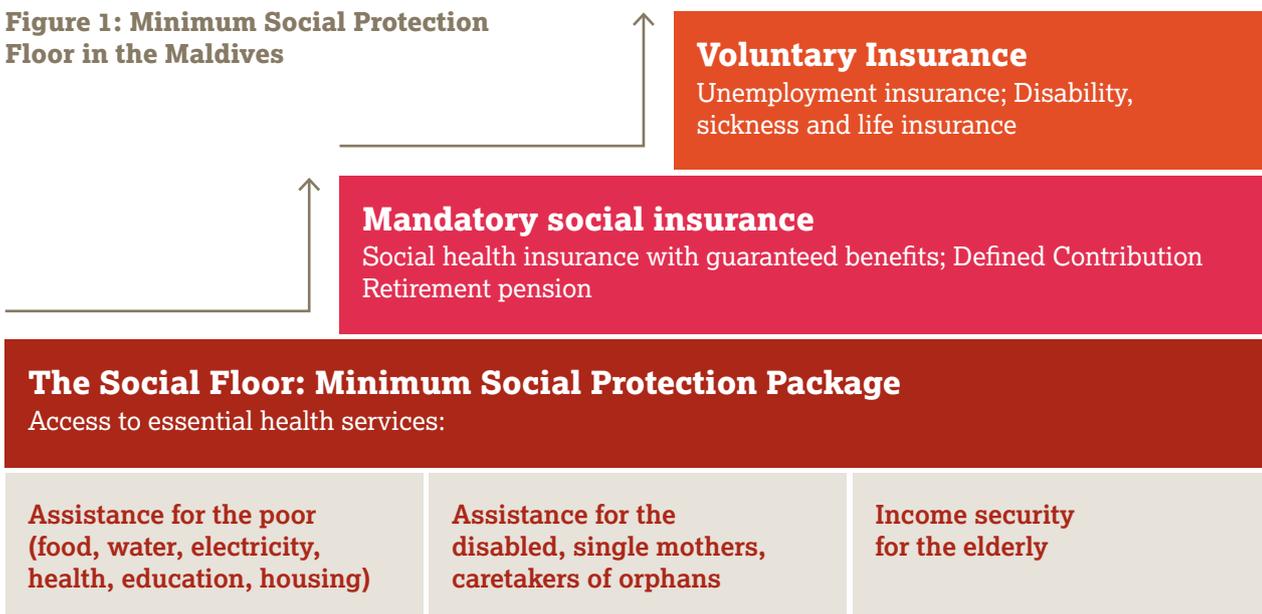
As well as the Basic Pension and Retirement Pension, nine government institutions have set up their own pension schemes for employees following the defined benefits model. Furthermore, in 2014, the President introduced the Senior Citizen Allowance which is available to all Maldivians when they reach the age of 65. This tops up the Basic Pension to MVR 5,000 per month. According to available data, as of April 2016, there were 16,401 Maldivians receiving the Basic Pension and 16,884 receiving the Senior Citizen Allowance. Coverage is universal, which means that all older people are covered by these schemes, and no one is left behind.

As well as the pension schemes, a universal health insurance scheme called Aasandha was launched in 2012, which includes improving healthcare for older people as one of its aims. This government scheme has five key objectives:

1. To enhance affordability of healthcare and to promote access;
2. To mitigate healthcare-related financial risk for households and protect citizens from healthcare-related impoverishment;
3. To contribute to improving the quality and reliability of healthcare;
4. To improve the efficiency of health insurance provision via good governance and effective use of fiscal resources;
5. To ensure long-term sustainability of health insurance provision through effective design of the health insurance system, cost containment measures and reform of payment mechanisms.

Finally, ratification of the Maldives Pension Act and the Disability Act (2010) provide legal protection for pensioners and people with disabilities.

**Figure 1: Minimum Social Protection Floor in the Maldives**





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## Elements of the life-cycle approach integrated into the policy intervention

### Recognising diversity in older age

The Basic Pension and Retirement Pension cover both the formal and informal sectors, which means they accommodate the needs and choices of many older people. These two schemes cover an age range from 16 years (the starting age of employment) until death. Furthermore, the schemes do not discriminate by sex.

### Promoting healthy ageing

Social pensions improve older people's access to healthcare by enabling them to afford out-of-pocket (OOP) costs for health services and accessing treatment. The evidence also shows that social pensions can have a significant impact on enhancing older people's self-esteem and dignity, as having a source of income to call their own can give older people a renewed sense of autonomy and agency, and allow them to contribute to family and community life. The National Transfer Accounts analysis carried out in Maldives (which takes account of both public and private expenditure on health) finds that public and private expenditure on health consumption is very high (despite the existence of the universal health insurance scheme), especially in older age. It is therefore anticipated that these pension schemes can make a substantial contribution to promoting healthy ageing in Maldives. Most importantly, the government is reviving the health system with a greater focus on primary health care to promote healthy lifestyles across all age groups, in the expectation that this will have a positive impact on healthy ageing.

## Drivers in the enabling environment motivating policy implementation

### Macro-level intervention

The financial sustainability of pension schemes was a key driver of the Maldives Pension Act in 2009, and the government also recognised that a universal non-contributory pension could be a good policy instrument to address poverty and income inequality. Implementing the pensions has, at a macro level, generated strong policy dialogue and collaboration between multiple stakeholders in relation to social protection, health promotion, and a human rights-based approach across all age groups. Analyses of the country's National Transfer Accounts have also been used as an advocacy tool to promote investment in healthy ageing, social protection, and long-term care needs. The two pension schemes align with the International Labour Organization's (ILO) Multi-Pillar pension model, which presents comprehensive and well-developed pension systems as a set of foundations (including universality, non-discrimination, and sustainability) that complement and build on each other.

Another driver is the growing acceptance that social security is a human right and is understood as the need to guarantee universal protection that leaves no one behind.

## Key areas addressed

### Retirement Pension Scheme

The Pension Act of 2009 stipulates that employees between 16 and 65 years of age and their employers are required to participate in the scheme and pay contributions. All administrative arrangements regarding employee enrolment, submitting pension statements and paying contributions are handled by the employer. Foreign nationals and self-employed people working in the country also can voluntarily participate in the Retirement Pension Scheme. The Act does not bar an employer from paying the total of 14 per cent of the pensionable wage without obtaining contributions from the employee. Unlike the mandatory monthly contributions of employees, there is no fixed contribution requirement for self-employed people, and they are free to decide the amount and frequency of payments. However, the annual contributions amount should not exceed the annual mandatory contribution amount of the highest-paid state employee. Pensionable wage is determined by the Board of Pension Office. Under the scheme, a Retirement Savings Account is created for each scheme member. Pension contributions and returns on their investment are credited to this account, to enable members' savings to be used in older age. However, experience from other some other countries (eg Malaysia) suggests having individual accounts can be problematic as they do not allow for solidarity and risk sharing within the system and often result in very low or inadequate pensions.



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### Old-Age Basic Pension

This covers every citizen in the country who has reached 65 years of age and who receives no other pension. As at March 2019, the Basic Pension amount was MVR 5,000 per month. For older people receiving the Retirement Pension Scheme and other state-funded pension schemes, the following deductions will be made from their Basic Pension amount:

- 50 per cent of the amount received from the Retirement Pension Scheme;
- 100 per cent of any other pension amount.

Every Maldivian citizen who meets the following conditions is eligible for the Basic Pension:

- They must be a Maldivian citizen residing in Maldives.
- They must be aged 65 years or older.
- They **should not** be in the full-time care of the state or incarcerated upon conviction (this means when anyone is in state care, they do not receive the Basic Pension as it is stopped for the period of incarceration or the period under state care).
- They **should not** receive more than twice the amount of the Basic Pension as pension from the Retirement Pension Scheme.
- They **should not** receive more than MVR 5,000 as pension from any other state-funded pension scheme.

The Pension Administration Office helps those eligible to apply for the relevant pension scheme.

### Rationale for policy intervention

Prior to 2009, pensions in the Maldives consisted of a long service allowance for public service employees only, calculated at 50 per cent of basic salary after 20 years and 100 per cent of salary after 40 years. A retirement age of 65 was specified in this regard. There was also a voluntary Government Provident Fund, to which employees and the government each contributed 5 per cent of the employee's basic wage each month. Withdrawals were allowed from these accounts for education of children, house construction and repairs, healthcare, and obligatory hajj.

This scheme, based on 20 and 40 years of uninterrupted government service, had a strong gender bias towards men, as it is common for women to take breaks from employment to care for children and other family members, and provide essential but unpaid work that contributes to their family and to society. Many social protection systems fail to acknowledge these contributions and to provide an inclusive pension scheme. Pensions have transformative impacts on old age poverty and should be regarded as a core social policy in any country, including Maldives.



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Implementation of the current Retirement Pension Scheme came about because of problems with the way the former system was designed:

- Coverage was limited to civil servants; there was no social security provision for the poor.
- It was non-contributory and unfunded, thus financially unsustainable.
- Every civil servant with 20 years of service was eligible to get the minimum pension of 50 per cent of the most recent salary, while those with 40 years of service would receive 100 per cent as replacement, with neither indexed to inflation.
- Recipients could get a 50 per cent pension monthly while in active service and receiving a salary.
- There was no retirement age.
- There was no job mobility.

A universal non-contributory pension – financed through general taxation – is one of the simplest yet most effective mechanisms to ensure that women and men benefit equally. It can also be a good policy instrument to address poverty and income inequality. Furthermore, it adopts a rights-based approach by providing income security for every older person. Most importantly, the Old-Age Basic Pension and the Retirement Pension Scheme can be viewed as a system that adopts a life-cycle approach to population ageing because they cover

an age range from 16 years until death. However, as mentioned earlier, the life-cycle approach considered here refers to different programmes/schemes offering protection across the different stages of the life-cycle, for different age groups.

## Implementation strategy for the policy intervention

The Government of Maldives initiated a policy debate on pension system reform in late 2006, culminating in the Pension Act of 2009. The Senior Citizen Allowance was introduced under a Presidential decree. Both the Old-Age Basic Pension and the Retirement Pension Scheme are managed by the Pension Administration Office, an office established under the Pension Act, which operates autonomously with its own Chief Executive Officer and Board of Directors, both appointed by the President (see Figure 2, next page →). Its mandate is to:

- administer the Retirement Pension Scheme;
- pay benefits under the Basic Pension, Senior Citizen Allowance, and institution-specific retirement schemes;
- manage the Retirement Pension Scheme pension funds;
- establish standards, rules and guidelines related to the schemes;
- create public awareness and educate scheme participants.

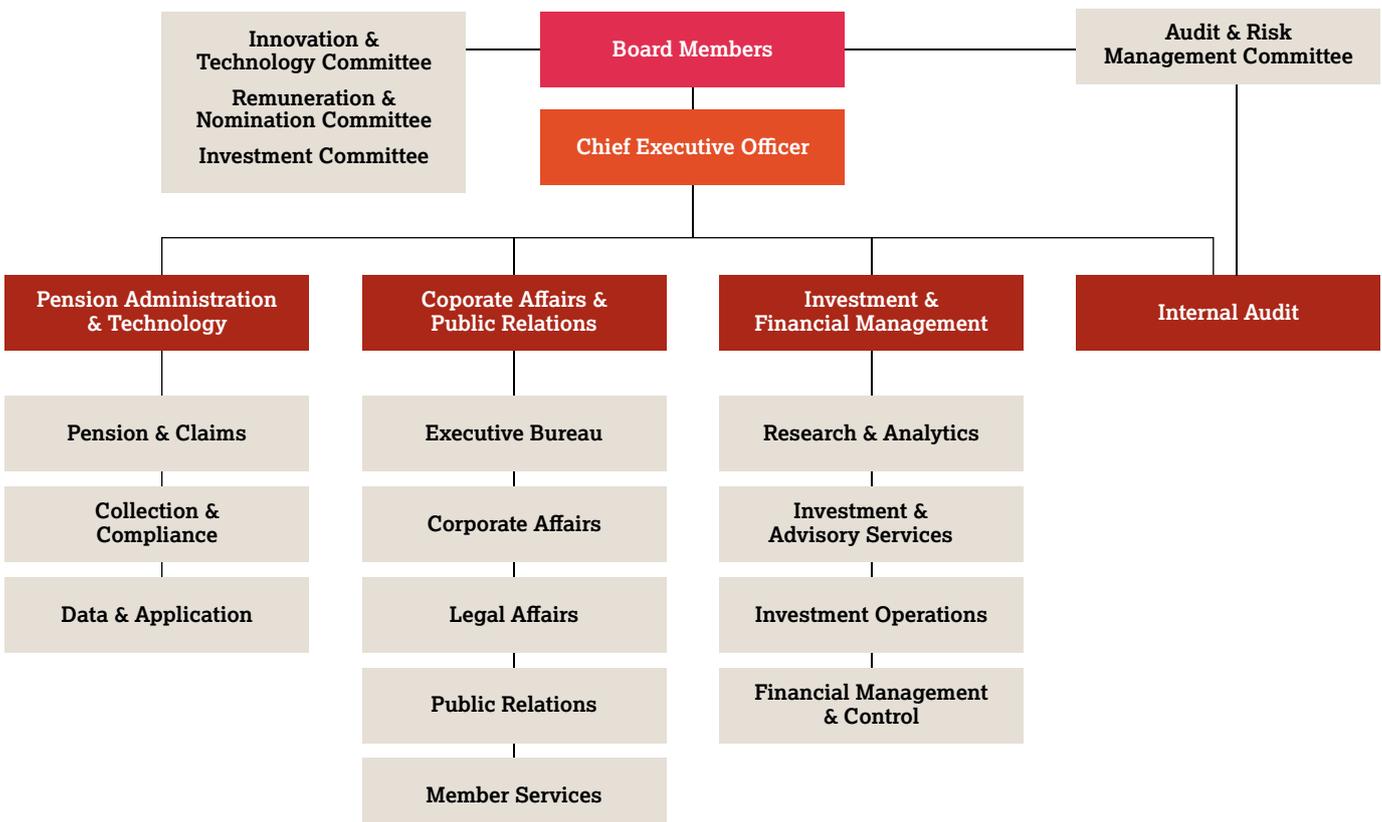
For the Basic Pension, Senior Citizen Allowance and institution-specific retirement schemes, the Pension Administration Office receives funds monthly from the Ministry of Finance to pay out benefits.

Within the Pension Administration Office, the Public Relations department conducts campaigns through various media to raise awareness about the pension system, working on stakeholder relations, organising events, and updating the Pension Administration Office website and social media platforms. The Member Services department communicates with individuals seeking information through the call centre and the front office, entering documents and forms into the cloud and *Koshaaru* system,<sup>2</sup> and issuing Retirement Savings Account statements to members. The Pension Administration Office can implement new strategic initiatives and strengthen existing services to enhance member benefits and ensure social security.

Major initiatives underway during 2021 included: improving members' returns through prudent diversification options; the in-house development team developing processes linked to the *Koshaaru* system and integrating this with the Office's information management system; establishing retirement annuities; and rolling out a scheme on disability and critical illness.

As mentioned earlier, the Retirement Pension Scheme is open to people working in the informal as well as the formal sector. However, the Pension Administration Office has not found it easy to encourage people in the informal sector to join the scheme, and has conducted focus group discussions to improve uptake.

**Figure 2: Organisational structure of the Maldives Pension Administration Office**



Source: Maldives Pension Administration Office, *Annual report 2020*, <https://pension.gov.mv/storage/1065/vT8Ldm4xLcYoJHz4Ht6QG0ymHwAqvDubG6YjbbFb.pdf>

## Progress of the intervention

### The Maldives Retirement Pension Scheme

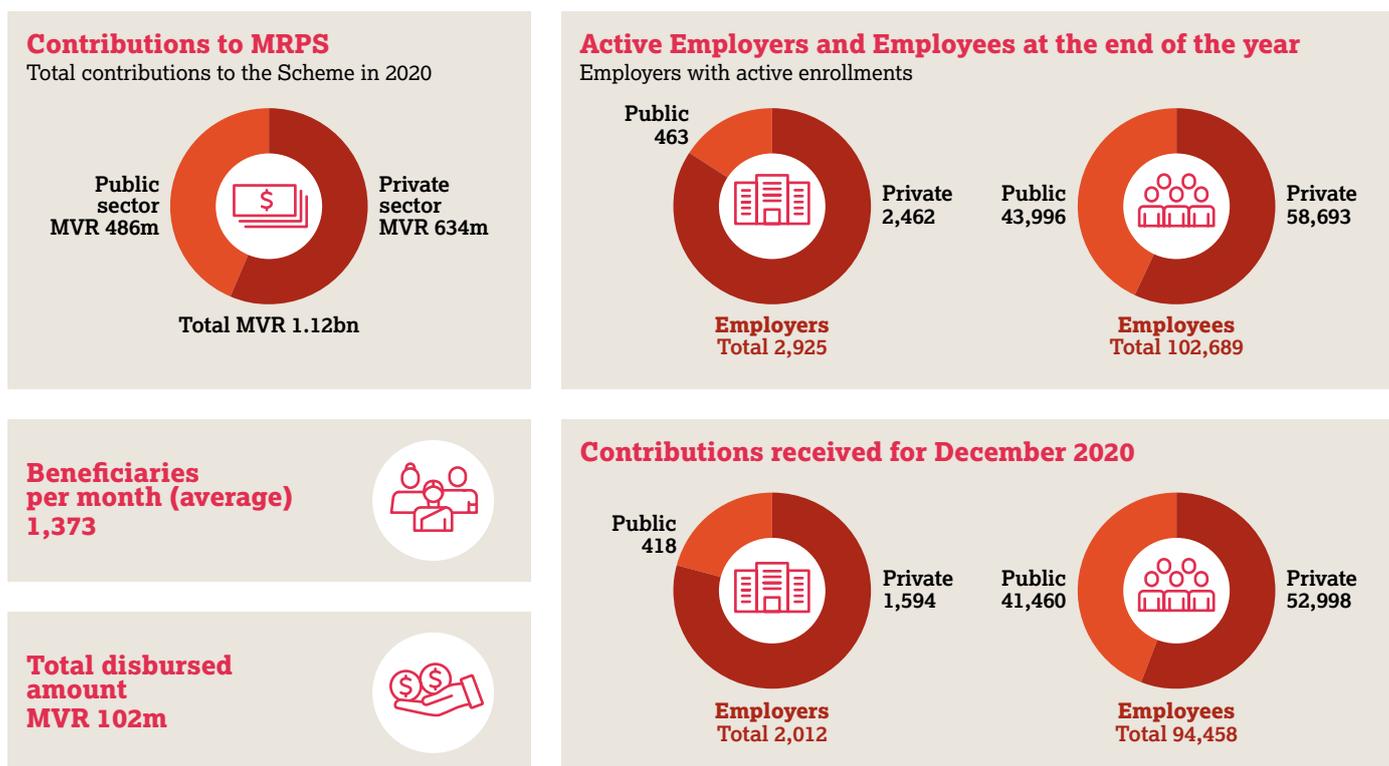
Figure 3, below, sets out details of contributions and enrolment of employees and employers in the Retirement Pension Scheme as of 31 December 2020.

### Maldives Old-Age Basic Pension Scheme

The total amounts paid and total numbers of beneficiaries (as of 2020) are set out in Table 1, below.

Both pension systems have been upgraded to be more user-friendly by introducing a mobile application (app). This has made it easier to join the system, make contributions and receive benefits.

**Figure 3: Details of contributions, enrolment of employees and employers as of 31 December 2020**



Note: State Owned Enterprises included under Private sector. Source: Maldives Pension Administration Office, Annual report 2020, [www.pension.gov.mv/storage/1065/vT8Ldm4xLcYoJHz4Ht6QG0ymHwAqvDubG6YjbbFb.pdf](http://www.pension.gov.mv/storage/1065/vT8Ldm4xLcYoJHz4Ht6QG0ymHwAqvDubG6YjbbFb.pdf)

**Table 1: Monthly payouts of Old-Age Basic Pension Scheme, 2020 (MVR)**

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
<b>Beneficiaries</b>	17,828	17,946	18,036	18,069	18,071	18,115	18,171	18,225	18,259	18,301	18,309	18,341
<b>Payouts</b>	84.2m	85.0m	85.5m	85.4m	85.4m	85.8m	86.2m	86.4m	87.6m	87.0m	86.8m	87.2m

**18,139 beneficiaries per month (average)**      **1.03 billion total disbursed amount (MVR)**

Source: Maldives Pension Administration Office, Annual report 2020, [www.pension.gov.mv/storage/1065/vT8Ldm4xLcYoJHz4Ht6QG0ymHwAqvDubG6YjbbFb.pdf](http://www.pension.gov.mv/storage/1065/vT8Ldm4xLcYoJHz4Ht6QG0ymHwAqvDubG6YjbbFb.pdf)

## Progress with intervention to-date

While the effects of the Old-Age Basic Pension and Retirement Pension schemes on income security and poverty reduction in older age are not assessed by this case study, they have made good progress with their implementation since their launch in 2011 (see Table 2 below). The Basic Pension payments have grown from MVR 360 million in 2011 to MVR 904 million in 2019.

In that same year, 17,496 beneficiaries were recorded as being part of the scheme. Retirement Pension Scheme payments have increased from MVR 7.8 million in 2011 to 90.9 million in 2019, while the number of beneficiaries has increased from 177 in 2011 to 1,258 by 2019.

**Table 2: Pension scheme trends**

	2011	2012	2013	2014	2015	2016	2017 <sup>3</sup>	2018	2019
<b>Basic Pension</b>									
Number of beneficiaries (end year)	15,035	15,268	15,447	15,767	16,091	16,321	16,533	16,835	17,496
Pension paid out (in million MVR)	360	415	421	432	427	432	435	443	904
<b>Retirement Pension</b>									
Number of beneficiaries (end year)	177	293	425	646	895	1,008	1,105	1,259	1,258
Pension paid out (in million MVR)	7.8	21.5	25.9	36.0	48.8	49.2	54.6	58.6	90.9
<b>Other Pension<sup>1</sup></b>									
Number of beneficiaries (end year)	7,219	7,314	7,293	7,284	7,264	7,255	7,218	7,200	7,159
Pension paid out (in million MVR)	167	241	244	260	260	265	271	281	298
<b>Senior Citizen Allowance<sup>2</sup></b>									
Number of beneficiaries (end year)	–	–	–	16,198	16,561	16,779	17,007	17,310	17,676
Pension paid out (in million MVR)	–	–	–	471	525	533	539	551	94
<b>Retirement Pension Scheme</b>									
Contributions (in million MVR)	583	702	743	798	892	937	1,023	1,101	1,184
Employers (end year)	1,399	1,431	1,501	1,543	1,762	1,709	1,892	2,055	2,164
Employees (end year)	59,002	68,805	69,461	74,849	81,922	79,729	88,716	95,087	100,225

1. Other pension includes pension to state employees with 20–40 years of service. Also includes various benefits paid by state.

2. Senior Citizen Allowance was introduced in February 2014. Those pensioners receiving less than 5,000 MVR is given the balance amount to reach 5,000 MVR under this scheme and discontinued in March 2019.

3. Data revised

Source: Statistical Pocketbook of Maldives, 2019 and Maldives Bureau of Statistics, Social protection and pensions, <http://statisticsmaldives.gov.mv/yearbook/2020/wp-content/uploads/sites/7/2020/12/Pension-and-Social-Protection.pdf>

## Conclusion

**The Old-Age Basic Pension and Retirement Pension Scheme offer significant potential to enhance the income security of older people in Maldives.**

The Pension Administration Office has done its best to employ modern technology when dealing with beneficiaries – even during the Covid-19 pandemic, beneficiaries received pensions without interruption. This universal non-contributory pension scheme provides a good policy instrument to help reduce poverty and income inequality by providing income security for every single older person. It does not differentiate but treats everyone equally when it comes to service delivery. Notably, these two schemes exhibit elements of a life-cycle approach to population ageing since they cover an age range from 16 years until death. In other words, part of the population is contributing to the pension while they are working (contributory pension scheme), while others who are not part of the contributory pension scheme but are eligible to receive benefits from the non-contributory scheme start receiving pension benefits monthly after reaching 65 years of age.

Table 2 (page 8) shows that these two pension schemes – as two examples of Maldives’ national ageing policy interventions – protect the entire population, target older people and ageing, do not discriminate by gender, embrace rights-based interventions, and adopt a life-cycle approach. It is important to recognise that social pensions play a key role in ensuring that women can access at least a basic pension and enjoy at least basic income security in older age.

The National Transfer Accounts analysis has shown that both public and private expenditure on health consumption is very high, especially in older age, and thus it is expected that the two pension schemes can assist to some extent in promoting healthy ageing. The analysis has clearly showed that even from age 45, health expenditure is greater than that of other ages. Therefore, the government and families must meet such health expenditures for older people, and thus it has a significant bearing on the government budget as well as family incomes. The government is revitalising the health system with a greater focus on primary health care to promote healthy lifestyles among the whole population, which is expected to have a positive impact on healthy ageing. However, this has some severe implications for fiscal sustainability albeit reduced, to some extent, because of its relatively small population. Although Maldives has not looked at population ageing aspects comprehensively, the government is preparing an Ageing Bill.

The overall Maldives pension system is based on the ILO Multi-Pillar pension model and aims to establish a social protection floor for older people, following the typical design of a social security pension system (that is, defined benefits and mandatory, financed through employer and employee contributions). Overall, this scheme recognises that social security is a human right and must guarantee universal protection that leaves no one behind. Further, it promotes gender equality because it adopts financing mechanisms, eligibility conditions and benefit conditions that offset gender inequalities originating in the labour market or arising from interruptions to women’s careers due to their reproductive roles and/or care responsibilities.





Ismael Mohamed-Sovile/Unsplash

## Endnotes

1. Social protection is defined as the set of policies and programmes designed to reduce poverty and vulnerability by promoting efficient labour markets, diminishing people's exposure to risks, and enhancing their capacity to protect themselves against hazards and interruption/loss of income.
2. A portal, named 'Koshaaru', was created by the Maldives Pension Administration Office to digitise pension services. Members of the retirement pension scheme, pensioners and employers may use the portal to access a large array of services. Members may also use it to access details of their accounts, change portfolios, check benefits, calculate and plan pensions.

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The views expressed in this publication are those of the authors, and do not necessarily represent the views of UNFPA, the United Nations or any of its affiliated organisations.

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