

# Executive Summary

The Center for Strategic and Policy Studies requested to AIG provide a report describing the Supplemental Contributory Plan (now called Retirement Income Plan) they presented at the Social Security Roundtable 2007 on April 2, 2007. The plan is designed to enhance Brunei's current pension system for employees who began work after 1992 by mandating contributions targeted for lifetime monthly income during retirement.

A new Retirement Income Plan (RI Plan) was designed to complement the existing OAP and TAP programs. The RI Plan is intended to focus exclusively on creating additional retirement income benefits. Collectively these three programs will now provide retirement income that boosts this benefit for post-1992 workers to an attractive and affordable level.

AIG has estimated that replacement income for this post-1992 group is approximately 25% of pre-retirement income for most individuals. Many agree that 50-80% replacement income for life is an appropriate target to aim for depending upon other non-pension benefits that are available in the country. If, as in Brunei, extensive other benefits such as subsidised health care are provided, the lower end of the 50-80% range is generally viewed as appropriate. To this end, the RI Plan has been designed to work in tandem with OAP and TAP to achieve at least a 50% replacement income ratio for all workers throughout their retirement years, after a working lifetime of contributions.

The RI Plan has been designed to achieve this goal via an additional, mandatory 8% contribution (on average) typically paid half by the employee and half by the employer. In order to ease the burden on lower salary workers and their employers, the RI Plan includes a tiered contribution schedule of 2% on the first B\$500 of monthly salary and 5% above B\$500. Contributions would be capped at B\$4,000 of monthly salary. Because the contributions of lower salary workers have been limited, and because some older workers will not have enough time to accumulate an adequate balance, the plan will provide a minimum benefit of B\$150 per month, which when combined with the OAP benefit would guarantee a monthly income of B\$400.

As well, in order to ensure that an adequate retirement income is achieved, the RI Plan will guarantee a minimum 3% annualised dividend return over the life of the individual participant in the RI Plan, with an upside potential if dividend returns should exceed that minimum.

The Government could stand behind these two guarantees by pre-funding a reserve to ensure that these guarantees are met in the future. The estimated present value cost of these guarantees is approximately B\$250 million. To ensure that individuals would have an adequate lifetime monthly income, the RI Plan will require that retirement benefits be taken in the form of lifetime monthly income rather than a lump sum. There is a significant volume of literature on world pension systems by research organisations such as the World Bank, the IMF, the OECD, and many others. For those individuals who want to review pension background information, please refer to Chapter 2. This chapter provides a summary of this vast body of knowledge broken down into the following sections:

- Pension Policy
- Lessons Learned from Comparative Systems
- Administration Discussion
- Governance Policy

Throughout this document, we have provided illustrative examples of replacement income ratios, monthly benefit amounts under various age and salary scenarios and estimates of future liabilities of various existing and proposed pension plans. We believe these are valuable to understand the impact of any re-engineering of Brunei's pension system. Note that these are illustrative only, and are based on a set of assumptions used in each case to produce the illustration. Other assumptions could yield different results. In order to facilitate comparisons of different scenarios, we have included estimates of monthly income benefits of existing programs, such as TAP, when in reality such benefits are not possible under the current TAP plan. This was done to allow pertinent comparisons and should not be interpreted as an actual benefit promise.