# Social Protection in Action: Building Social Protection Floors for All

2022

## *Egypt: Social insurance legal framework integration*

## Summary

The Social Insurance and Pension Law (Law No. 148) marked a milestone in Egypt's efforts towards universal social protection by establishing a more unified regulatory framework that has replaced a number of laws and now provides legal coverage for workers' categories that were previously excluded, such as temporary and seasonal workers, domestic workers and agricultural workers.

## Main lessons learned

- The establishment of a comprehensive legal framework for social security in Egypt helped reduce the fragmentation of the social security system and has led to the progressive standardization of benefits.
- When implementing large-scale reforms to social security schemes, a gradual approach can help to steadily increase coverage while avoiding a sudden increase of contributions for workers and employers.
- When defining benefits according to categories of employment, it is important that their definitions are well thought through and are defined by law. This enables the provision of effective and appropriate social protection for all.
- Establishing a single framework for social protection further simplifies the design and operation of social protection benefits, thereby increasing transparency and trust in the system.
- The use of a tripartite governance structure can help improve the financial management of social protection systems.

### Social Protection Floors Recommendation, 2012 (No. 202)

SDG 1.3 aims to implement nationally appropriate social protection systems and measures for all, including floors, and by 2030, achieve substantial coverage of the poor and the vulnerable.

Social protection floors (SPFs) guarantee access to essential health care and basic income security for children, persons of working age and older persons. 187 countries have adopted the Social Protection Floors Recommendation, 2012 (No. 202), to achieve universal social protection.

Egypt's effort to integrate its legal frameworks is in line with the principles set forth in Recommendation No. 202. Primarily, they help to ensure coherence across the institutions responsible for delivering social protection by reducing fragmentation and they improve the adequacy and predictability of benefits.

## Introduction

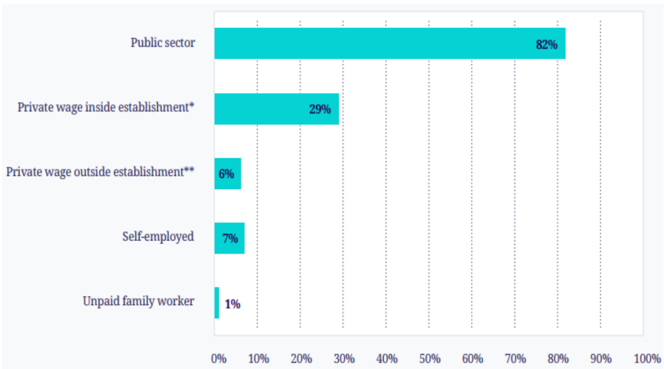
The new Constitution of Egypt of 2014 recognizes the responsibility of the State in guaranteeing social and health (insurance) services in its articles 17 and 18. To that end, the Ministry of Social Solidarity (MoSS) initiated a reform of the social insurance and pension system and non-contributory benefits in Egypt, including by assessing the financial sustainability of the system, the level of benefits and coverage, as well as the efficiency of the scheme, while ensuring consistency with international standards. Since then, the ILO has provided formal support to MoSS, particularly through a protocol of cooperation signed in 2014 and renewed in 2019. These reforms led to the issuance of Law No. 148, the Social Insurance and Pension Law, in August 2019, effective as of 1 January 2020,[1] which establishes the provisions for covering four overall categories of workers: (a) employees with third parties[2] (including civil servants, employees in the public and private sectors); (b) business owners and self-employed workers;[3] (c) Egyptians working abroad[4] (voluntary coverage); and (d) informal economy workers. It covers the social security branches of old age, disability and death; work injury insurance (for salaried employees only); sickness insurance;[5] and unemployment insurance (except for informal economy workers).

## Context: Fragmentation and challenges of the previous legal framework

Prior to the unified regulatory framework, Egypt operated four different schemes and two separate insurance funds (see box). The resulting fragmentation introduced a number of challenges, such as substantial gaps in coverage, with large differences between government and public workers, who enjoyed near-universal coverage, and those covered by other schemes (see figure 1).

In addition, under the previous legal framework, pensionable salary was divided into two categories: (a) a basic pensionable salary, calculated as the average monthly basic salary during the last two years of service and capped at 150 per cent of the salary at the start of the last 5 years of contributions; and (b) a variable pensionable salary, calculated as the average monthly salary since the date of joining service or 1 April 1984, whichever comes later, and increased by 3 per cent for every complete year of contribution. These complex formulas made it challenging to calculate final pensions and incentivized malpractices to boost the basic pensionable salary component, as employers and employees could agree to increase workers' salaries during the last two years of service to artificially inflate their pension entitlements.

**Figure 1. Percentage of Egyptian workers with social insurance by institutional sector and wage status (aged 18–59), 2018**




Notes: * Working inside a fixed establishment entirely dedicated to an economic activity, such as a shop, office building, factory or workshop (Assaad et al., 2019, 10). ** Working outside a fixed establishment, such as a private home, a field, a construction site or on a moving vehicle (Assaad et al, 10).

Source: Selwaness and Ehab (2019), with data from the Egypt Labour Market Panel Survey 2018.

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1 With the exceptions of Arts 111, 112, 113 and 114 regarding the payment by the public treasury of an annual instalment of 160.5 billion pounds to NOSI, its adjustments over time, monthly payment and the reporting on the fulfilment of said amounts.

2 Refers to workers under a regular and subordinated employment relationship, including foreign employees.

3 Includes 17 types of gainful activities and working arrangements covering from one-person companies to businesspersons involved in partnerships.

4 As stated in Law No. 148, irregular or informal workers, includes ten types of productive activities that range from domestic workers to temporary agricultural workers.

5 Includes a maternity cash benefit for state civil servants, public sector employees or public enterprises sector employees, provided that the insured woman has paid contributions for at least ten months prior (art. 77 of Law No. 148).

### Box. Egypt’s social insurance system prior to the reforms

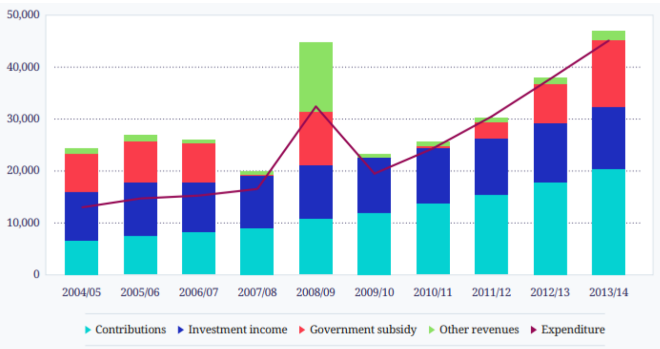
Egypt’s new legal framework replaced the primary laws of the previous social insurance system:

- **Law No. 79 of 1975, General Insurance Scheme.** This covered civil servants in the administrative bodies of the State, ministries, local public administration and other public bodies (aged 16 and over), workers in public institutions and public sector units (aged 16 and over) and formal employees in the private sector (aged 18 and over).
- **Law No. 108 of 1976, Social Insurance for Employers and the Self-Employed.** This provided compulsory coverage of own-account workers in commercial, industrial or agricultural activity; artisans and others who render services on their own account; partners in joint liability companies; productive workers in cooperative societies who work on their own account; mayors and village leaders; tourist guides and other guides; commercial agents; and own-property lessors. The self-employed covered by this Law usually have a fixed place of work, distinguishing them from workers covered under Law No. 112 of 1980.
- **Law No. 50 of 1978, Social insurance for Egyptian Workers Abroad.** This was applied on a voluntary basis to all Egyptians aged 18 to 60 years working abroad, other than those subject to the provisions of other social insurance laws.
- **Law No. 112 of 1980, Comprehensive Social Insurance.** This covered compulsorily all workers not covered by any other social insurance law. Unlike the self-employed workers covered under Law No. 108 of 1976, such workers were not required to have a fixed place of employment. Those covered included temporary workers in agriculture and related activities; owners and tenants of agricultural lands less than 10 *feddans* (4,200 m2); employed fishermen working on sailing boats as well as self-employed fishermen; property owners whose annual revenue was less than 250 Egyptian pounds (US$16); rural social service workers; self-employed persons without a fixed place of work; domestic workers; and self-employed loading and unloading workers.

These schemes were administered by the National Organization for Social Insurance (NOSI), a public authority governed by a tripartite board. NOSI operated two separate insurance funds: the Government Social Insurance Fund (GSIF), which manages the general service scheme established under Law No. 79, and the Public and Private Social Insurance Fund (PSIF), which manages the social insurance schemes of Laws No. 108, 50 and 112. Both funds operated independently from the regular State budget and were under the supervision of the Ministry of Social Solidarity.

Challenges regarding financial sustainability emerged as well, particularly regarding the PSIF, where expenditures increased significantly between 2004/05 and 2013/14, requiring the Government to significantly increase its subsidy allocation (see figure 2).

**Figure 2. Income and expenditure of Egypt’s PSIF, 2004/05 to 2013/14**




Source: ILO (unpublished b).

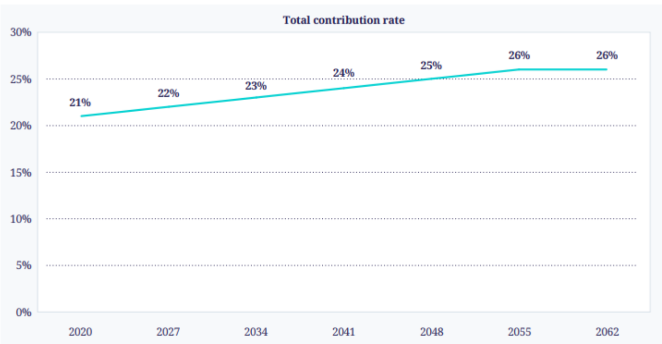
## Description of the Social Insurance and Pension Law (Law No. 148)

Following the enactment of Law No. 112 more than 40 years ago, the Egyptian Government made several attempts to update the country’s legal framework. For instance, in June 2010 Law No. 135 was adopted, which stipulated the introduction of the notional defined- contribution scheme as well as a fully funded (financial) defined-contribution scheme to replace the existing defined-benefit scheme. However, the law was never implemented in practice and was reversed in 2011 as a consequence of the revolution, during which the Egyptian population demonstrated against their pensions being converted into saving accounts without guaranteed benefits.

After the uprising was over in 2014, a protocol of cooperation on the social insurance and pension reform was signed between the Ministry of Social Solidarity and the ILO. The protocol sought to preserve a defined-benefit approach; reinforce the link between contributions and benefits; improve the declaration of earnings; introduce automatic indexation of the scheme's parameters; simplify the system; extend the social protection coverage; allow the scheme to be self-financed to make it less dependent on treasury subsidies; and ensure that the reform was compliant with international standards, particularly with the Social Security (Minimum Standards) Convention, 1952 (No. 102), the Invalidity, Old-Age and Survivors Benefits Convention, 1967 (No. 128) and Recommendation No. 202.

As a result, Law No. 148, besides unifying a dispersed legal framework and establishing relatively comprehensive coverage for workers in previously excluded sectors, also simplified the calculation of pensionable salary by merging the basic and variable salary references and improved the adequacy of benefits by increasing the minimum pension by 15 per cent (by 2027) and indexing pensions to inflation from 2027 onwards. In addition, in order to encourage registration, the Law reduced the contribution rates of employees and employers for the old-age, disability and death branch of benefits, from 26 to 21 per cent (with 9 per cent paid by the employee and 12 per cent by the employer). However, contribution rates are expected to gradually return to 26 per cent by 2055[6] (see figure 3).

**Figure 3. Expected contribution rates under Egypt's Law No. 148**




Source: Author's analysis based on Law No. 148.

For salaried workers, the contribution of 21 per cent of wages is financed jointly by workers and employers (9 and 12 per cent, respectively). Self-employed workers in the formal sector are required to contribute 21 per cent of their monthly contribution wage (chosen by the worker from a reference table established by the regulations). Lastly, the contributions of informal economy workers are largely subsidized, requiring a contribution payment of 9 per cent of the lowest monthly contribution wage established by the regulation, with the remaining 12 per cent being covered by the public treasury.

Another relevant feature of Law No. 148 is the integration of the GSIF and PSIF into a social insurance fund under the purview of the Board of Directors of the NOSI, a tripartite body comprised by representatives of the General Federation of Egyptian Trade Unions, the Federation of Chambers of Commerce, the Federation of Egyptian Industries, pensioners, and other government institutions, such as the Ministry of Finance and the Universal Health Insurance Authority.

With regard to the roll-out of universal health insurance established under Law No. 2 of 2018, with which the Government aims to expand health coverage to all citizens by 2032, NOSI, within the framework of Law No. 148, will collect the respective contributions on behalf of the Universal Health Insurance Authority[7] as part of the social insurance payment, thereby contributing to the universalization of healthcare and social protection.

Salaried employees and their employers pay, respectively, 1 and 3.25 per cent of their wages. Self-employed and informal economy workers pay 4 per cent of their monthly contribution wages. An additional 1 per cent from workers' wages is required for each dependant. Law No. 2 of 2018 also mentions subsidies, although these rates have yet to be determined.

Figure 4 presents the Egypt's new social protection legal framework.

[6] Article 19 of Law No. 48 establishes that the contributions rates shall be increased every seven years from the date of enactment of the Law hereto (2020) by 1 per cent, which shall be divided equally between the employer and the insured, provided that the total contribution rate shall not exceed 26 per cent.

[7] Article 38 of Prime Minister's Decision No. 909 of 2018 issuing the executive regulations of the universal health insurance system law promulgated by Law No. 2 of 2018.

**Figure 4. Expected contribution rates under Egypt's Law No. 148**

| | | Constitution of Egypt of 2014, articles 17 and 18 | | | |
|---|---|---|---|---|---|
| | | Health | Children and families | Working age | Old age |
| Formal sector | Public and private sector workers | Law No. 148/2020<br>Law No. 2/2018 | Law No. 148/2020 | Law No. 148/2020 | Law No. 148/2020 |
| | Self-employed | | | | |
| | Workers abroad | | | | |
| Workers in the informal economy | Street vendors, temporary agricultural workers, domestic workers | Law No. 148/2020<br>Law No. 2/2018 | Law No. 148/2020 | Law No. 148/2020 (except for unemployment insurance) | Law No. 148/2020 |
| Poor and extremely poor sectors | | Law No. 148/2020<br>Law No. 2/2018 | Takaful | | Karama |

▶ Source: author's analysis based on Constitution of Egypt of 2014 and the legal framework.

## Impact and challenges

Law No. 148 has led to several key improvements in Egypt's social protection system. Firstly, coverage has been greatly expanded through the introduction of 10 new categories of vulnerable workers who were previously excluded from coverage and who also benefit from substantial subsidies for their contributions.

Secondly, the Law has led to improvements in the system's administration and tripartite governance. In particular, NOSI has the responsibility for implementing the law. Its tripartite governance structure is expected to facilitate coordination and consensus- building among the relevant stakeholders.

Thirdly, Law No. 148 simplifies the calculation of pensions and increases its adequacy. Through the abrogation of the basic and variable salaries and the establishment of a single pensionable salary, employers' and workers' understanding of their rights and entitlements has been improved. In addition, the increase of the minimum pension by 15 per cent by 2027 and its subsequent indexation will contribute to reducing old-age poverty, which is especially relevant given the ageing of Egypt's population.

Lastly, the law helped to improve the financial sustainability of the social protection system. The planned merger of the GSIF and PSIF into a single fund is likely to reduce administrative costs and lead to higher returns. Furthermore, the integration of new categories of workers into social insurance, as well as the gradual increase of retirement age and contribution rates, makes the system more sustainable and reduces its reliance on government budget.

However, there are several challenges ahead for the effective implementation of Law No. 148 and Law No. 2 on the universal health insurance, especially concerning how it will address the extension of coverage to sectors with low contributory capacity and the formalization of categories of workers that the law itself defines as part of the informal sector, who comprise about 67 per cent of Egypt's labour force. Expanding work injury and unemployment benefits to the self-employed and workers in the informal economy is a particularly difficult task, but it would be worthwhile to explore the future development of benefit schemes for these workers. In addition, the establishment of a comprehensive or even universal maternity benefit or family allowance that reaches the most vulnerable families and women could certainly bolster Egypt's ongoing efforts to tackle poverty, as it would directly contribute to the eradication of child labour and improving the participation of women in the labour market.

## What's next?

The Government of Egypt is considering the establishment of new business processes to effectively implement Law No. 148 of 2019, define the organizational structures and unified framework on social security foreseen in the Law. This will require further developing the administrative capacity of the social security administration, and upgrading current branches of social security into a "single window" model that would facilitate the registration of beneficiaries under social security and other social services. Such a single-window model could be supported by the development of integrated information systems with modernized processes and services.

NOSI may also wish to develop a social insurance investment fund in order to increase the financial sustainability of the social security system. Lastly, the establishment of a social insurance training institute may help improve the technical capacity of NOSI staff.

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This policy brief was prepared by Ricardo Irra. It was reviewed by Sven Engels, Social Protection Department, International Labour Organization (ILO).
The Editor of the Social Protection in Action series is Valérie Schmitt, Deputy Director, ILO Social Protection Department.

**Contact information**

**International Labour Organization**
**Social Protection Department**
Route des Morillons 4
CH-1211 Geneva 22
Switzerland

T: +41 22 799 7239
E: socpro@ilo.org
W: www.ilo.org
www.social-protection.org