

PENSION SYSTEM OUTLOOK IN UGANDA



Presentation by David N. Bonyi

CEO, URBRA

to Rotary Club of Kampala South, Hotel Africana

19.09.2016

Presentation Outline

- URBRA Mandate
- Why Pension Systems
- Uganda Pension Outlook
- Private Schemes vs NSSF
- Impact of liberalization
- Conclusion

URBRA MANDATE AND FUNCTIONS

SUPERVISE AND REGULATE

Establishment, Management and operation of retirement benefits schemes

PROTECT

Interests of scheme members and beneficiaries

FUNCTIONS

1. License
2. Approve scheme auditor and actuary
3. Develop sector
4. Promote sector stability
5. Sustainability of sector
6. Public awareness

ADVISE

Minister for Finance on national policy relating to the sector

IMPLEMENT

All government policy relating to the sector

WHY PENSION SYSTEMS

1. Consumption Smoothing

- ◆ Rational people rationalize their well-being during their lifetime rather than at a single point
- ◆ People postpone some consumption [by saving] in order to maintain same consumption in future [old age]
- ◆ Pension policies and adopted systems aim at enabling consumption smoothing
 - ◆ Disallow leakages during accumulation phase
 - ◆ Create incentives to enable people voluntarily save more or mandate higher saving rate



WHY PENSION SYSTEMS

2. Insurance

- ◆ Life is uncertain and people do not know how long they will live after retirement
- ◆ The risk of outliving savings after retirement always exist
- ◆ This forces people to consume very little in retirement to avoid running out of savings – quality of life is compromised.
- ◆ Pension schemes allow people to pool savings and transfer their joint risk to an insurance company to purchase annuities



WHY PENSION SYSTEMS

3. Poverty Relief

- ◆ Voluntary savings for old age income may not be enough to support old age income
- ◆ Government may therefore intervene by providing for cash transfers to people who are poor on a lifetime basis – [these may be universal transfer or means-tested transfer]
- ◆ Pension policies and systems also address poverty relief funded from general tax revenues

WHY PENSION SYSTEMS

4. Redistribution

- ◆ Some countries with funded DB schemes can elect to have a higher replacement rate to low earners and lower rate for higher earners
- ◆ A pension system may also enable redistribution among those saving for retirement

5. Capital Mobilization

- ◆ This is a secondary objective of a pension system
- ◆ But, as pension system is designed, the mobilization of domestic savings for economic development is always a motivation

PENSION SYSTEM OUTLOOK OUTLOOK



	PSPS/Local Authorities PS	AFPS	NSSF	Occupational Schemes
Legal Framework	Pensions Act [Cap 286]	Armed Forces Pensions Act [Cap 298]	NSSF Act [Cap 222]	UBRA Act 2011 / Trust Law/ Act of Parliament – e.g. Parliamentary scheme
Coverage	Civil servants; Local Government workers; police; prison officers; judiciary; doctors; teachers.	Military officers	Formal sector workers – employers with 5 or more employees	Formal employees in companies /institutions with pension plans Members of Parliament
Benefits Financing	Tax revenues	Tax Revenues	Accumulated individual accounts (employer 10% Employee 5%)	Scheme funds - Contributory as per plan rules/ enabling Act
Benefits Payment	Annuities and Lump sums	Annuities and Lump Sums	Lump Sums -Provident Fund	Annuities and Lump Sums depending on plan rules

PENSION INDUSTRY OUTLOOK

Industry Coverage Statistics

NSSF as at June,2015	<ul style="list-style-type: none"> ▪ Total coverage – 1,573,354 ▪ Active members - 597,203 ▪ Activity rate – 38%
Public Service Pension Scheme	373,168 (307,000 active civil servants and 66,168 pensioners) as at May,2016
Occupational schemes	24,174 as at December, 2015
Senior Citizens Grant (SCG)	123,153 as at December, 2015 (transfers of UGX25,000/= every month)
Total number under some form of cover	1,757,849
Coverage ratio	10.2% of the total labor force

INDUSTRY OUTLOOK - 2015

- ▶ Total assets under management - UGX 6.5trillion (8.1% of GDP)
 - ▶ Assets invested in various classes of investments as per URBRA Regulations
 - ▶ There is room for improvement as the maximum set limits are not yet reached
- ▶ Total inflows - 26% of total assets (UGX 1.7 trillion)
 - ▶ Contributions - **UGX 829 billion**
 - ▶ Investment income - **UGX 908 billion** (14% of total Assets)



INDUSTRY OUTLOOK - 2015

- ▶ Benefits paid - UGX 243 billion (14.2% of total inflows)
- ▶ Administrative expenses - UGX 82 billion
 - ▶ Figure still high but will be brought down with good governance
 - ▶ Proper supervision of the sector
 - ▶ Growth of the sector (currently at 25%)
 - ▶ Increase in number of players [*Employers setting up schemes*]
- ▶ Investment management expenses - UGX 3.05 billion.

INDUSTRY OUTLOOK - 2015

CURRENT SCENARIO

- ❖ Very few Ugandans save for old age pensions
- ❖ Only about 600,000 are active savers in NSSF – even when it is mandatory
- ❖ People with some income need to be sensitized to -
 - appreciate the reality of risks in old age
 - to understand the idea of smoothing consumption [saving]
 - to understand that buying an annuity is a better way of managing pension consumption risk than a lump sum pay
 - Limit leakages during accumulation phase

Private Schemes Vs NSSF

- NSSF
- Established by NSSF Act [Cap 222]
- Mandatory Scheme
- Defined contribution but fixed (5%Employee, 10%Employer)
- Eligible for all Formal employers with 5 employees and above
- Benefits paid in lump-sum at retirement age
- Regulated and supervised under the URBRA Act 2011

Private Schemes Vs NSSF

- Private Schemes
- Voluntary schemes
- Established and governed by a Trust Deed and Scheme Rules
- Defined contribution or Defined Benefit
- Caters for both formal and informal employees
- Benefits paid in lump-sum or as a pension
- Regulated and supervised under the URBRA Act 2011

IMPACT OF LIBERALIZATION

- ❑ If the Bill is enacted, Uganda will shift to a liberalized pension sector with individualized accounts and choice of transfer
- ❑ Expand coverage and may result in optimal scheme Performance owing to competition
- ❑ Remove monopoly of a single retirement Benefits scheme over mandatory contributions
- ❑ The policy allows member choice on mandatory contributions



IMPACT

CONCLUSION

- ❖ Sector shows signs of growth
- ❖ Informal sector coverage has been enhanced with two new schemes (Mazima and KACITA)
- ❖ Voluntary occupational schemes are growing in number and assets
- ❖ We need to build confidence in the sector by enhancing prudence in scheme

Governance

- ❖ We need to create more awareness to promote the sector
- ❖ Employers encouraged to set up schemes for their employees to supplement NSSF savings





Uganda Retirement Benefits Regulatory Authority

4th-6th Floor, Plot 1 Clement Hill Road

P.O. Box 7561 Kampala

Tel: +256 417 304500

email: ceo@urbra.go.ug

Website: www.urbra.go.ug

Twitter: @Urbra_ceo