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November 2021

# Palau Social Security Problem-Solving Workshop



# Outline

1. Palau's Economy—oh so briefly!
2. Palau's Dual Retirement Systems—summarized.
  - ROP **Social Security** Administration (ROPSSA)
  - Palau Civil Service **Pension** Plan (CSPP)
3. Digging Deeper on ROPSSA—in this first instance...
4. Modeling the Future Path of the SS System—with humility.
5. Modeling Potential Reform Paths—with compassion.
6. How Our Workshop Will Work—with your commitment!





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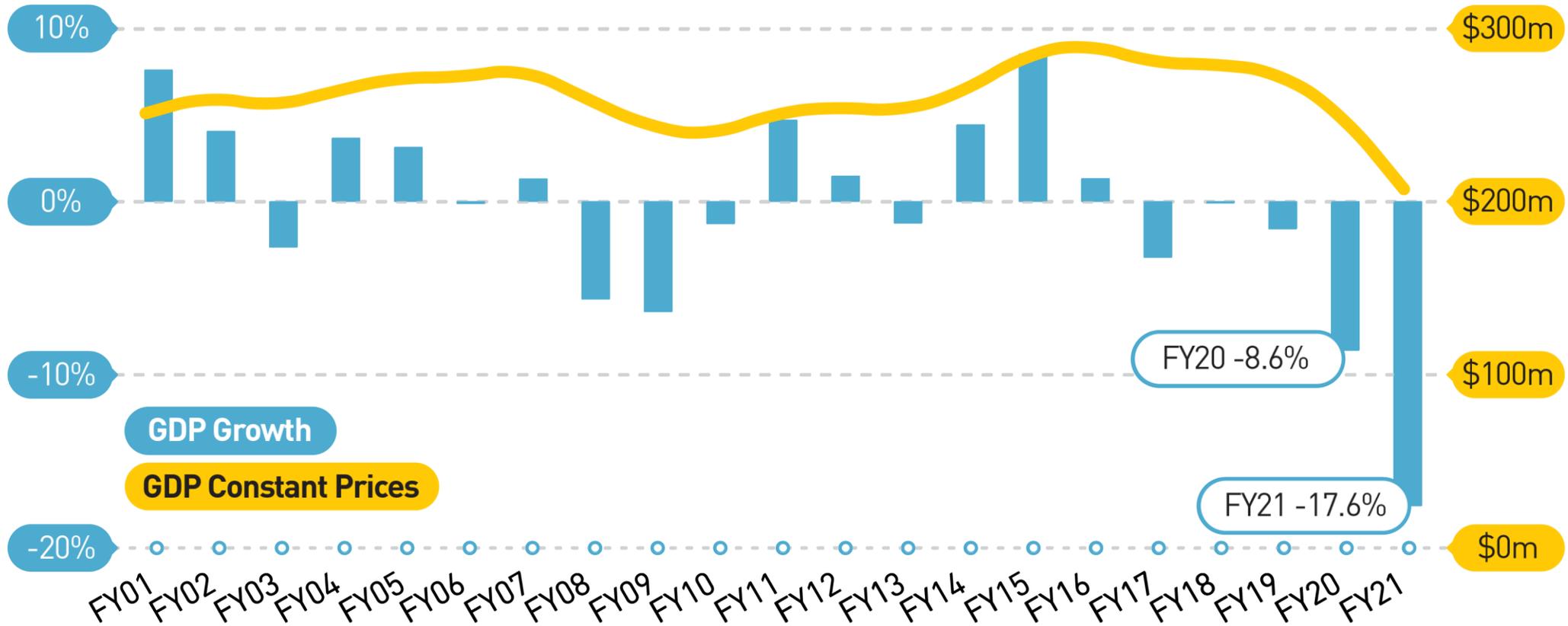
# 1. Palau's Economy



# Real GDP Annual Growth



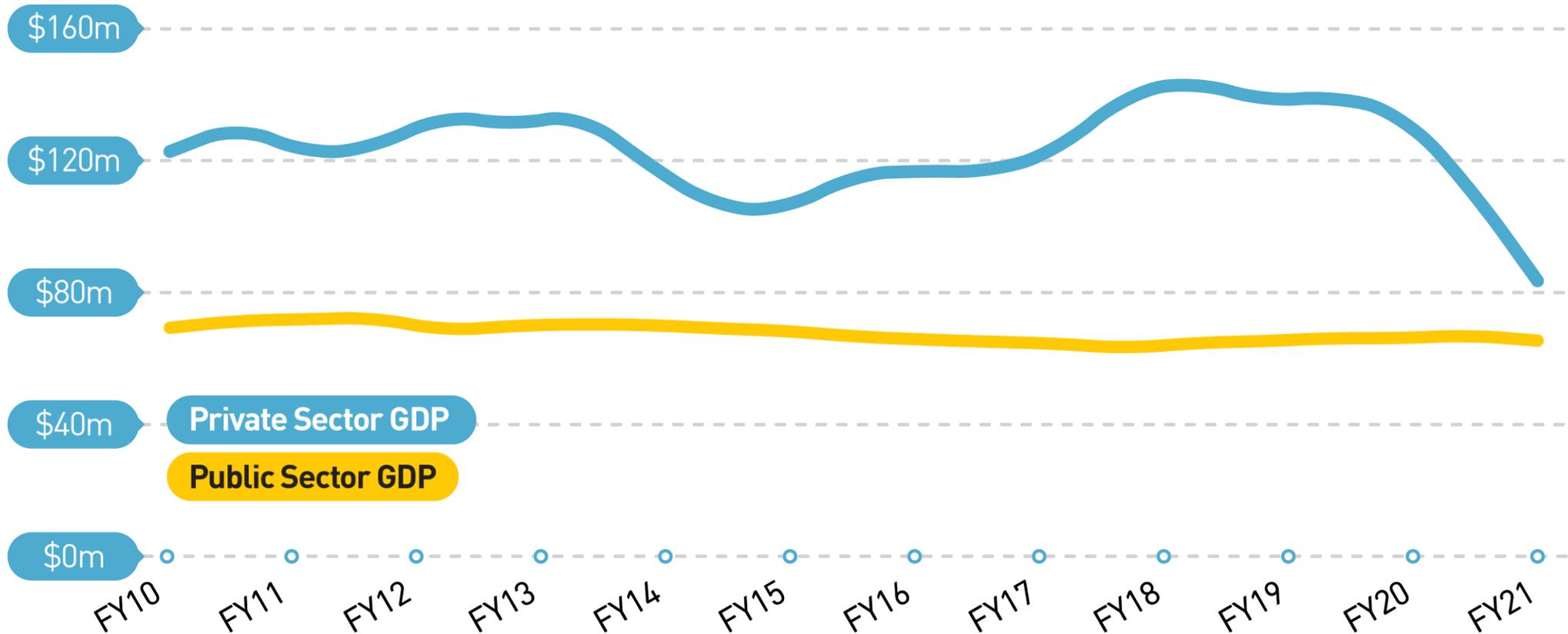
Palau Economy Fell by 8.6% in FY20, and a further 17.6% in FY21



# Private and Public Sector GDP



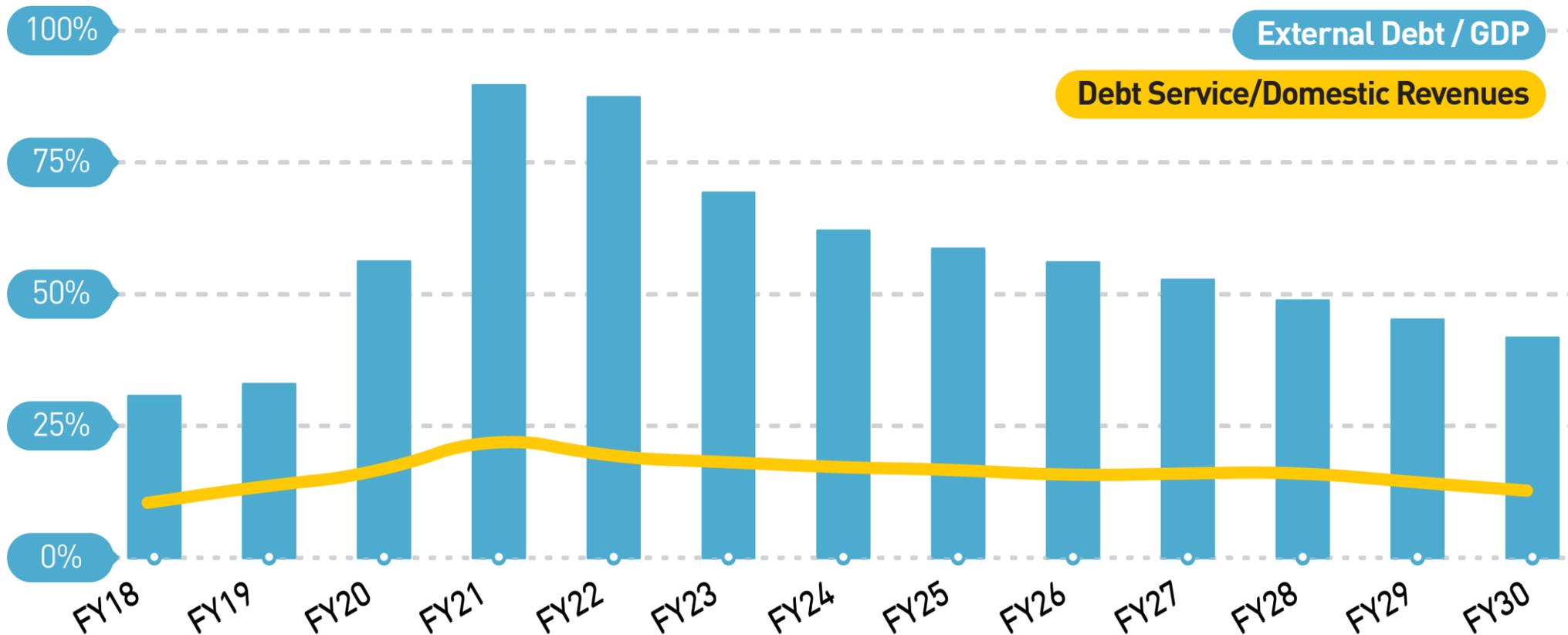
Private sector performance has been volatile and bore the burnt of COVID



# External Debt and Service (% GDP)



External debt rises to alarming heights due to COVID financing.





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## 2. Palau's Dual Retirement Systems

ROPSSA & CSPP

[Analysis Supported by ADB/Callund Consulting]



# ROPSSA v CSPP from a 20,000 foot view FY20

	<b>ROPSSA</b>	<b>CSPP</b>
FY20 ~ contributions	\$21 million	\$6 million
FY20 ~ benefits paid	\$27 million	\$12 million
FY20 ~ Reserve Fund (end of year)	\$112 million	\$30.5 million
FY20 Supplemental appropriation	\$2.76 million	\$5.157 million



# ROPSSA v CSPP from a 20,000 foot view FY30

	ROPSSA	CSPP
FY30 ~ contributions projected	\$24 million	\$9 million
FY30 ~ benefits projected	\$47 million	\$20 million
FY30 ~ Reserve Fund (end of year)	\$12 million ( zero in FY31)	Nil (zero ~FY26)
FY20 Supplemental appropriation	?	?





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# 3. Palau's Social Security System: Digging Deeper



# Prior Decisions already Built into Modeling

- The Trust-Territory legacy aspects of the system will be **updated** to reflect less basic, more coherent best practice:
  - Earnings in prior years will be **inflated**
  - Benefits going forward will be **adjusted for** (wage) **inflation**
  - Length of **service** in Palau will matter
- The **supplemental benefits**—though not guaranteed—will be reflected in the base of the new system... subject to reform.
- **Grandfathering** of various types is **not** built into the base of the new system—but options can be considered/modeled.
- Reform of ROPSSA will be **affected by CSPP** reform and vice versa (tbd)



# Existing Credit Rates to Accumulated Earnings

Cumulative Earnings Bands	% Credit Rate for each Earnings Band (added to 3 supplementals = \$150/month)
\$0 - \$11,000	27%
\$11,001 - \$44,000	2.9%
\$44,001 - \$500,000	1.5%
Over \$500,000	0.75%



# New Credit Rates to Revalued/Inflated Earnings

Cumulative Earnings Bands	% Credit Rate for each Earnings Band (added to Base Credit)
\$0 - \$250,000	1%
\$250,001 - \$375,000	0.75%
\$375,001 - \$500,000	0.5%
Over \$500,000	0.25%

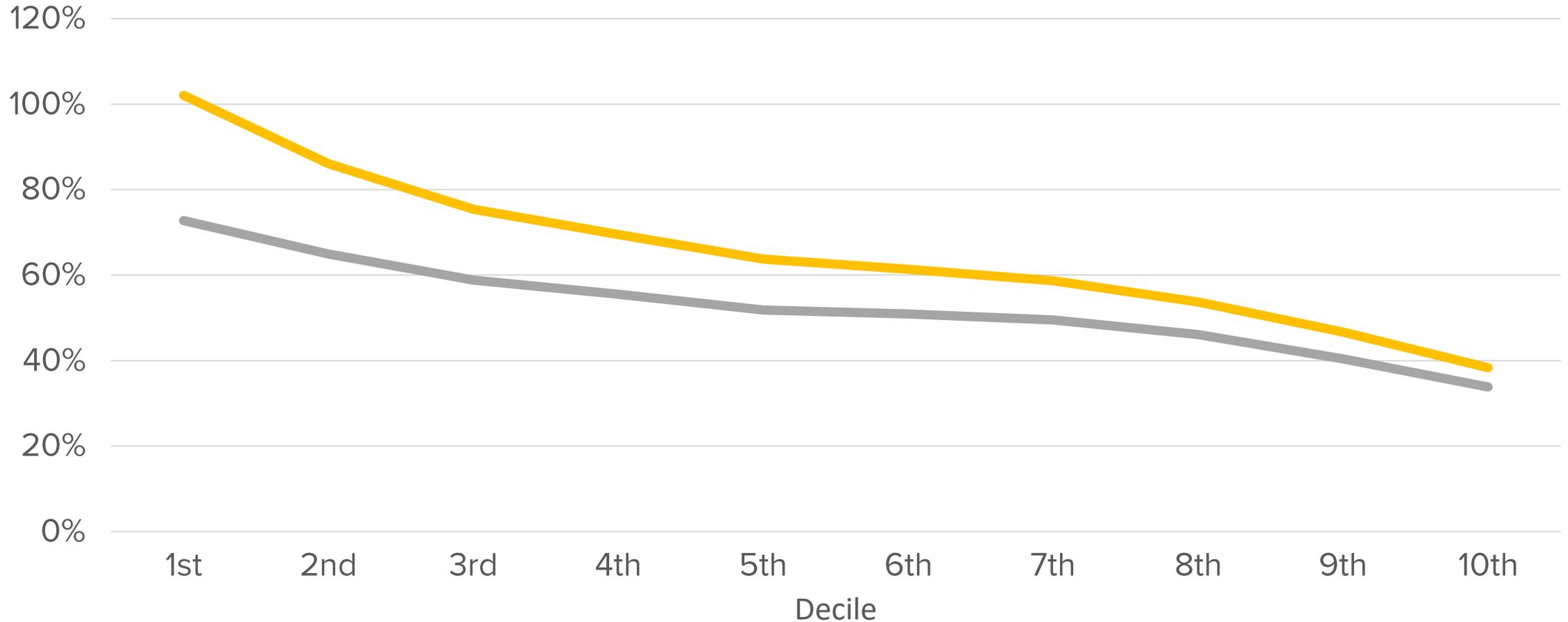


# Illustrating Progressivity

## ► Benefit Level within Earnings Deciles

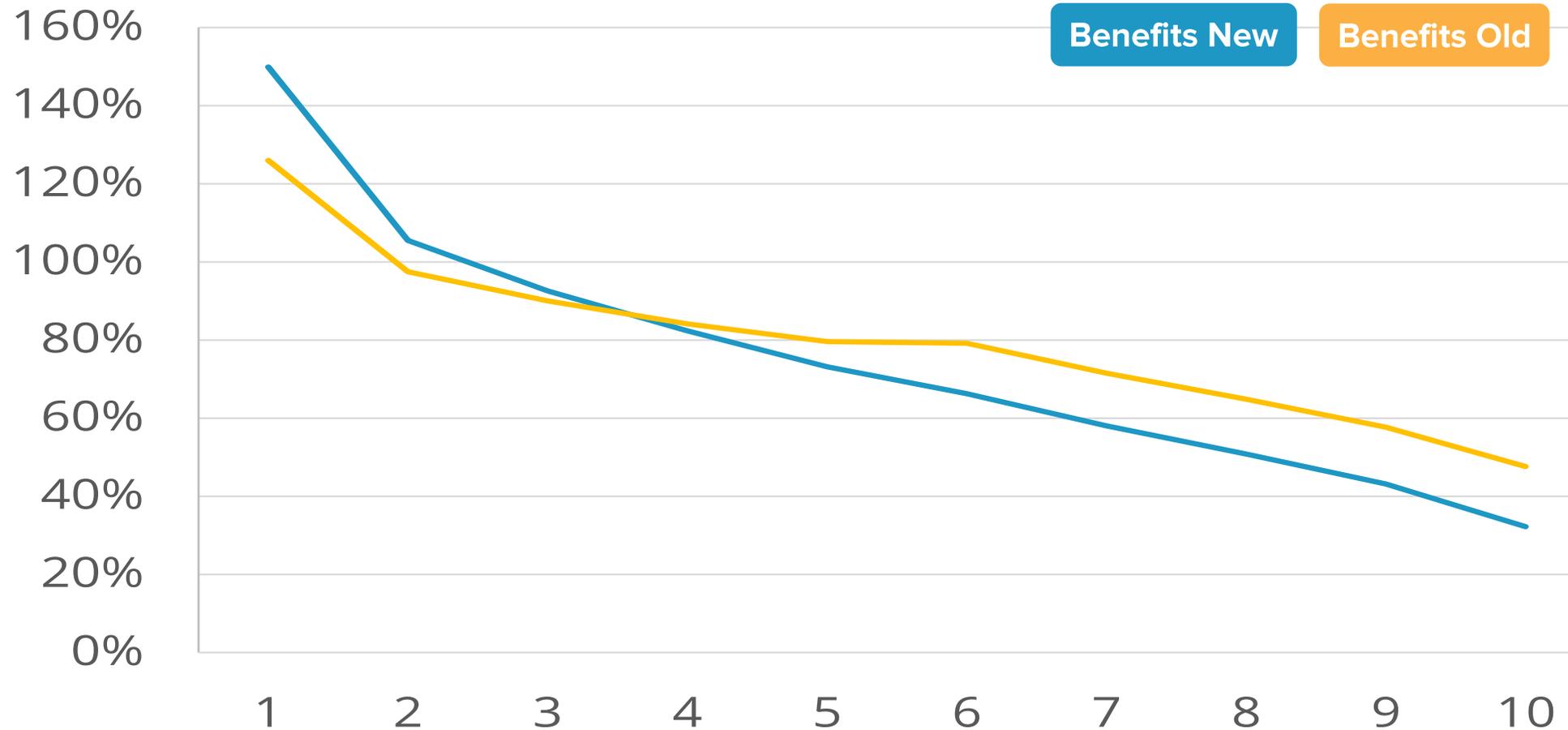
Pension with SBs

Pension without SBs



# Illustrating Progressivity

## ► Benefit Level within Earnings Deciles—New Baseline





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# 4. Modeling the Future Path:

## ROPSSA

[GSUSA Modeling tool based on Callund Consulting Actuarial model results]



# Assumptions used in Modeling

- Investment **rate of return** is assumed to be 7%
- Actual historical **wage rate increases** have been used to revalue (inflate) prior year earnings
- Wage rate inflation **going forward** is assumed at 2.5%... Actual wage inflation would be used in practice.
- Grandfathering of various types is **not built into the base** of the new system—but options can be considered/modeled.

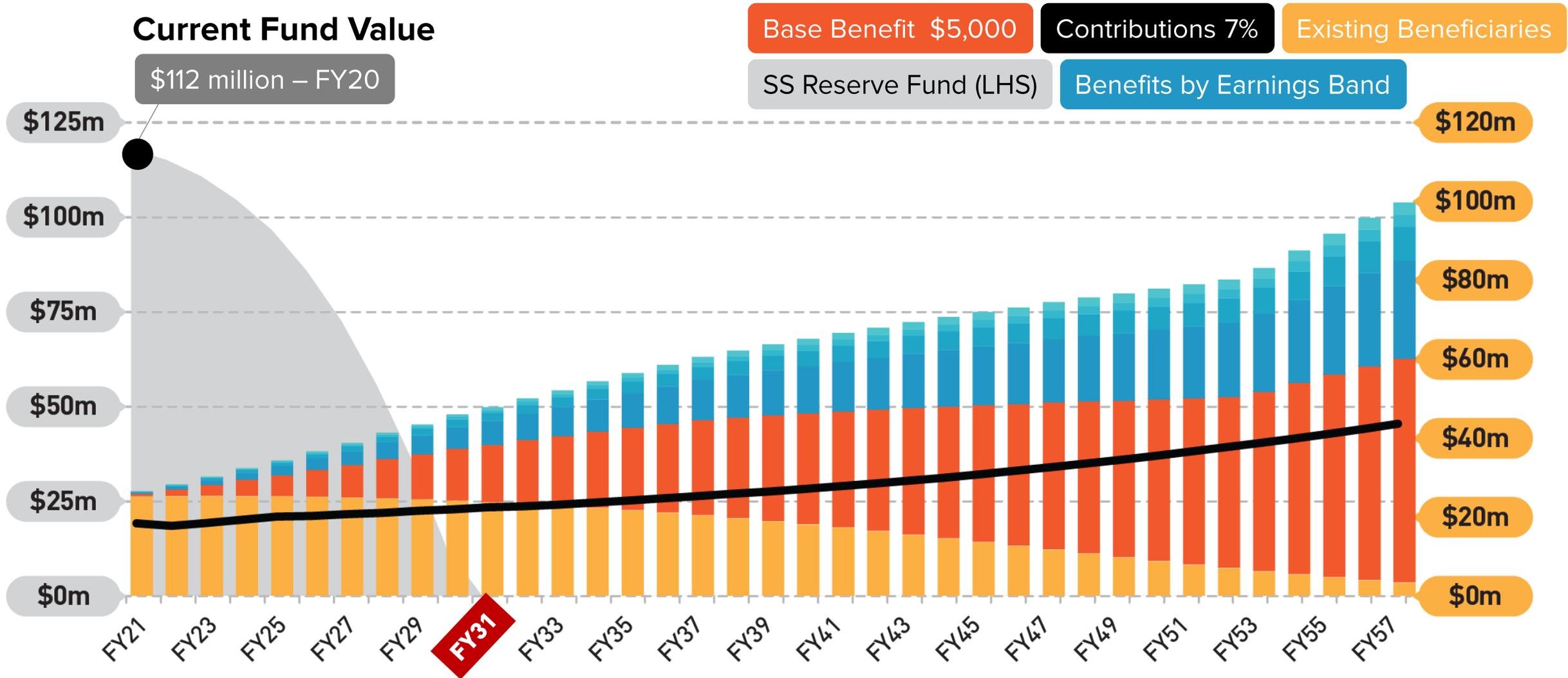


# Reviewing the Variables for SS Reform

Benefit Indexation	2.50%	
Contribution Rate	7.00%	
Base benefit credit	\$5,000	
Scaling factor	100%	
\$0	\$250,000	1.00%
\$250,000	\$375,000	0.75%
\$375,000	\$500,000	0.50%
	>\$500,000	0.25%
Retirement age	60	
Work Years for full benefit	35	
PGST rate "equivalent"	10.0%	



# Modeling the “Old” system with Modern Updates





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# 5. Modeling Potential Reform Paths: ROPSSA



# Changing Two of the Variables for SS Reform

Benefit Indexation	2.50%	
Contribution Rate	8.00%	
Base benefit credit	\$5,000	
Scaling factor	100%	
\$0	\$250,000	1.00%
\$250,000	\$375,000	0.75%
\$375,000	\$500,000	0.50%
	>\$500,000	0.25%
Retirement age	65	
Work Years for full benefit	35	
PGST rate "equivalent"	10.0%	



# Results Modeling Two Changed Variables

→ Contributions from 7 to 8%; Retire Age from 60 to 65

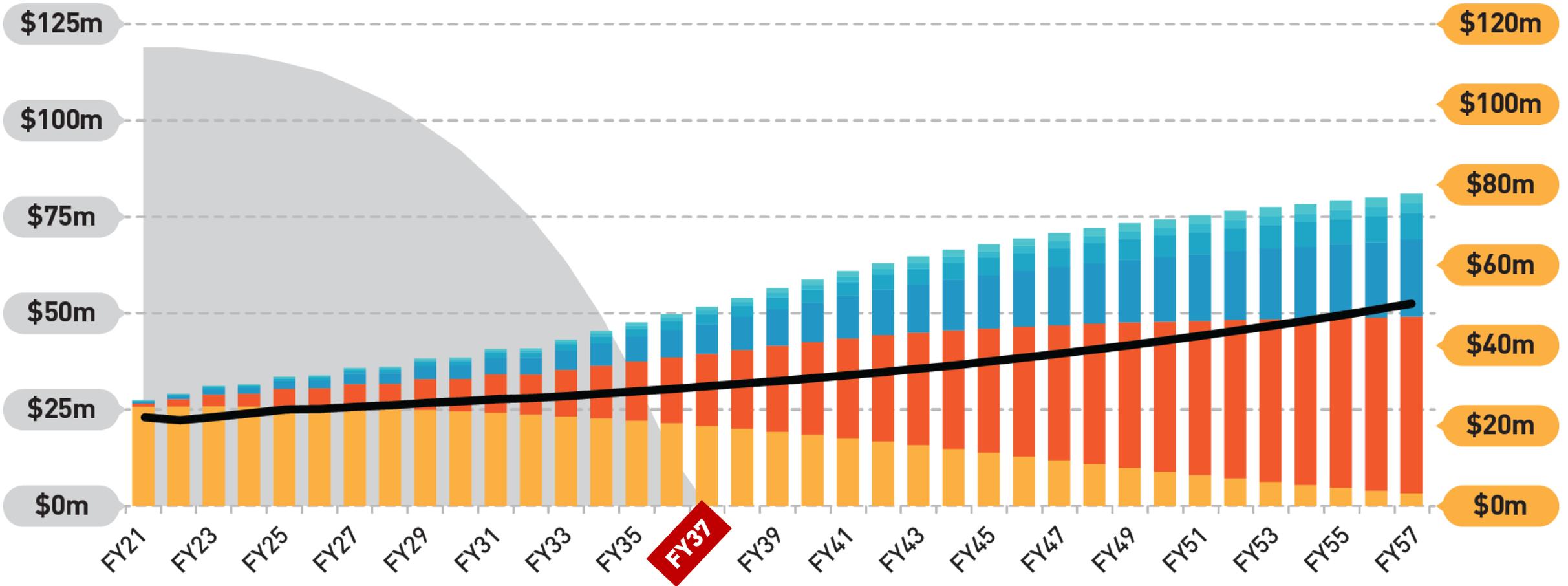
Benefits by Earnings Band

SS Reserve Fund (LHS)

Base Benefit \$5,000

Contributions 8%

Existing Beneficiaries





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# How Our Workshop Will Work: Goals, Guidelines, and Guidance



# Working Group Activity

- Workshop Steering Committee has **designated Chair and Co-Chair** for each of two Groups (A & B)
- Each group will be supported by:
  - **Technical analyst** to “run the model” and support the Chair/Co-Chair
  - **Rapporteur** to take summary notes to memorialize the range of issues/options considered, to capture the gist of deliberations, and to record the (consensus) agreements within each working group
  - **GSUSA consultants** to provide ongoing technical support—but will express no preferences as to the elements of reform upon which each working group is expected to reach consensus



# Step 1 in Working Groups

## ► Identify Principles and Priorities

- **Review** the presentation on challenges facing ROPSSA to ensure working group understanding.
- **Understand** the potential implications of system failure on Palauan individuals, families, and specific stakeholders.
- **Identify** the key principles to be preserved, protected or introduced through reform
- **Prioritize** the identified principles.

## Expected output:

- ★ Reasonable consensus around a **prioritized list of Principles** to be maintained or upheld under a reformed ROPSSA.



# Step 2 in Working Groups

## ► Identify and Quantify a ROPPSSA Reform “Package”

- Use the model to test the **magnitude** and **timing** of the various reform variables.
- Consider the impact of “**mixing & matching**” multiple reforms on results and on identified stakeholders.
- Struggle to fully and finally “**solve the problem**”

### **Expected output:**

- ★ Full consensus around a “**package**” of reforms to achieve long-term sustainability of the ROPPSSA.



# Step 3 in Plenary

## ► Present the Rationale for Working Group Consensus

- Indicate the breadth/depth of your group's **deliberations**.
- Specify the **Principles** that informed your group's results.
- Describe the **rationale** for your group's consensus reform package.
- Step 4: **Consolidate** the working group results ( A + B = C! )

### Expected output:

- ★ JOINT working group consensus around a **package of reforms** to inform draft legislation for consideration by policy-makers.





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# QUESTIONS?



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