



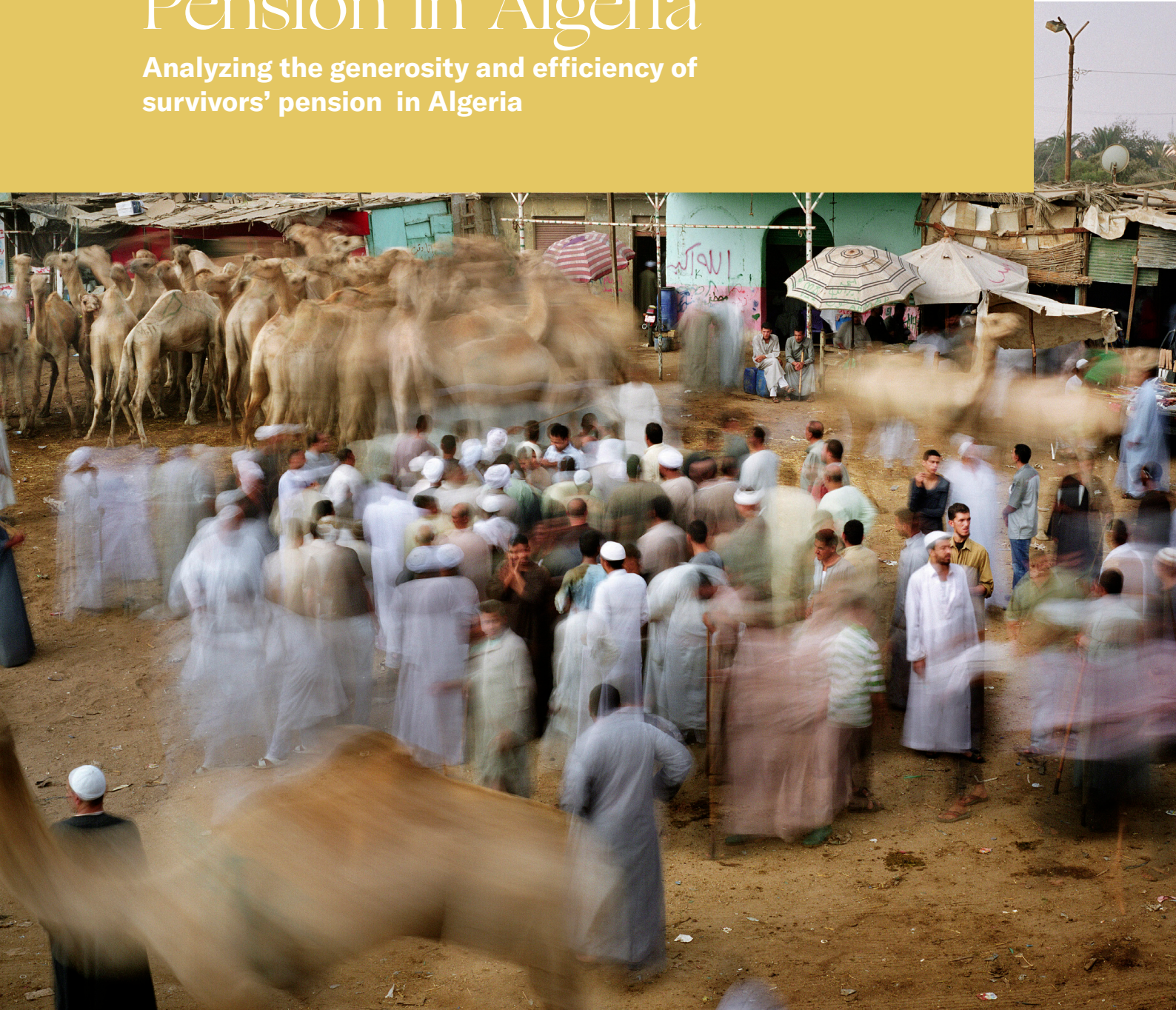
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Policy Innovation Case Studies No. 4

Rethinking Survivor Pension in Algeria

Analyzing the generosity and efficiency of survivors' pension in Algeria





Summary

This PICS is a first attempt at analyzing the generosity and efficiency of survivors' pension in Algeria. While survey data does not highlight any wealth gap between married and widowed households in Algeria, the focus on widowed households, when it comes to survivor pension, becomes questionable. This PICS will show that the survivor's pension in Algeria was conceptualized incorrectly by government and may not achieve its stated objective of maintaining the standard of living of the survivor after the spouse's death. This PICS suggests reviewing the calculation of survivor pension and use a means-test benefit principle.

Introduction

The literature on survivor pension is scarce in developing countries like Algeria. In this PICS, we suggest going through successful stories on survivor pension reforms to see whether these stories are worth replicating in Algeria.

First, we should estimate the equivalence scale for Algerian households and see how much a single person needs to maintain the same standard of living. Algerian Office of National Statistics should use the household expenditures survey to estimate the equivalent scales that can help the retirement fund apply the adequate replacement rate for the survivor benefit. However, the expenditure survey of the ONS is still under explored and have not been made available for researchers due to sensitivity reasons.

Second, Algeria should restrict the combination of an individual's own pension and survivor pension and make it available only to households in need. In this sense, we can cite some interesting means-testing

experience in OECD countries. In Ireland and Poland, the survivor pension (SP) is equal to the maximum pension between the deceased pension (P_d) and the survivor spouse pension (P_s): $SP = \max(P_d, P_s)$

In Czech Republic, the survivor pension is equal to a maximum of the two partners' pension plus 50% of the minimum pensions

$$SP = \max(P_d, P_s) + 50\% * \min(P_d, P_s)$$

One of the most interesting formulae to estimate a fair survivor pension was presented by Bonnet et al (2008). They suggested that the survivor pension should be equal to a third of their own pension taken out of (or subtracted from) two-thirds of the deceased pension. This estimation could be formulated as follows:

$$SP = \left(\frac{2}{3}P_d - \frac{1}{3}P_s\right)$$

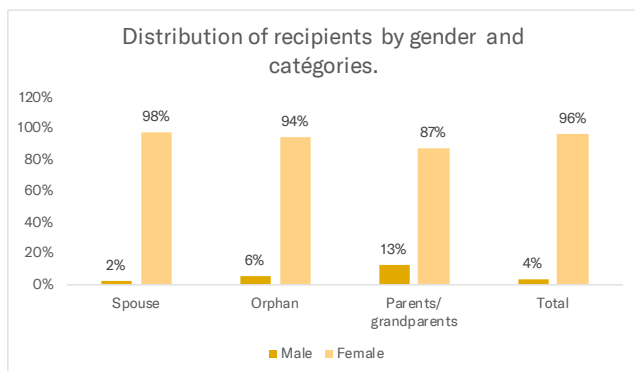
We should take into account the particular context in Algeria and consider the level of own pension/income and the composition of households when any means test is applied to the survivor benefit. The targeting strategies should be efficient. We will go through some available data in the following sections in order to become familiar with the Algerian context.

Policy background

In Algeria, the share of survivor pension in the total pensioners is 31% and the survivor pension is provided to all the widows/widowers, regardless of age or income. Furthermore, the law allows the survivor's spouse to combine or benefit from their own pension/income and the survivor pension under the law number 83-12 on 2nd July 1983. The survivor pension could reach 90% of the deceased pension if the deceased left a spouse (50%) and children (40%). However, it can be equal to 75% of the deceased pension if the deceased left a spouse without children. In such case, the survivor benefit is provided to the spouses without any restrictions on their age or income. Given the financial sustainability of the pension system, it is argued here that Algeria should rethink the survivor pension and turn it to being means-tested. In order to ensure equity, the social protection system should avoid advantaging widows/widowers to other poor households who only receive low social assistance. Using the National Pension fund (CNR) and Household Survey data, this

PICS will first highlight the characteristics of survivor's pension recipients. It will then use Household Survey data to compare the level of wealth between widows/widowers and married households. Finally, it will propose a new approach for reframing the survivor benefit policy in Algeria.

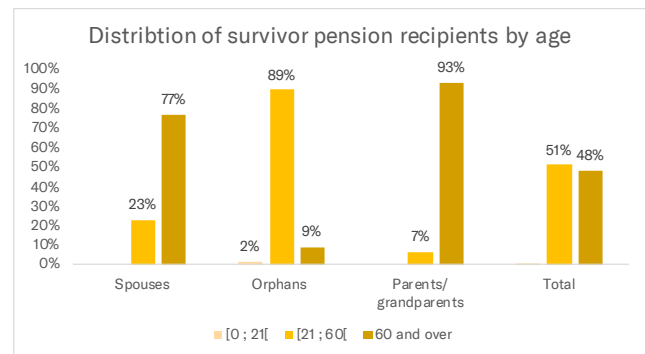
As aforementioned, the recipients of the survivor's pension benefit represent more than one third of the total elderly recipients, according to CNR data. Most of the recipients are spouses (56%) but also child orphans who represent 42% and the parents/grandparents who comprise 9% of the survivor pension recipients. The distribution of these beneficiaries by gender is illustrated in the following figure:



Source: National Pension fund (2018)

The figure above shows that, of all categories, the share of female recipients is the highest. While only 2% are males, 98% of spouses are females which is explained by the gender gap in life expectancy; i.e. women live longer than men. The second interesting observation in the figure above is that 94% of orphans receiving survivor benefit are women. The data show that, by figures, there is no age condition for female; however, for male orphans, they can only be eligible to survivor pension if they are less than 21 years old (25 years old in some particular cases). As a result, it can be argued that female orphans could be disincentivized, via survivor pension, to participate in the labour market. Indeed, the data from the office of National Statistics demonstrate that female participation rate is low (16%), compared to their male counterparts (66%) in 2018. Equally, the survivor benefit could also disincentive the

female spouses, given that 23% of them are of working age as shown in the figure below.



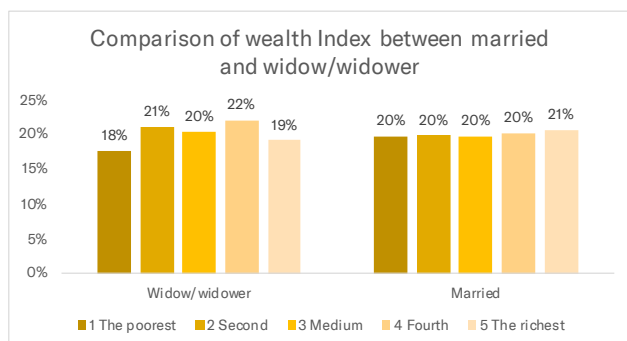
Source: National Pension fund (2018)

The figures show that more than half (51%) of the recipients of survivor pension are of work age. In addition, 23% and 89% of spouse and orphans, respectively, are of work age. This high percentage demonstrates that they may either accumulate their own income with the survivor benefit or be voluntarily inactive, given that they don't need a supplementary income.

What is innovative about the policy solution provided

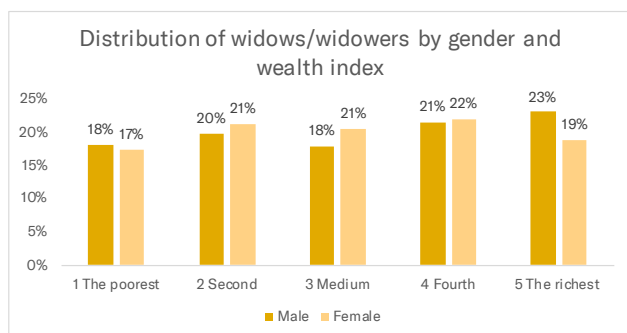
The survivor pension needs to not only consider the decrease of income of the households but also the decrease of some expenditures (e.g. clothing, food expenditures, etc.) after the death of one of the spouses. In order to analyze the standard of living of households, the literature uses the equivalence scales, allowing a comparison between the consumption of a single person household and sharing households (with/out children). These equivalence scales argue that a single person needs 67% to 71% of the two-person income to maintain the same standard of living (Bonnet et al, 2008).

In the absence of consumption data and the impossibility of measuring equivalence scale in Algeria, we use the Household Survey, conducted in 2019. This survey measures the wealth index relying on the general access of households to necessities. The results rank households in five categories from the poorest to the richest. This data allows us to compare the wealth difference between widows/widowers and married households as presented in the following figure:



Source: Household survey (2019)

The figure above shows that almost the same proportion of married (40%) and widow/widower (39%) are poor in the first and second quantiles of wealth index. This result indicates that widows/widowers (or at least some of them) do not really need survivor pension. However, the impact of widowhood could be more drastic for women, compared to men (Burkhauser et al, 1991). In the case of Algeria, the wealth gap between widows and widowers is presented in the following figure:



Source: household survey (2019)

The figure above shows that there is almost no difference between males and females regarding the wealth index. Hence, the survivor pension should not focus on women more than man.

Key policy actors and institutions

The survivor pension issue in Algeria involves several actors namely: the pension scheme for employees (CNR) and scheme of non-salaried workers (CASNOS). Under the tutelage of the Ministry of Labour, of Employment and Social Security, of employment and social security, the working population are also influential actors given that they finance the pension of the current retirees (pay-as-you-go systems). These workers may adopt a free-rider behaviour and avoid contributing to the pension system. Indeed, 46% of the workers are not paying any contributions to the social security services and they, as well as their families, still receive pension (namely the survivor pension) by their retirement age. The third actor of survivor pension is the government and parliament that vote any pension policy proposed by the Algerian Ministry of Labour.

Brief methodology

The methodology of this PICS is based on reviewing the legislation of the survivor pension in Algeria which dates back to 1983. Furthermore, we utilize administrative and survey data (CNR and UNICEF MICS survey data) to conduct an economic analysis of the issue and show that the pension system in Algeria could decrease expenditures by providing less/lower survivor pension. Finally, we argue that survivor pension policy should be among the first priorities of pension system in Algeria.

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