

**An *IFC Reports* Interview with**  
**Mr. Fahad Al-Rajaan,**  
**Director General of**  
**The Public Institution for Social Security**

On the  
20<sup>th</sup> March 2011

**For our special report on Kuwait**



**IFC REPORTS: To start off I would like to discuss with you the social welfare system that exists here in Kuwait. It has been described as one of the best in the world and provides free education, free healthcare, as well as some of the highest returns from pension funds. Could you please give us an introduction to Kuwait's social welfare system?**

**MR. FAHAD AL-RAJAN:** Kuwait has always been looking after its people. This is one of the objectives of the government and the Kuwaiti parliament. We provide free education, free healthcare, as well as subsidizing the pension fund. This is a way of distributing oil wealth. The oil sector is controlled by the government so they collect the oil wealth and then give it back to the people through education, medical care and the pension fund. We are the only pension fund in which the government pays part of the premium, as well as the employee and the employer. I cannot think of other countries in the world which have the same contribution levels between these three groups. The government pays 40% of the cost of the premium and the other 60% is paid by the employer and employee. That is regardless of whether you work for the government, a bank or a family business. When you participate in the system 60% of your premium is paid by your employer and yourself and 40% by the government. That is one of the reasons why we have the highest benefits for the people in the entire Gulf region, the Arab world, the West and emerging markets. This is one of the key reasons why Kuwaiti citizens are well off. Plus Kuwaiti citizens do not pay any taxes and this is also an extra benefit for the Kuwaiti people. It has enabled them to have one of the highest standards of living in the developed world.

**IFC REPORTS: One of the things I wanted to touch upon is this high standard and the vast social welfare system in Kuwait. Some argue that this creates a lack of drive and motivation amongst its citizens and even a lack of value appreciation. What are your comments on this?**

**MR. FAHAD AL-RAJAN:** I do not think so because in Kuwait we have a democracy and debate any opinion and law that is passed. Because of that there are debates in newspapers and on television that are not available in other countries. In other countries the decision is taken quickly by one man and you do not see the cost, viability studies or an explanation. In Kuwait it is the opposite because everything is debated. We have had democracy from the 1960's onwards and it is well consolidated. Kuwait is an open society and one can criticize everything. Over the long run this contributes towards making the people more educated and increasingly using social media, the Internet. They know what is going on and I think this is healthy for Kuwait. Everything here is done according to the law and the constitution. There are sometimes problems of implementing the law but they are corrected and supervised. Even we as an institution have to report to the government and everyone can read about our performance both in terms of successes and shortcomings. There is a government auditor which oversees our operations. Kuwait has always been a country with strong institutions. There are many institutions which are independent which work extremely well. There are leading entities like Kuwait Investment Authority, KPC, and the pension fund which are completely independent. Everything is being done according to the law and our constitution. Of course there are sometimes problems in implementing the law but it is corrected thanks to discussion and the role of the media.

The global financial crisis led to challenges in some of Kuwait's entities, just like it affected big Institutions in the United States, which is because we are all part of an increasingly globalized world. I think there is a healthy debate going on in Kuwaiti society. The strength of Kuwait lays in our constitution, our democracy, our lack of debt, the country's small population and of

course the oil reserves. If you look at these five elements it is evident that we are in a much better position than many countries in the world. This applies not only to the Middle East but also to Europe because you have countries like Ireland, Portugal and Greece which have substantial debt and are in a far worse position than many nations in the Middle East.

**IFC REPORTS: Can you please tell us a little bit more about the role that The Public Institution of Social Security plays in your operations?**

**MR. FAHAD AL-RAJAN:** This institution was established in 1977. We are one of the oldest institutions in the Middle East and have been in existence for 34 years. What is unique about our institution is that we are completely independent and work within the law like a private pension fund. We collect the premiums, invest it and distribute salaries for the retired people. All of this is done through our institution which operates like a private sector entity. We have outside auditors which come from all over the world. Every three years we write a report about the overall health of our institution in order for our board, the government and the parliament to evaluate our performance and discuss funding.

We are a fully funded institution. There are very few pension schemes in the world presently that are fully funded. Most of the time our benefits are fully funded by the government and are disbursed as one lump sum; this is because the country is wealthy and if we decide to give any benefit we pay for the total cost. This is something that is unique to Kuwait. Our institution has grown substantially over the 34 years in existence and we are now responsible for 400,000 people both retired as well as those still in the workforce. We look after almost half of the country's population.

PIFSS has nothing to do with the government so we are not considered to be a sovereign fund. We are a total pension fund like Calpers or other similar entities. The money that comes in is participation from three different parties. They pay their premiums and we look after everybody who is retiring. In the case of death we look after the dependent people until they are 26. In most parts of the world payments are up until people are 20 years old, but we look after our citizens until the age of 26.

After the age of 30 our coverage goes up to 95% of their salary which is the highest coverage. Most pension schemes pay a maximum of 65% after 30 years. For us the minimum we can pay out is 65% so these are tremendous benefits for Kuwaitis in comparison to the rest of the world. This is one of the major benefits for social security in Kuwait. People can still retire at the age of 50 whereas in most parts of the world they retire at 65 or 70 years. By the year 2020 our women will retire at 50 and men will do so at 55. This is also another benefit that nobody else has.

**IFC REPORTS: I also wanted to touch upon the investment side of PIFSS and as I understand much of this is done through WAFRA Investments. What is the link between these two institutions?**

**MR. FAHAD AL-RAJAN:** WAFRA is an independent company which is ICC regulated and works out of New York. They manage money for us as well as many other institutions. We actually represent only 30 percent of their business today. Approximately 20 years ago it was 100% dependent on the Public Institution for Social Security. Today they manage approximately USD 10 billion; only 30% from our institution and 70% from others.

**IFC REPORTS: Finally I wanted to know if you have any final message you would like to convey to our readers regarding the country or this institution?**

**MR. FAHAD AL-RAJAN:** Kuwait has been able to go through so many crises including the Asian crisis. We recovered from it. We also went through problems when oil prices were very low but survived that as well. Over the years we have been progressively developing to become a democracy and provide the best possible education. When you see what is happening throughout the world and the Middle East especially, you can see the importance of Kuwait having a good constitution which is accepted by society. Nobody argues about the leadership of the country but rather over the government. There is a difference between the ruling family and the government. Of course like any other government there are strengths and weaknesses but we have to be proud of all of the positive things we have in Kuwait and try to address the negatives. Unfortunately most people concentrate on the negatives of the country. However when you concentrate on the five elements I mentioned earlier (Constitution, Democracy, Lack of Debt, Small Population and Oil reserves), I think we are very proud to be Kuwaiti.

**IFC REPORTS: It has been an absolute pleasure, thank you very much.**