

# *Pension Reform: Securing Morocco's Elderly*

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## **In a nutshell**

- *Morocco has one of the lowest levels of pension benefits and health insurance in MENA. The elderly in Morocco, especially older women, represent a very vulnerable group.*
- *While Morocco has experimented with reforms of its pension system, these reforms were not effective, in part because of the demographic pressure arising from high life expectancy and/or declining birth rates.*
- *Today, Morocco needs to implement an integrated and long-term strategy for pension reform, characterized by a single pension scheme, which would reduce administrative costs, homogenize the calculation of pension rights for all workers and take into account all employee wages.*

In the Middle East and North Africa (MENA), large groups of the population are not covered by social security programs. Access to health, education and a pension are essential to the well-being of the individual and contributes to the reduction of poverty.

Moreover, many households face old-age poverty. Few are covered by pension schemes and most pension systems are unsustainable, accumulating very high pension liabilities due to high replacement rates (for civil servants) and very low contribution rates.

Morocco has one of the lowest levels of pension benefits and health insurance in MENA and populations are not able to afford the cost of access to healthcare and housing. With a social protection system covering a small proportion of the population and a pension system covering fewer than 20% of retirees, the elderly in Morocco, particularly older women, represent a very vulnerable population. Seniors, in most cases, do not enjoy a pension or healthcare coverage. In the absence of adequate social coverage

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and adequate financial resources, the elderly face the risk of poverty, disease and disability. While the elderly in Morocco have benefited from intergenerational solidarity thus far, societal changes are likely to reverse the traditions that gave the family and the children the main role in providing assistance to the elderly. In this context, pension reform is urgently needed. In Morocco, pension schemes have witnessed independent changes to reinforce their system, but these changes are not sufficient due to the demographic evolution (high life expectancy and/or declining birth rates).

In light of the aforementioned, the goal is to take an integrated and long-term view of pension reform and to implement it. In MENA, only Jordan and Lebanon have introduced profound changes to their pension systems.

#### *The economic and social consequences of inadequate social security coverage*

In Morocco, few individuals are covered by the public pension system. According to the Haut-Commissariat au Plan (HCP), in 2006 only 16.1% of the elderly reported receiving a retirement pension. Among them, men are better covered than women. Moreover, the coverage is higher for individuals living in urban areas than in rural areas.

We must observe that the size of the informal sector is important in Morocco. Accordingly, people working in the informal sector do not contribute to pension programs during their working life.

In terms of health, persons aged 60 years or above are reported to be more susceptible to diseases when they live in urban rather than in rural areas. One notes that the morbidity rate appears higher in urban areas than in rural areas.

As mentioned above, very few individuals enjoy pension coverage. The situation is not much better in terms of healthcare coverage. Indeed, more than one-third of the elderly do not have access to healthcare; and for nearly two-thirds, this is due to a lack of financial resources. Again, women receive less coverage than men.

Still, we can expect better health insurance coverage for households in the future. Indeed, two measures have recently been implemented in Morocco: a contributory scheme (AMO, a compulsory health insurance scheme) for all employees, professionals and workers in the informal sector who earn more than 500 dirhams per month (around EUR 50). The AMO health insurance scheme will cover illness, accident and maternity costs. The second measure recently introduced is a medical assistance scheme (RAMED) for the economically destitute.

Nevertheless, although RAMED targets better coverage for the poor, it should be noted that there are no medical services specifically dedicated to the elderly.

#### *Intergenerational support*

The support and solidarity of the family is essential for the well-being of senior Moroccans. The majority of the elderly live in complex households, which include the elderly person's spouse, ascendants, descendants and/or other family members (nephews, nieces, cousins, uncles, fathers, stepfathers, sons, brothers, sisters and other unrelated persons). Meanwhile, one-third live in nuclear households (HCP).

The family provides assistance in the form of money or services. In this regard, 77.5% of seniors reported receiving assistance in the form of cash or in-kind, while 22.5% reported receiving no assistance. This family or intergenerational solidarity is more likely to prevail in rural areas where the majority of the elderly declared that they benefited from such support. It is also more likely to be oriented toward women than toward men. Among the women who receive assistance (86.4%), the majority is widowed.

The children are the main providers of such assistance, with 58.6% of the elderly having reported receiving assistance only from their children. Conversely, only 40.7% reported receiving assistance from multiple sources. While, assistance from children is regular, very few (0.2%) elderly declared receiving assistance from specialized institutions.

The children do not only provide cash assistance.

Some of them also support the elderly by helping with domestic household chores, working outside the house and providing them with moral support. Residential proximity or cohabitation is important to the provision of this type of assistance.

However, family solidarity is expected to decrease due to societal changes. The elderly without a family or with poor descendants will live in senior homes or charities. However, many of these institutions are not well managed, suffer from very poor financial support and lack qualified workers.

#### *Policy recommendation*

The development of good social security programs is crucial to decreasing poverty, maintaining the well-being of the individual, preserving human dignity and respecting human rights.

For optimal results, it is necessary to redesign the public pension system in order to guarantee a decent standard of living after retirement. This can be done by reducing pension administrative costs, homogenizing the calculation of pension rights for all workers (public and private sectors), taking into account all employee's wages (and not only the last months) and developing one pension scheme (instead of several). Indeed, establishing one pension scheme instead of several will reduce administrative costs, ensure coverage of more workers (same scheme for agriculture and non-agriculture workers) and diversify the ageing risk through demographic compensation.

In addition to that, a specific pension-saving program could also be implemented for informal sector workers in urban and rural areas, much in the way that the AMO compulsory health insurance scheme works.

Moreover, in order to avoid a strong increase in the poverty risk among old people, the development of a non-contributory basic pension is the most effective solution to reduce poverty. Another way to improve the living conditions of the elderly is to provide affordable access to essential healthcare services. In

terms of gender balance, a geographically targeted income transfer program would reduce severe poverty among vulnerable groups, such as elderly women. Policies could attempt to address the gender gap by ensuring that the elderly remain with their families through cash transfers to seniors. The efficiency of such transfers can be guaranteed through the implementation of targeting mechanisms, such as electronic IDs.

Finally, because of ageing population (demographic projections conducted by HCP and the UN predict that individuals aged 60 years and above will represent almost 25% of the total Moroccan population in 2050), a growing number of old people will live in senior charity homes. The majority of these homes are unorganized, do not respect human rights and are overpopulated. More old age homes should be created, financed publicly and monitored by government. Furthermore, such senior homes have to take into account the old-age population's health needs by providing adequate healthcare services.

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