



► General Social Insurance Scheme

Actuarial Valuation as of 31 December, 2020
Overview of results

Press Conference

16 April, 2024

▶ ILO mandate and experience in social protection

- ▶ ILO acts as an international policy development and technical reference in the area of social protection
- ▶ ILO is the only tripartite UN agency with government, employer and worker representatives in its executive bodies
- ▶ In the field of actuarial technical assistance, the ILO has extensive experience - since the 1950s, it has delivered actuarial valuations/ financial reviews of social security programs to more than 120 countries
- ▶ The Actuarial Services Unit of the Universal Social Protection Department of the ILO agreed to conduct the triennial actuarial valuation of the General Social Insurance Scheme as at 31 December, 2020
 - A very experienced ILO actuarial project team was appointed
- ▶ The above agreement is part of a long-lasting technical cooperation between the ILO and the Government of Cyprus in the area of actuarial technical assistance, which is extended to more than 60 years

► Securing the quality of periodic actuarial reviews of the GSIS

- The actuarial report produced is in accordance with internationally accepted actuarial practice as provided by the International Standards of Actuarial Practice for General Actuarial Practice (ISAP 1) and Financial Analysis of Social Security Programs (ISAP 2) of the International Actuarial Association.
- An actuarial opinion, signed by qualified actuaries, has been provided in the actuarial report, certifying that:
 - The data on which the report is based is sufficient and reliable;
 - The assumptions used are, individually and on an aggregate basis, reasonable and appropriate; and
 - The methodology employed is appropriate and consistent with accepted actuarial practice.

▶ Key outcomes of the Actuarial Valuation

- ▶ The financial projections indicate that the GSIS is financially sustainable over the period 2021-2080
 - During the whole projection period, 2021-2080, the total of contributions and investment earnings each year is sufficient to meet annual expenditure
 - The legislated schedule of contribution rates is sufficient to ensure GSIS long-term sustainability
 - No additional increase in contribution rate as of 1.1.2024 is needed to finance the widower's pension benefit to men
- ▶ The reserve ratio in year 2080, is projected to be at an adequate level of three years' expenditure
- ▶ Under all sensitivity scenarios and tests, the reserve remains constantly positive over the period 2021-2080, securing the viability of the GSIS
- ▶ The results of the first review of life expectancy evolution, covering the period 1.1.2018 - 1.1.2023, indicate no need to raise the statutory pensionable age (SPA)
- ▶ Given the uncertainty of results, as illustrated by sensitivity scenarios and tests, the financial position of the GSIS should be monitored closely and on regular basis

▶ Presentation Outline

- ▶ Introduction
- ▶ Key aims of the 2020 actuarial review
- ▶ Key outcomes
 - Projection results: Base scenario
 - Uncertainty of results
- ▶ Concluding remarks
- ▶ ILO recommendations

Introduction

- ▶ ILO conducted the actuarial review, which was prepared in compliance with the Article 76(2) of the Social Insurance Law
- ▶ Key amendments to the Law with gradual implementation, as per 2009 and 2012 GSIS pension reforms, have been incorporated into the present actuarial review
 - Future increases in GSIS pension contributions of 1.3 percentage points (p.p.) every 5 years - *next: 1.1.2024 and last: 1.1.2039*
 - Introduction of an automatic adjustment of the statutory pensionable age every 5 years in line with changes in life expectancy at the Statutory Pensionable Age (SPA) - first review of life expectancy evolution covers the period 1.1.2018 - 1.1.2023
- ▶ The amendment to the Law, N.126(I) of 2019, regarding the payment of widower's pension to men, has been considered in the present actuarial review

▶ Key aims of the 2020 actuarial review

- ▶ Review the current and projected financial situation of the GSIS as at 31 December, 2020
- ▶ Assess the long-term financial viability of the GSIS, assuming no change in the Law
- ▶ Assess the sensitivity of the long-term projected financial results to changes in demographic and economic environments
- ▶ Make recommendations on the financial governance of the GSIS

In the context of present valuation, the following provisions were assessed:

1. Is an additional increase in GSIS contribution rate necessary, as of 1.1.2024, to finance the widower's pension benefit to men?
2. Based on the results of the first review of life expectancy evolution, covering the period 1.1.2018 - 1.1.2023, will there be an increase in the SPA?

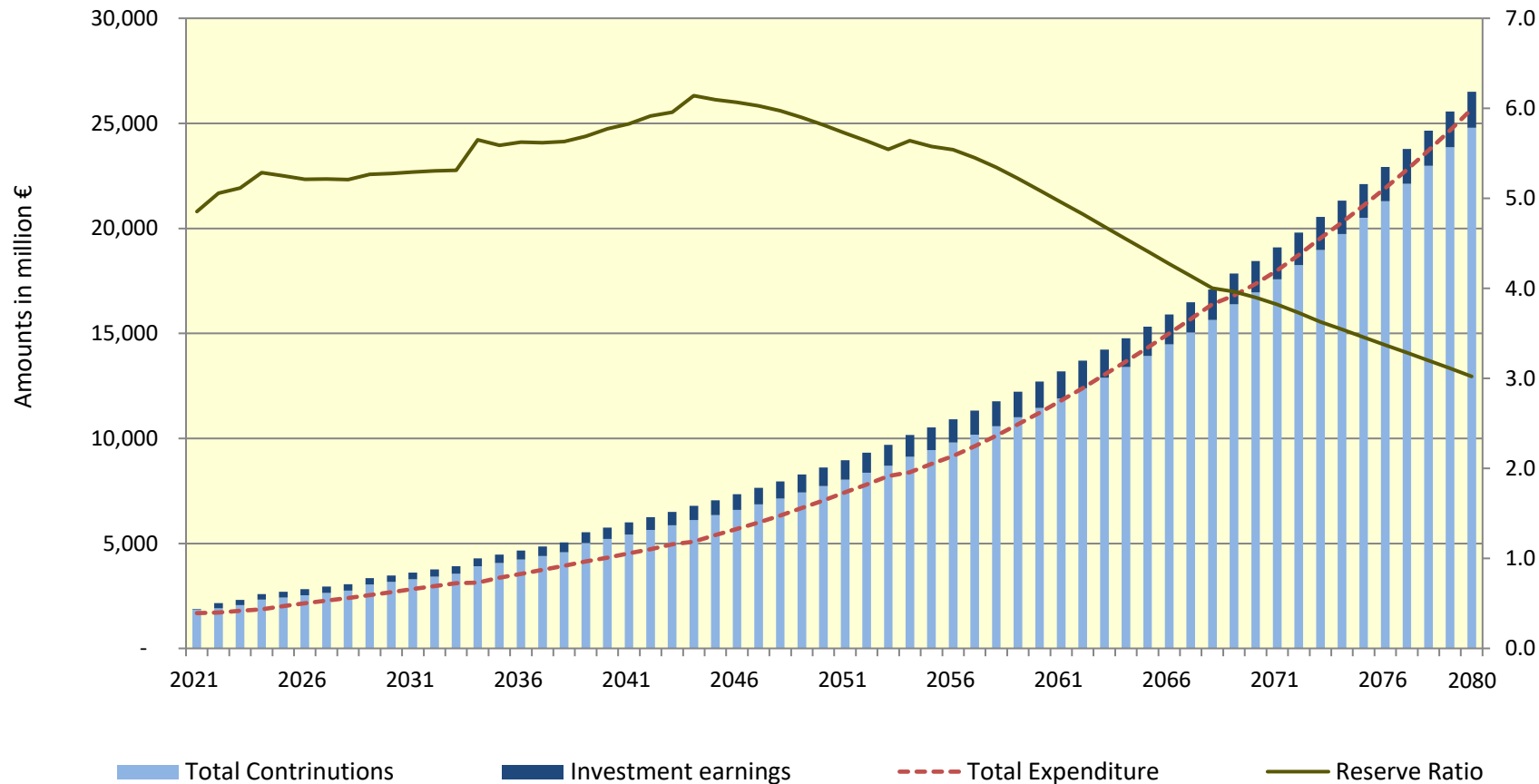
▶ #1 Outcome: Assessing long-term GSIS financial sustainability

GSIS financial projections: Base scenario

- ▶ The reserve ratio in year 2080, is projected to be at an adequate level of three years' expenditure
 - Legislated contribution rate is sufficient to ensure GSIS long-term sustainability
- ▶ Contributions alone are sufficient to meet annual expenditure over the projection period, apart from the last two decades (2062-2080), when part of the investment earnings are used to meet pension expenditures
- ▶ During the whole projection period, the total of contributions and investment earnings each year is sufficient to meet annual expenditure

#1 Outcome: Assessing long-term GSIS financial sustainability

Total GSIS income, expenditure and reserve ratio, 2021–2080 (in million of €)



Reserve Ratio

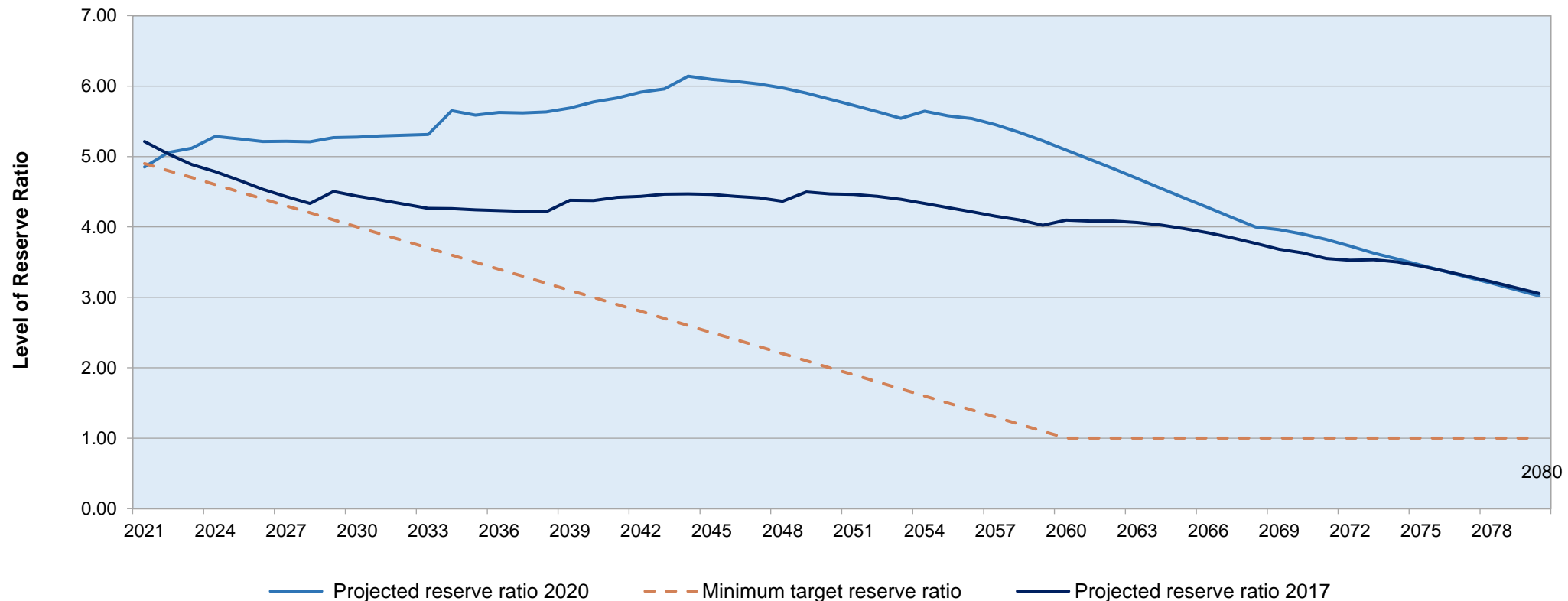
#2 Outcome: Comparison of results with previous actuarial review

GSIS financial projections: Base scenario

- ▶ GSIS financial sustainability has been improved in present actuarial valuation compared to the previous one, primarily due to increased income from contributions over the last couple of years (2022-2023), resulting from:
 1. A significant increase of GSIS employed contributing population, primarily reflecting favourable demographics and positive labour market developments
 2. A considerable increase of GSIS employee contributory earnings, primarily reflecting positive evolution of wages
- ▶ The reserve ratio in year 2080, is projected to be at the same level despite the recent introduction of widower's pension benefit, payable to men

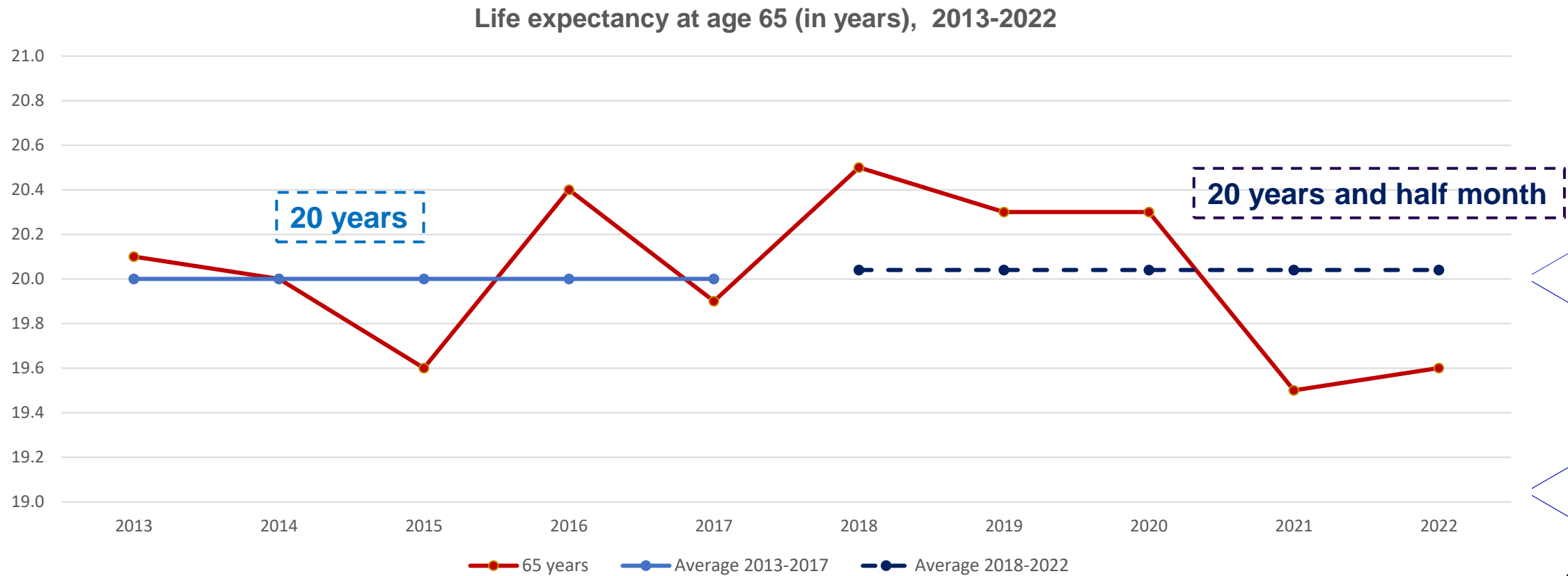
#2 Outcome: Comparison of results with previous actuarial review

Projected GSIS reserve ratio: 2020 vs 2017 actuarial review, 2021–2080



#3 Outcome: Assessing life expectancy evolution

Period covered: 1.1.2018 - 1.1.2023



▶ #4 Outcome: Assessing the uncertainty of results

Sensitivity scenarios and tests

- ▶ Under all sensitivity scenarios and tests, the reserve remains constantly positive over the period 2021-2080, securing the viability of the GSIS
- ▶ Certain scenarios/ tests of unfavourable future demographic or economic conditions have high degree of uncertainty and thus greater financial impact than others, resulting to low levels of reserves by the end of 2080, covering slightly above one year's expenditure:
 - Reserve ratio of 1.4 under the sensitivity test of lower migration
 - Reserve ratio of 1.3 under the sensitivity scenario of adverse economic developments

▶ Concluding remarks

- ▶ The financial projections indicate that the GSIS is financially sustainable over the period 2021-2080
 - The legislated schedule of contribution rates is sufficient
 - No additional increase in contribution rate as of 1.1.2024 is needed to finance the widower's pension benefit to men
- ▶ The results of the first review of life expectancy evolution, covering the period 1.1.2018 - 1.1.2023, indicate no need to raise the SPA
 - *Next review period: 1.1.2023 - 1.1.2028*

▶ Concluding remarks (cont'd)

- ▶ Given the uncertainty of results, as illustrated by sensitivity scenarios and tests, the financial position of the GSIS should be monitored closely and on regular basis
 - Where necessary, corrective measures are taken in a timely manner
- ▶ Given the uncertainty of results, it is recommended that an adequate reserve ratio is maintained, necessary to safeguard the GSIS against potential future financial risks associated with events of sudden adverse economic and demographic developments

▶ ILO recommendations

In order to enhance the GSIS financial governance and thus the security of GSIS members' benefits and inter-generational equity, it is recommended that the Government:

- ▶ Establishes a written financing policy
 - Specifying financing objectives and time horizon
 - Assessing future financial risks faced by GSIS and uncertainty of results
 - Making the necessary provisions for ensuring the achievement of financial objectives on on-going basis, including maintaining adequate reserve levels

- ▶ Sets-up strategic plan for revising current investment policy of the GSIS
 - Increasing the proportion of GSIS assets invested in non-government securities
 - Taking into account the profile of GSIS liabilities
 - Containing longer-term future increases of government debt towards GSIS

All of the above to be considered in the context of the upcoming reform of the social security pension system