



"a reasonable and sustainable standard of living for every Kenyan worker after their retirement"

# Challenges and Innovations in Expanding Pensions Coverage

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#### Agenda

- Pensions coverage in Sub-Saharan Africa
- Key reasons for low coverage
- Innovations in expanding coverage and way forward





#### **Pensions Coverage - Definitions**

- Extent of pensions coverage may vary depending on part of labour force being considered:
  - Total labour force: Population between 15–64 years, either employed or unemployed involved in economic production

Employed persons: Persons within total labour force who are working either on wage or non-wage terms

Wage employed: Employed persons in receipt of regular wages

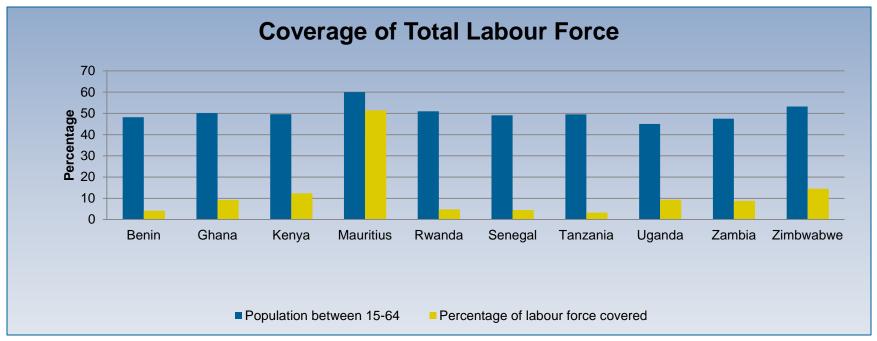
Unemployed persons: People of working age actively seeking for jobs but unable to find one





#### Pensions Coverage in Sub Saharan Africa

- Proportion of total labour force with pension coverage given by:
  - Persons covered / Total labour force
- Graph indicating pensions coverage of selected Sub Saharan Africa (SSA) countries:



Source: Brooks World Poverty Institute, University of Manchester





### Pensions Coverage in Sub Saharan Africa

✓ Most SSA countries have approx 50% of population aged 15 – 64 years

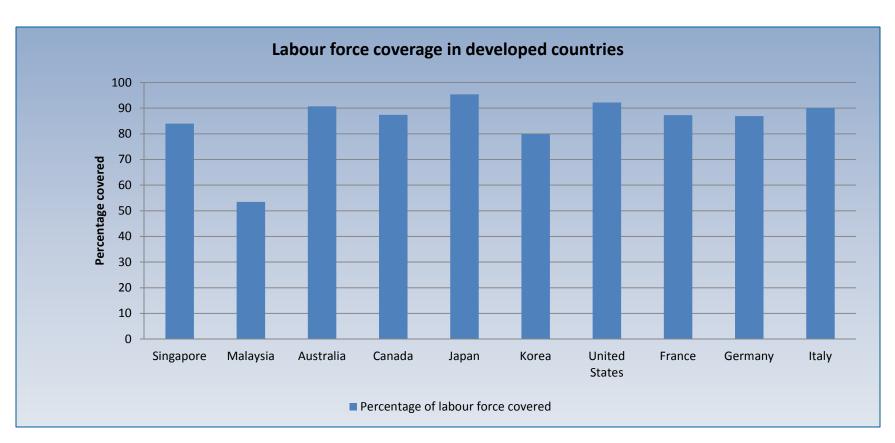
✓ On average, most SSA countries have <10% of total labour force covered</p>

✓ In contrast, many developed countries have around 80% of labour force covered by a pension arrangement as graph below indicates:





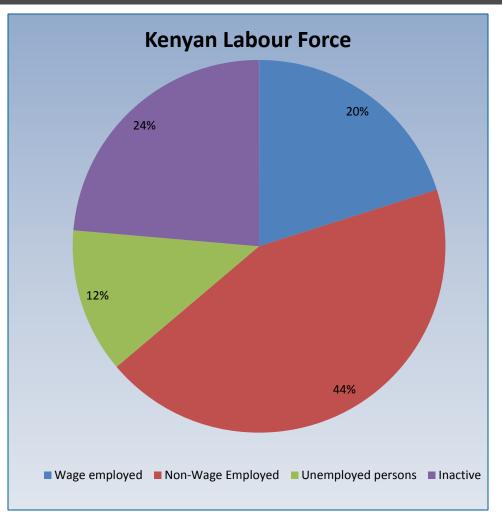
# Pensions Coverage in Selected Industrialized Countries



Source: OECD iLibrary



# Kenyan Labour Force



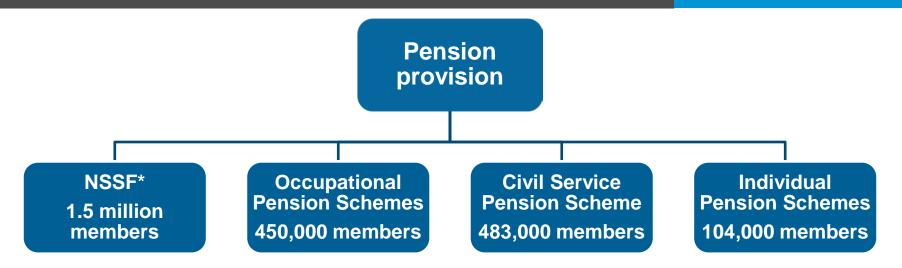
- Total population: 41.6 million (2011 estimate)
- ✓ Total labour force: 19.9 million
- Employed persons: 63.8% of labour force
- 24% of labour force are inactive. i.e. persons not seeking work due to illness, full time students, don't need work, etc
- Unemployed persons: 12.7% of labour force unemployed
- Only 20% of labour force in receipt of regular wage income

Source: Kenya National Bureau of Statistics





#### Structure of Pensions Provision in Kenya



- ✓ Persons covered in a pension arrangement: 2,537,000
- ✓ Pension coverage of employed persons: 20.0%
- ✓ Pension coverage of total labour force: 12.7%
- √\* Some element of double counting exists as many members of occupational schemes are also members of NSSF





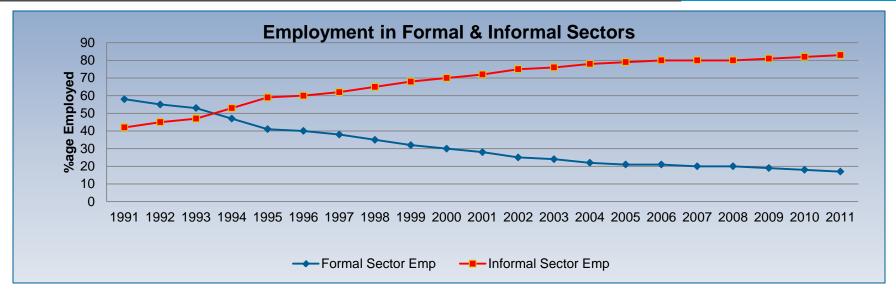
- High levels of unemployment:
  - Average unemployment rate is 22% in SSA for persons between 18
    25 years

- Employment structure:
  - SSA countries have high levels of employment in informal sector.
  - Informal sector jobs have low security, low wages and high levels of unpaid family employment

Graph shows evolution of jobs between formal and informal sectors in Kenya:







Source: Kenya National Bureau of Statistics

- □Employment in informal sector has been increasing.
- □Low wages and lack of job security constrains enforcement of contributions to pension schemes
- □Pension contributions comprise too high a proportion of income for low wage earners





- Irregular/Seasonal income:
  - □ For instance, only 31.5% of employed persons in Kenya receive regular wage income hence difficult to extend contributory coverage
  - Many in informal sector may be resource rich but cash poor e.g. pastoralists and subsistence farmers, hence unable to make consistent contributions
- Lack of national pensions and social protection policies
- Operational costs:
  - High cost of enforcing mandatory membership to national scheme
  - Expensive to enforce remittance of mandatory contributions
  - Expensive to set up requisite infrastructure in order to have a national outreach e.g. setting up offices in different regions





- Majority of SMEs in informal sector outside tax bracket.
  - Paying pension contributions may expose them to tax agency

- Multiple revenue collection mechanisms:
  - SMEs pay rates to local authorities
  - No structure to liaise between these authorities, national tax agency and the national pensions scheme





### Innovations and Way forward

- Design pension schemes geared towards informal sector:
  - Partner with micro-finance institutions to incorporate micro-pension products in their product offerings
  - Leverage on ICT for payment of contributions e.g. mobile phone money transfers to the scheme
  - Institutionalize informal sector schemes with flexible contribution and withdrawal features, e.g. Mbao Pension Plan
- Cost effective enforcement of mandatory contributions e.g.:
  - Local and/or national tax authority to collect mandatory pension contributions
  - Implement a single unified payment to cover tax and pension contributions for SMEs





### Innovations and Way forward

 Develop robust national pensions policy addressing structural inadequacies of current system

- Tax financed pension provision either:
  - To cover all citizens above a given age i.e. universal pensions
  - Means tested provision to cover most vulnerable in society

- Fiscal incentives (e.g. matching contributions for informal sector workers)
- Tax and other incentives to informal economy in order to formalize sector
  - make it easier to enforce mandatory contributions for all





# Thank You

