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COMMENTARY

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Morocco's Pension Reform Entails Different Social Policies

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In consultation with representatives of labour and business, the Moroccan government is studying alternative options for dealing with the financial imbalances in the kingdom's retirement schemes. The absence of any concrete measures could prevent retirement funds from meeting their financial obligations in the coming years. A study carried out by Morocco's High Planning Commission revealed that the gap between the pensions currently being disbursed and the contributions made by employees is likely to result in a deficit of 7.4 per cent of GDP by 2050 compared to a surplus of one per cent in 2005.

Morocco has three principal pension systems: one for civil servants, one for employees of state-owned enterprises, and one for the private sector workforce. These systems differ in their contribution rates and in the method used to calculate their benefits at retirement, resulting in inequality among employees depending on their economic sector. Another study undertaken at the government's request suggests that the financial reserves of the pension fund for civil servants will eventually become fully depleted; it will declare bankruptcy by 2021 if no reform is implemented.

The issue of pension reform surfaced in Morocco more than a decade ago. The debate led to the establishment in 2004 of a national committee, chaired by the head of the government, tasked with reforming the country's pension system. Since the establishment of this committee the issue of pension funds has been examined in depth, and a number of possible remedies have been proposed to ensure the sustainability of the system. However, no decisions have been made to implement reform proposals. The public in Morocco is closely following efforts by the incumbent Justice and Development Party–led government to tackle this tricky issue.

The problem of pension-system funding is usually linked to population aging, as has been the case in a number of developed countries where the working-age population has declined in proportion to the population of pensioners. This is not the case in Morocco; in the last three decades, the country saw significant growth of the population aged between fifteen and fifty-nine (the retirement age is sixty in Morocco). This group has grown from 50 per cent of the population to around 65 per cent, while the share of the population over sixty years old only increased from six per cent to eight per cent of the population.

Three main factors explain the current situation in Morocco.

First, no more than 45 per cent of the working-age population is actually employed. Women have low workforce participation rates, and unemployment is particularly high among young people.

Second, the current pension system covers barely one-third of the working population in Morocco, in comparison with 60 per cent in middle-income countries and 80 per cent in OECD member states. This is mainly a result of the spread of unregulated businesses that employ workers informally and the presence of a large segment of self-employed people who are excluded from access to existing pension schemes.

The third factor contributing to the pension system issue in Morocco is the existence of a fragmented system with a limited number of subscribers. This reduces the viability of a full-fledged pay-as-you-go pension system in Morocco. The number of pensioners among civil servants and employees in state-owned enterprises has seen a significant increase in recent years compared to the growth in flow of new employees. The latest figures indicate that the ratio of contributors to pensioners in the government is three to one, in comparison with double that number a decade ago. This ratio is expected to continue its decline, given the rapid aging of the population of civil servants.

Taken together, these factors

Will the government remain locked into in a narrow approach by fine-tuning the parameters of the current pension system, with all of its distortions and deficiencies? Or, will it show its ability to come up with alternative social policies that establish broad-based social protection and effectively acknowledge social and economic rights for all social categories, marking the beginning of a new inclusive social era?

To confirm the urgent need for a comprehensive, financially viable, socially acceptable, and politically feasible approach to addressing Morocco's pension system imbalances. This approach should promote the economic participation of women (which does not exceed 25 per cent), increase investments in order to provide more employment opportunities, expand the pension system's coverage, and ensure an adequate retirement income through a basic mandatory tax-funded system that is inclusive of all categories of society.

The basic pension system should be complemented by a mandatory pay-as-you-go system adapted to different economic sectors and professions and an optional scheme tailored to the needs and financial resources of each individual.

The exclusive reliance on making adjustments to the system's existing parameters that solely postpone the retirement age, increase contributions, and cut benefits by amending the way pension are calculated will be unpopular due to their impact on medium- and low-income categories. They are also likely to prove incapable of producing long-term financial sustainability in the pension system.

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