



Terms of Reference

Assessment of the Financial Position and Short Term Financial Risks faced by the NSSF in Lebanon

05 April 2021 – 15 August 2021

Background:

The National Social Security Fund (NSSF) is the major provider of social insurance coverage to workers and their family members in Lebanon. The social security system operated by the NSSF covers certain categories of employees including, permanent employees of the private formal sector, employees in government-owned corporations and contractual and wage earners of the public administration, teachers of private schools, and some categories of independent workers. The system covers different risk contingencies under three branches: medical, family allowances and end-of-service indemnity.

The current volatile economic, financial and labour market context in Lebanon poses potential threats to the financial equilibrium of the NSSF in the short run. A comprehensive assessment of the NSSF financial position and an assessment of the main financial risks faced by the NSSF across each of the three branches can help the Government of Lebanon and the NSSF to devise necessary measures to mitigate and reduce the short-term financial exposure of the NSSF and ensure it continues to play its critical role of provider of social insurance to Lebanese residents at a time it is most needed.

The International Labour Organization (ILO) was requested by the Director General of the NSSF, to undertake a thorough assessment of the fund's financial position under its three branches, including an analysis of assets and obligations and an assessment of the main financial risks faced by the NSSF for the next 5 years.

In response to this request, the ILO will contract a team of consultants that will start the assessment in April 2021.

Scope of work:

Under the overall guidance of the Senior Social Protection Specialist of the ILO Decent Work Team of the ILO Regional Office for the Arab States and the overall coordination of the Social Protection Technical Officer for Lebanon, as well as under the technical advice of the Actuarial

Services Unit of the ILO Social Protection Department (SOC/ASU) in Geneva, the team will carry out the following tasks:

A) Assets Assessment for Each Branch

- Review the Policies, Accounts & Financials for each Branch
- Comment on the effectiveness of the accounting policies
- Perform a detailed classification for each Branch's Assets
 - a) LBP T-Bills
 - b) Euro Bonds
 - c) LBP and USD Bank Deposits
 - d) Inter Branch Loans & Receivable
 - e) Receivables (contributions due from employers, and government)
 - f) Intangible "Asset" / "Payables"
 - i. For EOSI, relating to "Estimated Accrued Settlement Amounts" potentially due from employers in relation to their current employees
 - ii. For MEDICAL, Reimbursement Arrears to Employers
- High Level impairment assessment of the different asset categories
 - a) Fair value of the assets & determine whether there is reason for impairment
 - b) Approaches for impairment assessment need to be discussed and agreed on with the ILO team
- Identification of the main financial risks (in particular for the EOSI and Medical Branches)
 - a) Credit, Liquidity, Hyper-Inflation, Default risks

B) Actuarial Assessment of Obligations (End-of-Service Indemnity Branch)

- Assess the EOSI accrued Liabilities as at 31 December 2019 & provide a roll forward estimate as at year end 2020 - This is expected to adopt a "solvency approach" actuarial assessment rather than a typical "open population demographic and financial projection" assessment
 - a) Provided sufficient detailed data is available, the estimated liabilities will be broken into their main components
 - i. Contributions (for previous work periods)
 - ii. Credited Nominal Interest (for previous work periods)
 - iii. EOSI for the last period of service (before and after applicable penalties)
 - iv. Additional accrued benefits (i.e. half month EOSI for long-service insureds)
- Perform a high-level 5-year projection of the potential cash obligations (i.e. payments) expected under this Branch from the perspective of liquidity management

C) Assessment of the Obligations under the Family Allowance Branch

- Perform a high-level 5-year projection of the potential cash obligations (i.e. payments) expected under this Branch

D) Assessment of the Obligations under the Medical Branch

- Perform a high-level 5-year projection of the potential cash obligations (i.e. payments) expected under this Branch
- Identify potential unreported / intangible obligations and receivables
- In particular, the ILO needs to look into Law 27/2017 (for post-retirement medical coverage) and discuss what type of obligation assessment needs to be considered here

E) Assessment of the Financial Positions (for each Branch)

- Combine the Assets & Obligation Assessments to provide an opinion on the Branches' Financial Positions and the Main Risks they are exposed to
- Test a limited number (to be agreed on) of Sensitivity & Shock Scenarios

Activities:

- Review the current rules, regulations and processes
- Discuss and agree on the suggested methodology with ILO (Actuarial Expert and Health Insurance expert)
- Work with NSSF's Team, on the ground, to perform a thorough assessment of available data
- Work with NSSF's Team to compile the most relevant and detailed data & info for the mandate
- Prepare and submit to the NSSF Team a list of required data, statistics, and other info needed
- Data Mining & Analysis / Distributions & Trend Analysis
- Develop an adequate valuation methodology and relevant assumptions for assessing accrued liabilities under EOSI (given what type of data is made available)
- For other branches: model & carry out a simple high-level short-term projection of the expected cash outflows
- Test & Discuss preliminary findings with ILO's team
- Reiterate/Adjust some steps as needed and if relevant

Confidentiality:

The data provided to ILO by NSSF is confidential and should not be disclosed to any third part without prior written approval from NSSF. Internal drafts of each deliverable resulting from

this assignment will be shared with NSSF for review, comments and inputs before any further disclosure.

Timeline and Deliverables:

This assessment will be carried out over a 4 months period, starting April until mid-August 2021.

- Deliverable 1. A detailed report on the assessment of obligations for each of the three branches of the NSSF.
- Deliverable 2. A detailed report on the assessment of assets for each of the three branches of the NSSF
- Deliverable 3. A final report on the financial position of the NSSF, including a high-level 5-years cash-flow projection for the purpose of NSSF liquidity management and policy recommendations to preserve short term financial balance in line with ILO international social security standards.

Qualifications and Experience:

The Consultants/Firm(s) should provide a team of experts with mixed background on social security, actuarial analysis, auditing, financial and financial risk analysis:

- Demonstrated experience in actuarial science, specifically social insurance schemes actuarial valuations for at least 20 years of experience.
- Demonstrated experience in auditing and financial risk analysis for at least 20 years.
- Previous experience of work on the social security system in Lebanon.
- Fluency in oral and written Arabic is a must and excellent writing skills in English.
- Demonstrated experience in conducting similar valuations, financial assessments and risk assessments.

Application:

The technical proposal should include proposed approach, proposed team structure and roles, timeline, relevant past qualifications, profile of the company, and CVs of team members.

Interested companies/firms should submit their technical and financial proposals by COB 31 March 2021, to Dr. Luca Pellerano, Senior Social Protection Specialist for ROAS, pellerano@ilo.org, Ms. Rania Eghnatios, Social Protection Technical Officer for Lebanon, eghnatios@ilo.org, Ms. Hiba Dbaibo, Social Protection Project Assistant, dbaibo@ilo.org.

The financial proposal should include a clear breakdown of costs including fees and other expenses.

Both proposals should be valid for 90 days.