Pensions Developments in East Africa.

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Background of Pension System in EA Countries

- DISCRIPTIONON:

the pension system COVERS only a small fraction of population. It is mainly formal employment, which is predominantly is dominated by public servants.

- The set of benefit covered is limited to long term benefits such as old age, survivors, disability, invalidity.
- In some schemes there is a mix of pension and non-pension benefits. E.g. NSSF – Tanzania.
- In each country there is a mix of Defined Benefit plan an Defined Contribution plan.
- Most of private sector schemes are defined contribution with some few exceptions, while most of public servants schemes are DBs.

Benefit structure

- Define Benefit Plans (DB).
  - DB schemes have generous benefit formulae
  - They are in most cases unfunded (Uganda and Kenya have higher degree on this)
  - The system is imbedded in the government sources of finance
- Defined Contribution Plans:
  - Benefit depends on members accumulation (employment) and return on investments
  - Most of the schemes are employers' initiatives and voluntary with exceptional on NSSFs

Investment and regulations

- Investments are mainly decided internally and locally managed except Kenya where Regulatory framework is in relatively advanced stage compared to other EA Countries.
- There is limited investment opportunities in the economy
- Low Investment returns over the years
- Misuse of powers to decide which investment to be taken
- Most of schemes are self-regulated in most aspect.

Administration

- All Mandatory schemes (DB and DC) are publicly managed with strong link with specific parent ministry in the government.
- All Occupational Schemes are privately managed, (larger population under these schemes are in Kenya)
- Board of Trustees in public schemes are guided by some element of ILO guidelines and legal and quas-political drives in specific countries.

Challenges in the system

- Low coverage
- Generous Benefits to some groups of Population (e.g. Civil Servants)
- DB is creating financial burden to the government
- DC returns are too small
- The structure of the system does not provide opportunity for extension and growth.
- The system is not regulated enough for better results to members and economy
- Too much Political interference
- Still Uganda and Kenya has Unfunded schemes for Civil Servants which creates burden to government budget.

Facing the Challenges – Tanzanian Experience

- Tanzania: A number of Actions have being undertaken and initiated
  - Conversion of NPF (DC) to DB Pension Scheme – 1997/96
  - Converting Civil Servant Schemes in to Contributory scheme from Pay As You Go Scheme – 1999 (DB)
  - LAPF (Provident) to LAPF Pensions in 2005 (DB)

Cont …

- Establishment of the National Social Security Policy with guidance to initiate Autonomous Regulatory Body.
- Enactment of Social Security Regulatory Authority with mandate to supervise the social security sector
- Initiating reform process with clear goals and targets.

Reform Programme

- Reform intends to strengthen and introducing mechanisms for extension of social security system to the majority of Tanzanians
- To reduce financial burden – pension liability to the government by creating self financing schemes
- Establish fair system to Tanzanians

Reform Programme Phases

The achievement of the vision will take time and in terms of strategy it may need to be divided into a number of phases. This will involve three phase:

- **Extension and harmonisation phase,**
- **Stabilisation phase,**
- **Growth and prosperity phase.**

Challenges in implementing Reforms in Tanzania

- Financing the reform and transitional cost involved
  - Financing pre-99 pension liability of the civil servant (Tanzania)
  - Establishing two pillar system to reduce financial burden of the government in the future.
- Establishing fair and sustainable system
  - Harmonising legal framework for all schemes
  - Harmonisation of benefit structure and formulae for all public and mandatory schemes
  - Coordinating all public funds under one administration system Vs Merging them to one scheme

Conclusion

- Technically Reforms has positive impact to the system:
- Proposals on the table provides enough and fair reform options technically
- Reforms option discussion are dominated by Political and personal gains
- It takes too long to make decisions

Thank you

SHARING THE EAST AFRICAN EXPERIENCE:

THE CASE OF UGANDA

WORLD BANK CONTRACTUAL SAVINGS CONFERENCE
JANUARY 9-11, 2012
WASHINGTON, D.C.
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AGENDA

- Pension Systems in the East African Community : An Overview
- Uganda's Pension System
- Uganda's Journey to Pension Reform
- Lessons and Emerging Issues
- Conclusion

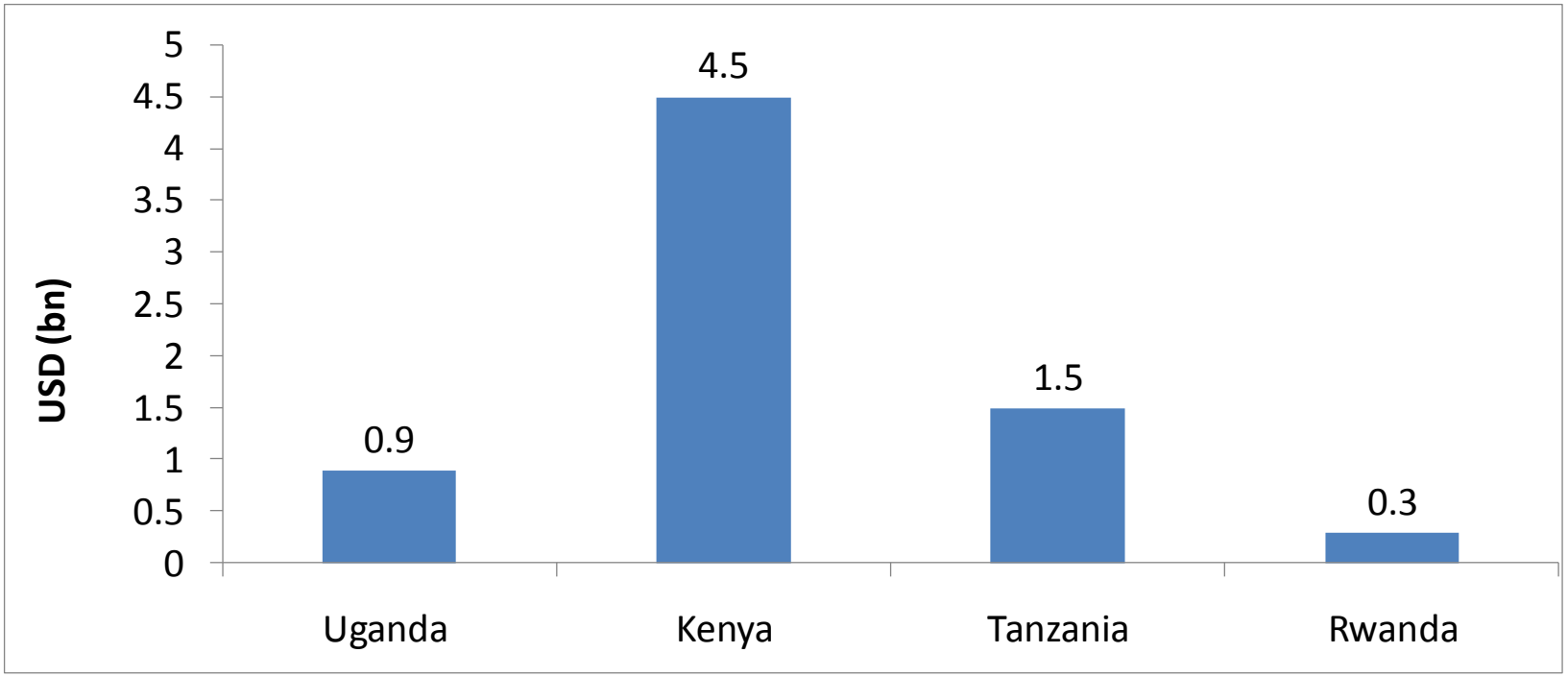
East African Community Pension Systems

- Save for Burundi, each East African Country has a regulatory agency responsible for Pensions.
- No social pensions for the aged population save for Kenya & Uganda – pilot
- Coverage focuses on the formal sector
- Informal sector programs inadequate; initiatives in Kenya (Mbao Pension Plan)
- More reforms required in the region to extend coverage and restructure expensive unfunded public service schemes in Kenya and Uganda

Current Pension Systems in EAC

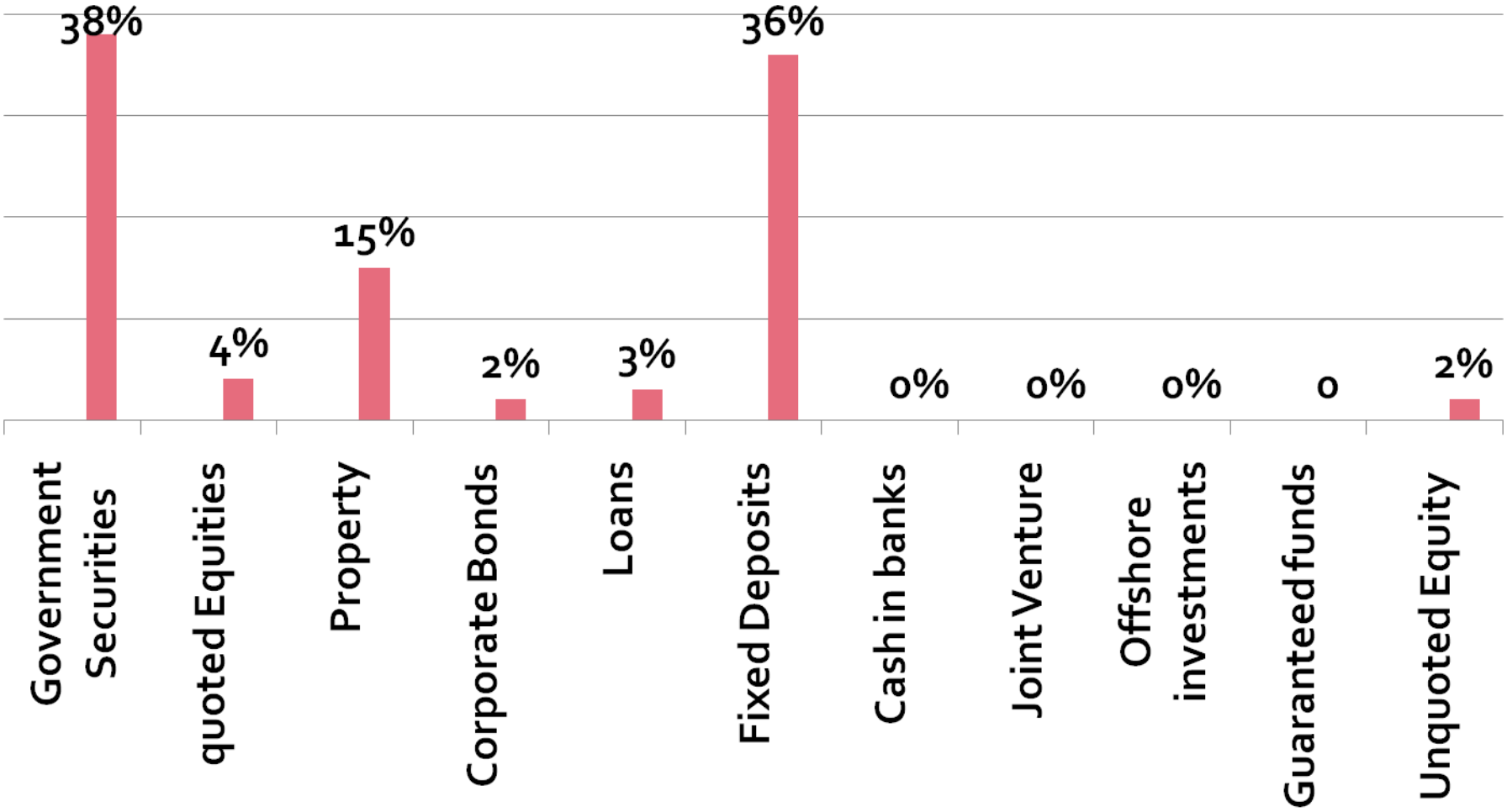
- The current broad classification of pension systems in EAC is as follows:
  - **Social pensions** – small cash transfers to the poor above 65 years [Zero Pillar]- pilot schemes in Kenya and Uganda
  - The **mandatory pension schemes** for all formal employees - [1st Pillar]
    - National social security pension schemes
  - **Supplementary pension schemes** [2nd Pillar]
    - Private occupational pension schemes
    - Civil service pension schemes
    - Local Authorities' workers pension schemes
    - Parastatal workers pension schemes
    - Armed forces pension schemes
    - Parliamentary pension schemes
  - **Private individual retirement saving plans** [3rd Pillar]

Total Value of Pension Assets in mandatory contributory Pension Schemes in the EAC (USD BN)



SOURCE: Analyzed Financial Statements for the period between 2009-2011 provided in September 2011 by various mandatory pension schemes and pension regulators in EAC.

Pension Fund Investments of NSSF-Uganda (*as at 30th November 2011*)



Source;NSSF Uganda

Summary Comparisons

Issue	Kenya	Burundi	Uganda	Rwanda	Tanzania
System Design	Largely DC save for Civil Service Scheme & few large DB schemes	DB system Few private DC schemes	DC system save for Civil Service/ Military schemes	DB system with few DC Private schemes	All DB save GEPF
Sector Control	Large private sector participation	State controlled schemes	Largely state controlled but moving to private sector participation	State controlled scheme	State Controlled schemes
Supervision Agency and Ministry	RBA [Finance & Labor]]	No Agency	URBRA [Finance]	BNR [Finance]	SSRA [Labor]
Basic law	Legislation &Trust law	Legislation & Contract	Legislation & Trust law	Legislation, Trust & Contract law	Legislation & Trust law
Licensing Regime	Schemes, asset managers, custodians & administrators	No Requirement	Schemes, trustees, asset managers, custodians & administrators	Schemes, trustees, asset managers, custodians & administrators	Schemes, asset managers & custodians

Uganda's Pension System

Uganda's Pension System

- Pension system covers a relatively small portion of the population.
- Private sector employees are covered by the NSSF mandatory provident fund and some voluntary occupational pension schemes.
- The number and funding status of voluntary occupational schemes is not clearly ascertained as these schemes are currently not regulated and supervised.
- However the fund managers licensed by the CMA manage 19 occupational pension funds with over UGX 220 bn (USD 92 m)

NSSF

- NSSF covers about 450,000 workers which is 3.5 % of the working population.
- NSSF assets are internally managed. A small portion outsourced to two CMA licensed fund managers.
- Corporate Governance at the NSSF has been a challenge - five Managing Directors in the last 13 years.
- There has been successful prosecution of one of the former managing directors of NSSF for causing financial loss.

Public Sector

- The Public Service Pension Fund (PSPF) non contributory.
- PSPF covers about 263,854 employees.
- Pension Arrears have been reduced from over UGX 300 bn (USD 125 m) to UGX 68 bn (USD 28 m) over the last 10 years.
- The Pensions Act amendment in 1994 subjected all local authorities workers to the Pensions Act Cap 286

Summary Comparisons of Uganda's Pension System

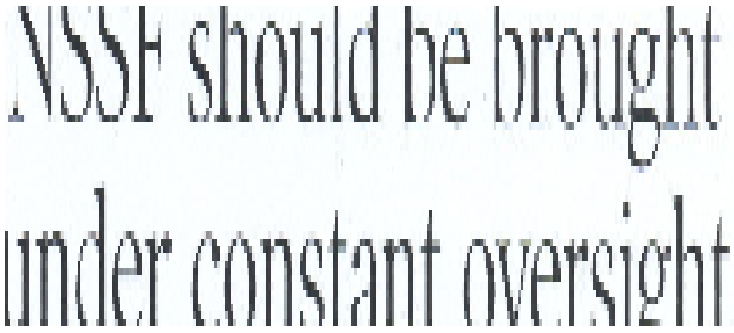
	PSPF[1946]	AFPS[1939]	NSSF[1985	OPS
LEGAL FRAMEWORK	Pensions Act [Cap 286]	Armed Forces Pensions Act [Cap 298]	NSSF Act [Cap 222]	Uganda Retirement Benefits Regulatory Authority Act 2011 / Trust Law
COVERAGE	Civil servants; police; prison officers; judiciary; doctors; teachers Public officers in Local Authorities	Military officers	Formal sector workers in companies/institutions with more than 5 employees	Formal workers in companies/institutions with voluntary pension plans
MEMBERS	Approx 263,854	Over 45, 000	Approx 450,000	Not Available
FUNDING STATUS	Unfunded	Unfunded	Funded	Funded
BENEFIT FINANCING	Central Govt. revenues [Non Contributory]	Central Govt. Revenues [Non Contributory]	Accumulated individual accounts [employer 10% - Employee 5%] Contributory	Scheme funds - Contributory as per plan rules
DESIGN	DB	DB	DC	DB or DC depending on plan rules
BENEFIT	Annuities and Lump sums	Annuities and Lump Sums	Lump Sums -Provident Fund	Annuities and Lump Sums depending on plan rules

Uganda's Journey to Pension Reform

Pension Reform; Crisis driven or need driven ?????

JAMWA JAILED ON NSSF MESS

Former managing director arrested at Kenyan border at 3:00am



NSSF should be brought under constant oversight

IGG DEMANDS NSSF SHAKE-UP

Big people wanted to steal NSSF money and I refused

ZOE BAKOKO

Uganda's Journey

- There has been overall consensus on the need to reform the pension system in Uganda.
- The African Peer Review Mechanism (APRM) Country Review Report 2009 recommended that there was need for reform, regulation and liberalization of the pension sector.

The journey

1995 - December PWC advised on the NSSF Strategic Corporate Plan

Issues- improvement in Quality of products, customer service Operating efficiency ,return on investment

April 1998- IMF advised on the Reform of the Government Pension system

Issues

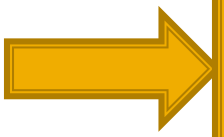
Address equity between pensioners

Improve legal ,financial ,administrative disciplines

Start a contributory, funded, actuarially sound system with a lower benefit

The journey

2001- Deloitte & Touche Reviewed the Public Service pension Arrangements .Issues Pension Arrears (Ush, 260Billion / USD109), rapidly increasing costs Ineffective plan design and administration



- **The Stakeholders Transition Group (STG) 2003 instituted by the Ministry of Gender,Labour and Social Development**
- **Pension Reform Task Force (PRTF) 2004 instituted by the Ministry of Finance in 2004**

The Journey

- **The Stakeholders Transition Group (STG)**
  - Instituted in January 2003 by the Minister of Gender,Labour and Social Development
  - A comprehensive initiative to assist Government with the development of a comprehensive legal, regulatory and financing framework for social security reforms.
- **Key Findings**
- Review of existing legislation
  - To provide constitutional protection of social security and pension rights to all Ugandans.
  - Consolidation of all pieces of legislation on retirement schemes, social security institutions, and pensions.

STG – Key Findings

- Establishment of a competent independent regulator for the entire social protection sector.
- Make contribution mandatory
- All social security and pension arrangements be funded.
- Liberalisation of the social security and pension sector.

Proposals by PRTF

- Instituted by the MOFPED in 2004
- The Pension sector should be liberalised
- There should be a mandatory level of contribution followed by a discretionary level.
- An independent regulatory body should be established.
- In the long run pensions, capital markets and insurance should be combined to have one regulator for the Non Bank Financial Institutions.
- Uniform tax regime for all pension providers and tax incentives.

Reforms

Establishment of a Regulator

- Uganda Retirement Benefits Regulatory Authority Act 2011
  - To regulate the establishment, management and operation of retirement benefit schemes in Uganda both in the private and public sectors.
  - To supervise institutions which provide retirement benefits products and services.
  - To protect interests of members and beneficiaries of retirement benefit schemes.

Reforms

- Reform of the Public Service Pension Fund
  - To provide sufficient funding to clear pension arrears and transform the current system into a contributory scheme.
  - Proposals advanced in the Liberalization of the Retirement Benefits Sector Bill
    - PSPF to be a pre-funded DC
    - Those with 15 years service or less to be given redemption bonds redeemable at retirement
    - Those over 15 years service will continue under current arrangement

Reforms

- Liberalization
  - Triggered by poor governance and underperformance of NSSF
  - Unsustainable state of the public service pension fund
  - the Liberalization of the Retirement Benefits Sector Bill was tabled before Parliament in 2011.

The Liberalization Bill

- The objects of the Bill are to:
  - provide for liberalization of the retirement benefits sector.
  - remove the monopoly of a single retirement benefits scheme over mandatory contributions.
  - provide for fair competition among licensed retirement benefit schemes.

Implications of Liberalization

- Implications of Liberalization:
  - NSSF will not enjoy monopoly of statutory contributions
  - It will compete with other private funds who will be permitted to collect statutory contributions from employers and members.
  - External fund managers will manage pension assets
  - Separation of Trusteeship, management and administration of pension funds
  - Adoption of international best practice

Challenges in the Reform process

- Regulatory framework – URBRA Act yet to be operationalised. Liberalisation Bill – has many gaps.
- Armed forces pension scheme is a non contributory defined benefit scheme.
- Statistical data on retirement benefit schemes lacking.
- Political will
- Vested interests
- Skepticism from stakeholders over the pension reform.

Skepticism (Press Releases in Uganda)

Workers accuse finance ministry of rushing pensions Bill

NSSF reform will not benefit contributors but managers

NSSF tries to block pensions Bill

WORKERS WORRIED ABOUT PLANED PENSION REFORMS

DAILY MONITOR | Sunday August 2, 2009 | Page 20

Business Power

The proposed pension sector reforms are retrogressive

Regulatory Challenges

- Operationalisation of the URBRA Act which commenced in September 2011.
- Dual licensing regime for fund managers
- Investment restrictions in the URBRA Act.
- Regulatory Models; Prudential Vs Conduct of Business; Single Vs Integrated.
- Inadequate in-country expertise.
- Conflict of laws

Lessons & Emerging Issues

- Development of a national pensions policy
- Sequencing – regulation and liberalization which comes first?
- Building stakeholder consensus
- Implications of implementation of the EAC Common Market protocol
- Negotiation of the EAC Monetary Union Protocol

Conclusion

- The Pension journey in Uganda like in many other countries is long, complex and controversial.
- The road is not smooth , it has pot holes, road blocks, diversions, detractors but like the road to heaven we believe it will lead to happiness by all stakeholders.

THANK YOU