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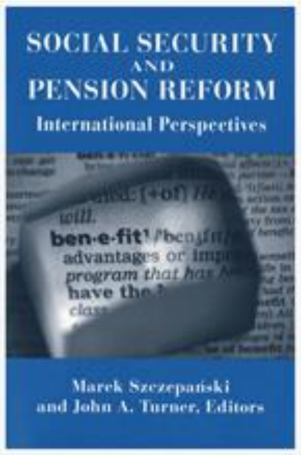

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Social Security and Pension Reform

International Perspectives

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11
Social Security and Pensions in East Africa

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Five countries in East Africa have formed the East African Community (EAC)—Kenya, Tanzania, Uganda, Burundi, and Rwanda. These countries include both Anglophone and Francophone Africa, though English is the official language of the EAC. They have a total population of more than 140 million, which is more than one-tenth of the population of Africa. The EAC, headquartered in Arusha, Tanzania, was formed in 2000 with Kenya, Uganda, and Tanzania; Rwanda and Burundi joined in 2007. South Sudan, Sudan, Zambia, Malawi, and the Democratic Republic of the Congo have indicated an interest in joining. While the EAC is already an important regional organization, if these countries join, the EAC would include more than one-fifth of the population of Africa.

The EAC is seeking greater integration of the five countries in order to facilitate the development of a prosperous and peaceful East Africa. Integration goals include facilitating the movement of workers, capital, and commerce across countries, including developing a free trade zone. Facilitating the movement of workers raises issues of pension and social security portability across countries. It also involves harmonizing the social security and pension systems and laws in the five countries. The EAC has a committee responsible for these issues, the Capital Markets, Insurance and Pensions Committee.

In 2010, the EAC established the Common Market Protocol as a step toward greater economic integration, including the free movement of workers. The citizens of any of the five countries can work or live in any of the other countries and participate in the social security program of the new country of residence. The academic and professional qualifications of any country in the EAC are recognized in the other countries (Ministry of East African Community Affairs 2011).

The EAC countries have the stated goal of adopting a common currency, and in 2012 they are considering a policy that would set them on the path to having a common currency within 10 years. They eventually may even form a federation as a single country in order to facilitate their development through greater economies of scale and a larger free-trade area. The development of funded pensions can aid in the development of capital markets in the region, providing a source of funds for investments in government debt and corporate debt and equity.

This chapter discusses the pension and social security old-age benefit systems in the EAC, including discussing areas in need of reform. It first discusses mandatory social security systems, and then various aspects of employer-provided pensions, including pension regulators, the tax treatment of pensions, the types of pensions provided in the private sector, and pensions for public sector workers. It discusses attempts to extend coverage to more workers.

SOCIAL SECURITY

Overview

All the mandatory social security programs in the region are called the National Social Security Fund (NSSF) (Table 11.1). Social security pensions in East Africa cover only a small percentage of the workforce, mainly those in government employment. Tanzania, Uganda, Rwanda, and Burundi cover less than 10 percent of their populations, while Kenya

Table 11.1 Name of Primary Social Security Fund, 2012

Country	Name of plan
Burundi	National Social Security Fund
Kenya	National Social Security Fund
Rwanda	Social Security Fund of Rwanda
Tanzania	National Social Security Fund
Uganda	National Social Security Fund

covers 15 percent (Barya 2011). Lack of coverage is due in part to contribution evasion by employers and employees who are covered under the law but who do not contribute. Also, coverage for self-employed workers is generally voluntary, and workers in the informal sector generally are not covered (Table 11.2). Most people in old age depend on traditional arrangements through their families or clans.

Table 11.2 Workers Not Covered by Social Security, 2012

Country	Workers not covered
Burundi	Self employed
Kenya	Employers with less than five employees; persons earning less than Kshs1,000 a month
Rwanda	Self-employed
Tanzania	Self-employed; household workers
Uganda	Employers with less than five employees; persons aged 55 and older

Some programs for government employees have converted from noncontributory to contributory, meaning that government employees contribute toward their funding. Some programs have also moved from pay-as-you-go toward funding. The regulatory authority over the programs is in nearly all cases under the Ministry of Finance rather than the Ministry of Labor.

Countries in the region formerly under the influence of the British as colonies (Tanzania, Kenya) or protectorates (Uganda) have had provident funds, which are defined contribution plans that provide lump sum benefits (Table 11.3). As defined contribution plans, they are funded. Countries around the world with those systems have tended to move away from them and switch to social insurance pension systems,

Table 11.3 Type of Social Security Fund, 2012

Country	Type of social security fund
Burundi	Social insurance
Kenya	Provident fund
Rwanda	Social insurance
Tanzania	Social insurance
Uganda	Provident fund

which are defined benefit systems where benefits are based on a benefit formula. While Tanzania has converted its provident fund to a social insurance defined benefit pension, Kenya is planning to convert their provident funds to a defined contribution pension. Uganda is considering doing the same. Provident funds have the disadvantage that they do not provide a stream of benefits that protects the recipient against poverty during old age, thus providing no insurance against an unexpectedly long lifetime. A further problem with provident funds is that frequently the interest rate declared on the fund is less than the inflation rate, which, combined with high administrative costs, has resulted in low benefits (Gillion et al. 2000).

The social security systems of the region generally have retirement ages that are low by international standards (Table 11.4). Mandatory retirement at low ages in some countries is another problem. The countries need to adopt social security and pension programs that encourage work of skilled persons at older ages in order to make better use of their human resources.

Some of the social security programs in the region have high administrative expenses. Some funded systems managed by government agencies have made questionable investments, resulting in financial losses to the funds. Perhaps relating in part to those two problems, contribution evasion by employees and employers is also a major problem.

In some countries, public employees are covered under a plan that is different from private sector employees. Some countries have multiple programs for private sector employees (Table 11.5). Some countries have several different plans for different sectors of public employees, creating a need for reform that would harmonize the plans and provide equal treatment for all citizens. Preferential treatment of government employees is an issue in some countries. They have lower contribution

Table 11.4 Early Retirement Age for Social Security Old Age Benefits, 2012

Country	Early retirement age
Burundi	60
Kenya	50
Rwanda	55
Tanzania	Any age
Uganda	45

Table 11.5 National Social Security Fund or Multiple Funds, 2012

Country	Single or multiple funds
Burundi	Single
Kenya	Single
Rwanda	Single
Tanzania	Multiple
Uganda	Multiple

rates, a lower retirement age, and extremely generous benefits. Members of parliament and judges generally are covered by preferential pensions. In some countries, the generosity of the pensions for public service employees is further enhanced in that they are not subject to taxation.

Some countries in the region allow workers and employers to opt out of the mandatory social security program as long as they participate in an alternative program. It has been thought that having competitors for the national program would encourage greater efficiency and lower costs.

In order to encourage the mobility of workers across countries, social security systems need to provide portability so that workers can combine work in different countries in order to meet qualifying conditions to receive benefits (Table 11.6). In some countries, workers must work for a minimum of 15 years to qualify for benefits. A proposed law in Kenya in 2012 would enable workers working temporarily in other countries in the EAC to continue participating in the social security program in Kenya. It would also encourage the development of agreements with other EAC countries so that social security contributions in the other countries would be sent to Kenya for Kenyan workers who returned to Kenya when they retired (Mutegi 2012).

Table 11.6 Number of Years for Vesting in Social Security Fund, 2012

Country	Number of years
Burundi	15
Kenya	3
Rwanda	15
Tanzania	15

The EAC countries are members of several other regional organizations, which have overlapping interests and goals concerning pensions, and which may not include all of the EAC countries. These include the East and Central African Social Security Association (ECASSA), which was formed in 2007, and which also includes Zambia (ECASSA 2012). ECASSA, headquartered in Nairobi, Kenya, attempts to help the countries meet common challenges they face in their social security systems, including low coverage. It also encourages the development of multicountry agreements facilitating the transfer of social security credits across countries in the region.[1]

The remainder of this section discusses the social security and mandatory government-provided systems in each of the countries.

Kenya

Types of plans

Kenya has a provident fund for private sector employees that was established in 1965. In 2011, 4.6 million people were registered, of whom 1.2 million were active (EAC 2011). The total value of assets in this program exceeds the total value of funds in mandatory programs in the other four countries combined (Katto 2012). As of 2012, legislation converts this fund to a defined contribution pension fund.

Kenya has four different types of pension programs: 1) the NSSF, for private sector workers; 2) the Civil Service Pension Program, for government workers; 3) employer-provided occupational pensions, for private sector workers; and 4) individual pension programs, for private sector workers. The employer-provided occupational pensions account for 61 percent of total assets, the NSSF accounts for 38 percent, and individual pension programs account for 1 percent. The Civil Service Pension Program is unfunded. The accumulated assets in the funded programs equal 20 percent of GDP, exceeding the level in Germany, Italy, and Sweden in the early twenty-first century (Odundo 2004).

Financing

All private sector employers with at least five employees must register and pay contributions to the NSSF for their employees. These employers are responsible for assuring that all their employees are registered and that contributions are paid on their behalf. Other employers may voluntarily participate. Participation is voluntary for people who are self-employed. Data indicate that 10 percent of the population are paid employees (Machira 2011).

Both the employer and the employee contribute 5 percent of earnings, up to 200 shillings a month. Because of a low ceiling on earnings, most people contribute the maximum. However, a bill proposed in 2012 would raise the contribution of both employer and employee to 6 percent and convert the fund from a provident fund to a social security fund (*Daily Nation* 2012).

A major problem with the system has been a low ceiling on earnings, which has resulted in low contributions. In 2008, the low ceiling resulted in the maximum contribution equaling 1.3 percent of average pay. The ceiling is low because it is not adjusted for inflation and the growth of earnings. As of 2008, it had only been adjusted twice since 1965, in 1997 and 2001 (Raichura 2008).

Participants making mandatory contributions can increase their savings by also making voluntary contributions. The NSSF is encouraging employers to make contributions electronically, including through mobile phones. The NSSF, however, has had a problem correctly allocating contributions to the accounts of workers and as of 2008 had a large suspense account of unallocated contributions. The NSSF is responsible for collecting contributions, but an alternative approach would be collection through the tax collecting agency, the Kenya Revenue Authority (Raichura 2008).

In 2011, the NSSF transferred the management of 65 percent of its assets to external fund managers. Previously, the investment of all the funds had been managed by the government, where it had been subject to pressure to make investments that would benefit high government officials (Mchira and Ngigi 2012).

Benefits

As is typical of provident funds, the NSSF provides a single lump sum benefit rather than a pension benefit in the form of an annuity. Proposals for conversion to a social insurance system have been considered, but priority has been given to the development of the Retirement Benefits Authority, which regulates the activities of all private sector retirement benefit plans, and is discussed later in the chapter.

Benefits can be claimed at age 55 for persons who have stopped working (NSSF 2012). Workers are also eligible for a benefit at age 50, called the withdrawal benefit, if they have left regular paid employment. The social security program also provides a disability (invalidity) benefit at any age for full disability preventing work, and at age 50 for a partial disability. An emigration grant is available for people permanently emigrating from Kenya.

Benefits are low for several reasons. The low ceiling on contributions is one cause. The ceiling in 2011 was Ksh4,000 a month, or about U.S.$50. The ceiling should be raised and adjusted in line with inflation or the growth of earnings in order to assure that benefits are more adequate. In addition, the NSSF has had high administrative expenses relative to the low level of contributions it collects—they have exceeded 50 percent of contributions. Associated with this problem, some service providers to the NSSF have paid kickbacks to government officials in order to be chosen.

A minimum rate of return of 5 percent annually is guaranteed, so the fund can at times have an unfunded liability, even though it is a defined contribution plan (EAC 2011). Before 2009, the minimum guaranteed rate was 2.5 percent. That low rate provided a disincentive for participation in the fund (Raichura 2008). There is little connection between the crediting rate and the investment rate of return earned, with sometimes the crediting rate being higher, but frequently being lower, than the investment rate of return.

A pilot program is providing noncontributory benefits for people aged 65 and older because most people in that age group do not qualify for benefits based on their having made contributions while working.

Reform

One of the problems with implementing reforms relating to the NSSF is that it is under the Labour Ministry, while the Retirement Benefits Authority that regulates it is under the Finance Ministry (Odundo 2004).

As of 2012, legislation proposes converting the NSSF from a provident fund to an insurance fund. A defined contribution plan would be retained for the formal sector, while a defined benefit plan would be instituted for the informal sector. Contributions would be raised from 10 percent to 12 percent of pay, split evenly between the employer and employee. An important change is that there would be no ceiling on pay covered by the program, solving a problem with the current system, which has a low ceiling on pay. This program would also provide unemployment benefits, disability benefits, and maternity leave. The new program would provide annuity benefits rather than a single lump sum, as is provided in the current program.

Tanzania

Tanzania is composed of two distinct geographical and administrative areas. Tanzania mainland and Zanzibar, which is a nearby archipelago off the coast in the Indian Ocean, have two separate social security funds. Under the agreement forming the union between Tanganyika and Zanzibar, provision of social security benefits is not a union function (Barya 2011).

Types of plans

Tanzania mainland has a social insurance system for the private sector. It has about 460,000 active members (Mutero 2010). In 1997, that fund replaced the National Provident Fund, which had been established in 1964. The NSSF covers private sector employees, parastatal employees, and nonpensionable government employees. The NSSF has launched a campaign to encourage private sector workers to participate, particularly women and workers in the informal sector.

The NSSF and several other pension funds, including the Parastatal Pension Fund, are placed for administrative purposes under the Ministry of Labour and Youth Employment (Simbeye 2012). The Parastatal Pension Fund is for employees in government controlled enterprises, but it has also extended its coverage to private sector employees who wish to participate. It has two pension programs and about 100,000 active members (Mutero 2010). The Traditional Pension Program, a defined benefit program, is for employees of government owned enterprises. The Deposit Administration Program, a defined contribution program, is for other private sector workers (International Labour Organization 2012).

The NSSF and the Parastatal Pension Fund are the two largest publicly managed pension funds in Tanzania (Assad and Selemani, n.d.). Tanzania has six publicly managed mandatory pension funds. The other four are the Public Service Pension Fund, the Government Employees Provident Fund, the Local Authorities Pensions Fund, and the Zanzibar Social Security Fund (Ngotezi 2010). With the exception of the Government Employees Provident Fund, all the funds are defined benefit plans. The Local Authorities Pension Fund was converted from a provident fund in 2005. It has about 70,000 active members (Mutero 2010).

Except for the Zanzibar Social Security Fund, all funds are under the supervision of the Social Security Regulatory Authority, which is under the Ministry of Finance. The Ministry of Labour and Employment provides general supervision over the NSSF (International Organisation of Pension Supervisors [IOPS] 2011b).

The Government Employees Provident Fund enrolls people who work for the government on contracts, who then switch to the Public Service Pension Fund if they become permanent employees. Their contributions are transferred from the Government Employees Provident Fund to the Public Service Pension Fund when they make that change. These programs cover about 5 percent of the labor force (IOPS 2011b). Special noncontributory (the participant does not contribute) systems have been established for the military and for political leaders (IOPS 2011b). In order to encourage competition across programs, workers can choose to participate in any of the six government-managed pension programs.

Financing

In Tanzania, the total (employer plus employee) contribution rate for social security is 20 percent, of which the employee cannot contribute more than 10 percent. This contribution rate is considerably higher than for the other countries in the region (Table 11.7). The employee and employer contribution rate varies across plans. The provident fund that preceded the NSSF had a contribution rate of 20 percent, but it was decided that a rate of 10 percent for a funded pension system would be adequate. Rather than reduce the contribution rate, Tanzania decided to retain the provident fund at a lower contribution rate and then phase it out as other social security benefits were introduced (Gillion et al. 2000).

For the NSSF, both the employer and employee contribute 10 percent of earnings, but this contribution also funds medical benefits

Table 11.7 Social Security Contribution Rates, 2012 (%)

Country	Total	Employee	Employer
Burundi	10	4	6
Kenya	10	5	5
Rwanda	6	3	3
Tanzania	20	10	10
Uganda	6	3	3

and other nonretirement benefits. Self-employed persons who voluntarily join the NSSF contribute 20 percent of their declared earnings. This high contribution rate discourages self-employed persons from participating. It also discourages the provision of employer-provided pensions. Employees in the Parastatal Pension Fund also contribute 10 percent of their earnings. However, government employees receive preferential treatment. Participants to the Public Service Pension Fund and the Local Authorities Pension Fund only contribute 5 percent of their earnings (IOPS 2011b).The NSSF invests its money in projects and investments in Tanzania, primarily in interest-bearing investments, such as government and corporate bonds, money market investments, and loans (NSSF, Tanzania 2010a).

Benefits

For the NSSF, benefits can be claimed at age 55 with 180 months (15 years) of contributions. However, workers can collect their benefits before retirement age—they can claim benefits at any age as long as the person has not worked for six months. In 2012, the Social Security Regulatory Authority (SSRA) proposed ending this provision, called withdrawal benefits. Public opposition to ending withdrawal benefits forced the SSRA to withdraw its proposal. Compulsory retirement occurs at age 60 (NSSF, Tanzania 2010b).

Old-age pension benefits from the NSSF are paid in two parts. An initial lump sum benefit equals 24 multiplied by the monthly benefit. In addition, monthly benefits are paid. Benefits received between ages 55 and 59 are reduced by 0.5 percent for every year before age 60. This reduction is far less than what would be actuarially fair, which would be more like 6 percent, providing an incentive to take benefits at earlier ages. Thus, the NSSF discourages work in paid employment at older ages.

Zanzibar

The Zanzibar Social Security Fund was established in 1998, which was the last social security system established in the region. The Zanzibar Social Security Fund covers both public and private sector employees. As of 2006, it covered about 35,000 workers (EAC 2011). Employees contribute 5 percent and employers contribute 10 percent of earnings. Thus, the contribution rate for the Zanzibar Social Security Fund is less than the rate for the Social Security Fund of Tanzania. Workers can receive retirement benefits at age 60, which is the mandatory retirement age, but workers leaving employment can receive benefits at age 55.

Uganda

Types of plans

Uganda has a provident fund that was established in 1967. It covers all private sector employees working for employers with five or more employees. Membership is voluntary for employers with less than five employees. Workers between the ages of 16 and 55 participate. As of 2011, the NSSF had about 500,000 registered members and 400,000 active contributors, and covers about 3.5 percent of the working population (Katto 2012). Civil servants are covered under the Public Service Pension Program, while members of the military are covered under the Uganda Post Defense Forces program.

Financing

For the NSSF, the employer contributes 10 percent of earnings and the employee contributes 5 percent, with no ceiling on earnings (Wafuja 2011). Contribution evasion is widespread, with most eligible employers and employees not contributing. To deal with this problem, in 2011 the NSSF offered defaulters a temporary amnesty period, during which they could pay contributions they owed without having to pay the 10 percent interest on late payments (Wafuja 2011).

The NSSF has misused funds it is entrusted for investing. For example, it has purchased property from a government minister at an inflated price (Barya 2011). In addition, it has fraudulently paid large amounts to "ghost" beneficiaries, with the money actually being paid to high government officials. In 2012, the Ugandan government temporarily suspended payment of benefits while it attempted to resolve the issue. In 2012, the NSSF was considering loaning U.S.$400 million, or about one-third of its funds, to the government to help pay for the construction of roads (Reuters 2012).

Benefits

Benefits from the NSSF can be claimed at age 55 as a lump sum payment, whether or not the person has stopped working, or at age 50 if the person has been out of employment for at least a year. The NSSF also provides a disability benefit, a survivors' benefit, and an emigration benefit for persons permanently leaving the country (NSSF, Uganda 2012).

Each year interest is credited to each worker's account, based on the rate of return received on the national fund. Benefits are based on the amount contributed by the worker and the worker's employer to the fund and the interest rate credited to the fund. In 2011, the NSSF cut the crediting rate from 7 percent to 6 percent, in part because of a lawsuit against the fund for cancellation of a building contract. In that year, the inflation rate was 28 percent, so the real value of the future benefits for workers declined by more than 20 percent (Ojambo 2011). The NSSF has provided a negative rate of real return (subtracting the inflation rate) in most years since its founding.

A pilot program funded by the World Bank is providing noncontributory benefits to persons aged 70 and older in some provinces.

Reform

The NSSF is being converted from a provident fund that only provided lump sum payments to a pension plan that will either be a defined benefit plan or a defined contribution plan, with that decision currently pending.

In order to encourage greater competition in the provision of retirement benefits, plans are in the works to allow other programs to compete, allowing workers to opt out of the NSSF and participate in another program (Kiwanuka 2012). During a phase-in period, workers will be required to make a reduced contribution to the NSSF. It was thought that this policy would reduce costs and increase efficiency.

Rwanda

Types of plans

Rwanda's social insurance system, founded in 1956, is called the Social Security Fund of Rwanda and is a funded defined benefit program. The Rwanda Social Security Board was formed by the merger of the Rwanda Medical Insurance and the Social Security Fund of Rwanda. It covers all public and private sector employees (IOPS 2011a).

Financing

The employer and the employee both contribute 3 percent. Contributions also provide insurance coverage against occupational injuries. Self-employed persons can be voluntarily covered, and they pay 6 percent of earnings. In 2011, it had 300,000 active members (EAC 2011), or about 5 percent of the employed workforce (National Bank of Rwanda 2008).

In Rwanda, self-employed groups can contribute to the social security fund as a federation. An example is the Rwanda Federation of Motorcyclists' Cooperatives, which promotes the use of motorcycles as taxis. Its 10,000 members send contributions to the federation each month, 8 percent of which goes toward social security (Kamndaya 2011).

Benefits

Benefits can be claimed at age 55 if the person has ceased working and has at least 15 years of contributions. A bill in 2012 in Parliament proposed raising the age to 60 (Karuhanga 2012). For people who have worked at least 15 years, the retirement benefit is 30 percent of the average of the final 3 or 5 years of work, whichever average is higher, plus 2 percent for every year of work beyond 15 years. Thus, for someone who had worked and contributed for 16 years, the benefit would be 32 percent of the average of the final 3 or 5 years of work (Rwanda Social Security Board 2012).

Burundi

Types of plans

Burundi's social insurance system was established in 1962 under the Minister of Public Functions, Work and Social Security. It covers both private and public sector employees.

Financing

The employer contributes 6 percent of earnings and the employee contributes 4 percent, for a total of 10 percent, up from 6.5 percent in 2010. The total contribution rate for military personnel is 14.6 percent, up from a rate of 9.5 percent in 2010. The contribution rates were raised because an actuarial study indicated that the previous contribution rates were not adequate to pay for the benefits promised (EAC 2011). Civil servants and judges have a special system.

Benefits

Benefits can be claimed at age 60. Early benefits are available at age 55 for workers "prematurely aged," and benefits can be claimed at age 45 for workers in arduous occupations. Monthly benefits equal 30 percent of the average of the last 3 or 5 years of monthly earnings, whichever is higher, plus 2 percent of average monthly earnings for every 12-month period of coverage exceeding 180 months (15 years). Benefits in payment are adjusted according to changes in the cost of living, depending on the finances of the system (U.S. Social Security Administration 2011).

PENSION REGULATORS

This section considers the pension regulators in each of the five countries (Table 11.8). The pension regulators cover private sector pensions and may cover some pensions in the public sector. Pension regulators and regulations have been established to protect the interest of workers.

Table 11.8 Name of Retirement Benefits Program Regulatory Authority, 2012

Country	Name of regulator	Year took effect	Oversight ministry
Burundi	National Social Protection Commission	2013	President of Burundi
Kenya	Retirement Benefits Authority	2000	Ministry of Finance
Rwanda	National Bank of Rwanda	—	Ministry of Finance
Tanzania	Social Security Regulatory Authority	2008	Ministry of Finance
Uganda	Uganda Retirement Benefits Authority	2013	Ministry of Finance

Kenya

The pension regulator in Kenya, the Retirement Benefits Authority (RBA), is under the Ministry of Finance. It is managed by a board of five members from the private sector appointed by the Minister of Finance, as well as the Commissioner of Insurance, the Chief Executive of the Capital Markets Authority, and a representative of the Minister of Finance. Thus, a majority of its board members are from the private sector, giving it some autonomy from government influence (Odundo 2004).

The RBA expenses are paid for in part by a tax on pension assets. The RBA uses a risk-based approach to supervising the pension industry, based on the size and risk associated with each pension fund. It regulates the NSSF and private sector pension funds but not pension funds for civil servants. The NSSF is the only government-managed pension fund that it regulates. Before the RBA became operational in 2000, pensions were regulated solely under trust and income tax laws.

In 2011, Kenya developed a trustee training program for trustees of pension plans. Previously, trustees often had no special background that qualified them for that responsibility.

The Kenyan Auditor General also plays a role in the governance of pensions for public sector workers. It must verify and approve payment of benefits.

Tanzania

Tanzania has a pension regulator, established in 2008, the Social Security Regulatory Authority (SSRA), under the Ministry of Finance, which became operational in 2010. It shares regulatory authority with the Bank of Tanzania, which, in cooperation with the Social Security Regulatory Authority, is responsibile for investment issues relating to pensions. Together they are preparing investment guidelines for the pension funds (Simbeye 2012).

Uganda

Uganda is in the process of establishing a pension regulator, the Uganda Retirement Benefits Authority, which is under the Ministry of Finance. The law establishing this agency was passed in 2011, with the agency expected to become operational in 2013. This agency will regulate employer-provided pensions in both the private and public sectors. It will require all pension programs to register.

Rwanda

Rwanda has a pension regulator, the National Bank of Rwanda, which is under the Ministry of Finance. Its Social Security is under the Rwanda Social Security Board. The Rwanda Social Security Board has a director of pensions.

Burundi

Burundi in 2012 passed legislation establishing a pension regulator, the National Institute of Social Security and Professional Risks. It is not yet fully operational.

PRIVATE SECTOR PENSIONS

Most private sector workers with pensions in East Africa are covered under defined contribution plans, and until recently, most government workers had defined benefit plans (Mushi 2012). The only country in the region with a substantial number of pensions provided by private sector entities is Kenya (Katto 2012). Most of the pensions in the region for private sector workers are government-managed pensions. For this reason, most of the assets in pension programs in Tanzania, Uganda, and Rwanda are held by government-managed programs (Mutero 2010). The same holds true for Burundi.

The pensions receive favorable tax treatment according to either the EET tax regime, which refers to exempt (tax deductible) contributions, exempt investment earnings and taxed benefits, or the TTE tax regime (Uganda), which refers to taxed contributions, exempt investment earnings, and exempt benefits (Table 11.9). However, many low-income workers do not pay any income tax, effectively making the tax regime for pensions for them EEE, which stands for contributions being exempt from taxation, investment earnings being exempt from taxation, and retirement benefits being exempt from taxation.

Funded pensions tend to invest primarily in government securities, with all five countries having government debt markets. They also invest in real estate. In the EAC, with the exception of Kenya, opportunities for investing domestically in stock are limited. Burundi does not have a stock exchange. The stock exchange in Rwanda listed two stocks at the end of 2010 (Yabara 2012). The Nairobi Stock Exchange is the largest in the region. The Dar es Salaam Stock Exchange (Tanzania) has 15 listed companies, and the Uganda Stock Exchange has 10 listed companies. The Kenya, Rwanda, and Uganda stock exchanges have signed a memorandum of understanding, permitting cross listing of stocks. The Uganda National Social Security Fund owns 80 percent of the Uganda stock market. Kenya permits a maximum of 15 percent of a pension portfolio to be invested in other countries. Some of the

Table 11.9 Tax Regime for Retirement Benefit Programs, 2012

Country	Tax regime
Burundi	EET
Kenya	EET
Rwanda	EET
Tanzania	EET
Uganda	TTE

other countries have not permitted investments outside the country, thus prohibiting investment in other EAC countries (Mutero 2010), but that is changing as part of the move toward a common market.

Pension funds in Kenya held 26 percent of their assets in stocks in the East African Community in 2011, almost all of which was in the Nairobi Stock Exchange (RBA 2012a). Reflecting the relative importance of pension funds in the different countries, pension funds hold 2 percent of government bonds in Rwanda and 4 percent in Burundi, compared to 27 percent in Kenya, 23 percent in Tanzania, and 15 percent in Uganda (Yabara 2012). Pension funds in Kenya are subject to regulations as to the maximum percentage of their portfolios that can be invested in different asset classes.

Kenya

Kenya has an EET tax regime, but that characterization is a simplification of the actual tax regime. Investment earnings are not taxed while accruing. However, a Retirement Benefits Levy is charged on the assets of pension funds, varying from 0.2 percent of assets for funds up to Ksh500 million (Kenyan shillings) to 0.05 percent of assets for funds with more than 5 trillion shillings (RBA 2012b). Tax-exempt contributions are capped at Ksh20,000 a month. Lump sum payments of Ksh600,000 are tax free. Further, benefits received at age 65 and older are tax free, and benefits received at younger ages are tax free up to a limit (IOPS 2009). Tax-exempt benefits after age 65 are designed to encourage workers to postpone receipt of benefits.

Employers may establish defined benefit or defined contribution plans. About 90 percent of private sector pension plans are defined contribution plans (Raichura 2008). Employers have shifted from defined benefit toward defined contribution programs over the past decade (RBA 2012a). All pension programs and providers are required to register with the RBA. The RBA Web site in 2012 listed 1,216 registered pension programs and 22 individual pension plan providers (RBA 2012c). Retirement benefits vest after one year of work (Raichura 2008). Defined benefit programs are required to have an actuarial valuation every three years.

Anyone who wants to save for retirement can establish an Individual Retirement Benefit program (IRB). Prior to 2003, IRBs in Kenya did not receive any special tax preference. Since then, workers can make tax-deductible contributions up to a limit, receive tax-free investment earnings, and receive tax-free benefits for 10 years, up to a limit per year. Most IRBs are provided through insurance companies. In 2005, Kenya established an Insurance Policy Compensation fund to protect members of IRBs in the case of the insolvency of insurance companies. The fund is financed based on a levy of 0.25 percent of premiums charged both on policyholders and on the insurance companies. The motivation for the fund is to reduce the risk and instill confidence in Kenyans in saving for retirement this way (RBA 2007). As of 2009, Individual Retirement Benefit programs covered less than 1 percent of the workforce (IOPS 2009). Membership grew rapidly from 2010 to 2011, however, increasing from 25,000 to 41,000 (RBA 2012a).

An estimated 15 percent of Kenya's labor force is covered under some form of retirement benefits program (RBA 2007). To deal with low coverage and issues of low financial literacy, the RBA, in conjunction with the Kenyan Institute of Education, has undertaken a public education campaign starting in 2009 concerning the importance of saving for retirement. It has held roadshow events and had an advertising campaign, and it is working on a financial education curriculum for schools. The RBA has taken a holistic approach to financial education, combining it with education on health and mental health. Initially, the program targeted workers aged 50 and older but has expanded to include younger workers. It is attempting to change Kenya to a savings culture rather than a consumption culture.

In addition, the Mbao Jua Kali Pension Plan is an innovative program organized by the RBA that targets informal sector workers but is open to anyone. It is a voluntary program where workers register by paying Ksh100 and can pay a minimum of Ksh20 a day toward their retirement. (Ksh20 equal roughly U.S.$0.25.) It was started in June 2011 and by 2012 had 37,000 members. *Mbao* is Swahili slang for 20 shillings, or one Kenyan pound. *Jua kali* means hot sun in Swahili and is the term used to refer to workers in the informal sector. It refers to the working conditions in the informal sector, which is about 80 percent of the labor force (Raichura 2008). Participants can pay by *M-Pesa*, which is a mobile phone money transfer system (in Swahili, *M* stands for mobile and *pesa* stands for money).

The main mobile money service provider, Safaricom, charges the individual Ksh2 and the pension plan Ksh3 for money transfers, so in essence there is a 2 percent fee to the worker for a transfer of Ksh100 but a 10 percent fee for a transfer of Ksh20. Payments can also be made through an alternative provider, Airtel Money. Previously, without this technology, it was not feasible to have a pension program with such low contributions because of the high transactions costs, which are fixed costs, relative to the transactions. This system is relatively new but appears to be a promising innovation. Its success in providing meaningful benefits will depend in part on participants eventually being able to make larger contributions than the minimum required.

Starting in 2009, to encourage participation in pension plans and the development of a market for mortgages, the government allowed pension program participants to use up to 60 percent of their defined contribution pension accounts as security for mortgages. This amount can also be used to guarantee a loan for renovating a home. Mortgage lending in Kenya generally requires a down payment of 10 percent of the purchase price of the house. However, with pension-backed mortgages, lenders can lend up to 115 percent of the purchase price, with the borrower using the amount above 100 percent to pay for closing costs. This program provides an immediate, tangible benefit to workers for participating in a pension plan or social security. The house is the first form of guarantee of the mortgage. If an individual loses his job and defaults on his mortgage, but the value of his house exceeds the amount remaining on the mortgage, the house is sold and the individual does not lose any of his pension.

While the mortgage program undoubtedly will encourage the growth of the mortgage market, and may encourage participation in pensions, in part to be used for this purpose, the success of this program as an aspect of retirement income policy will depend partially on how many people lose their pensions if they have to default on their mortgages. That in turn will depend on the qualifying conditions to receive a mortgage. If mortgages are extended to people who do not fully qualify, and thus have a greater risk of default, this may become more of a problem in the future, particularly if housing prices fall. A similar program in South Africa has had difficulty assuring that the loans were not diverted for other purposes (Mutero 2010).

Kenya has relaxed the preservation of benefits rule so that participants can withdraw up to 50 percent of the employer contributions to their defined contribution pension plans, and up to 100 percent of their own contributions, at any age before retirement. In addition, they can withdraw up to 50 percent of the accrued value in a defined benefit plan (RBA 2011).

Tanzania

Tanzania has an EET tax regime. The high contribution rate of 20 percent to the mandatory social security fund may be a factor discouraging the development of employer-provided pensions in the private sector. A study in 2012 indicates that there are a small number of employer-provided pensions in the private sector, perhaps about a dozen, primarily for multinational companies (Kiwanuka 2012).

To encourage greater efficiency in fund management, government-managed pension funds are competing with the National Social Security Fund as substitute programs for workers. The Government Employees Provident Fund is seeking to enroll self-employed workers in the private sector in its Voluntary Savings Retirement Program. As of 2011, it had enrolled about 3,000 persons. The Parastatal Pension Fund has also extended its coverage to encourage voluntary enrollment by private sector employees and the self-employed, as well as workers in the informal labor sector (Kamndaya 2011). The Local Authorities Pension Fund is for employees of local governments, but is also seeking self-employed members to voluntarily join.

Uganda

Uganda has a TTE tax regime, where both contributions and investment earnings are taxed, but benefits are not taxed. The tax exemption of pension benefits is written into the Ugandan Constitution, making it particularly difficult to change. Investment earnings are only taxed on investments in fixed income securities, such as government bonds. Investment income from other assets, such as real estate and stock, is not taxed. Anyone earning less than about U.S.$90 a month is exempt from tax. The elderly do not pay any tax because of an age exemption.

As of 2011, the NSSF was the main provider of retirement benefits in the private sector (International Social Security Association 2011), but Uganda has some private sector pensions. These are primarily defined contribution plans, but they can be defined benefit plans. One estimate puts the number of programs at more than 50 (Mutero 2010). These programs have mandatory vesting of benefits after one year of participation (Kiwanuka 2012).

Rwanda

Rwanda has an EET tax regime. Employer and employee contributions and investment earnings are taxed at 30 percent, while benefits are tax free (IOPS 2011a). Pensions are generally managed by insurance companies. There are an estimated 40 private sector pension programs (Mutero 2010).

Individuals can voluntarily establish personal pension funds, which are generally managed by insurance companies. For personal pensions, contributions are tax free. Investment earnings are taxed, and benefits are tax free (IOPS 2011a).

Burundi

Burundi has an EET tax regime and a few private sector defined contribution plans. As of 2012, it is considering a law to regulate employer-provided pensions.

PUBLIC SERVICE PENSIONS

As of 2012, the pensions for government employees in the EAC are defined benefit plans (Table 11.10). These plans generally predate the NSSF. Some of them provide benefits that are overly generous by international standards and that contain other generous features, such as commutation to lump sums on favorable terms. Particularly considering that government sector work is generally not physically arduous, the plans tend to provide early retirement benefits at young ages (Table 11.11). Another generous feature is that they generally are calculated on the single year of highest pay. Calculation using such a short period creates the possibility of a person receiving a pay increase in the final year for the purpose of raising his pension. Further, even more generous pensions are sometimes received by members of parliament, judges, and other high officials, sometimes after only limited periods of service. The EAC, however, does not provide a pension for EAC secretariat employees, but instead provides a lump sum payment when they end their service, based on their salary and years of service.

Kenya

Public sector employees as of 2012 were covered by the Public Service Pension Program, which is an unfunded defined benefit plan administered by the Pensions Department in the Ministry of Finance.

In 2013, all defined benefit plans for which the Kenyan government has a liability, a total of 40 programs, will be converted to defined contribution plans to reduce the risk to the government. Worker contributions will be required. Workers aged 45 and older will remain in the old defined benefit programs. People younger than age 45 will be completely transferred to the new defined contribution program, with a contribution made to that program by the government to compensate them for the benefits already accrued under the old program. The government will manage the investments of the defined contribution program. Individual choice of investments will not be an option. According to the bill being considered at the end of 2012, the government would contribute 15.5 percent of salary for civil servants, and employees would contribute 7.5 percent (Republic of Kenya 2012).

Starting in 2009, the normal retirement age for the Public Service Pension Program was raised from age 55 to 60, but early retirement

Table 11.10 Pensions for Government Sector Employees, 2012

Country	Type
Burundi	Contributory defined benefit
Kenya	Defined benefit, converting to defined contribution
Rwanda	Contributory defined benefit
Tanzania	Contributory funded defined benefit, multiple plans
Uganda	Unfunded noncontributory defined benefit

Table 11.11 Early Retirement Age for Government Sector Employees, 2012

Country	Type
Kenya	50
Tanzania	55
Uganda	45 with 10 years' service, less than 45 with 20 years

is still available at age 50 for workers with 10 years of service (Were 2009). Women can retire on grounds of marriage at any age with 5 years of work. As of 2008, the program had about 406,000 active members. A separate program applies for the armed forces.

The Public Service Pension Program provides generous benefits, which are based on 2.5 percent multiplied by years of service multiplied by final base pay. Up to 25 percent of the benefit can be taken as a lump sum, which is calculated at a very generous rate (20:1). One aspect of the benefit calculation that is not generous is that there are not regular enhancements for benefits in payment to take into account inflation (Raichura 2008). By comparison, the U.S. Civil Service Retirement System benefit is calculated as 1.5 percent for the first 5 years, plus 1.75 percent for the second 5 years, plus 2 percent for years beyond 10 years, multiplied by the high 3 years of average pay (U.S. Office of Personnel Management 2012). The pension benefits are paid through banking accounts, though for a number of retirees without banking accounts they are paid through the Post Office Savings Bank (Raichura 2008).

LAPTRUST is a funded contributory defined benefit plan for employees of local government that was started in 1929. It had 25,800 active members in 2011. Employees contribute 12 percent of pay while employers contribute 15 percent. Perhaps in part because of the high contribution rates, many of the 175 local government agencies are in arrears on their payments. LAPTRUST has registered a defined contribution program in line with the requirement that all defined benefit programs that are a liability to the national government convert to defined contribution programs, so as to reduce the risk to the national government finances (Kiwanuka 2012). The defined benefit program closed to new members starting August 2012.

Tanzania

The Public Service Pensions Fund, under the Ministry of Finance, covers central government employees, who contribute 5 percent of their salary. It has about 250,000 members (Mutero 2010). Starting in 1999, the unfunded defined benefit program was converted to a funded program. The program was created in 1954, predating the National Provident Fund, which was started in 1964. Benefits can be claimed at age 55, with mandatory retirement at age 60 (Public Service Pensions Fund 2012).

As with other government pensions in the region, the Public Service Pensions Fund provides generous benefits. The basic benefit is calculated as total months worked multiplied by final annual salary multiplied by 1/(540) (Public Service Pensions Fund 2012). The final factor is equivalent to 2.2 percent multiplied by years of service. The Political Service Retirement Benefits Act of 1999 established a special pension fund for members of parliament and other elected officials, who receive preferential pensions (Barya 2011).

Local government employees are covered under the Local Authorities Pensions Fund. In addition to providing generous benefits, those benefits are tax exempt (Public Service Retirement Benefits Act 1999).

Certain high government officials receive even more generous pensions. Judges, the Director General of Intelligence, the Inspector General of Police, and other high officials receive pensions that are 80 percent of final pay, and these can be received after short periods of service. In addition, these officials are given a car and sufficient money to pay for a driver for four years, all of which are tax free. These generous pensions create a major conflict of interest for high public officials when it comes to the reform of civil service pensions.

The Chief Justice receives an even more favorable pension, that being equal to 80 percent of the salary not of himself but of the current incumbent holding that office, plus a lump sum payment equal to 50 percent of the salary he received while holding that office (Public Service Retirement Benefits Act 1999). By comparison, Supreme Court Justices in the United States receive 100 percent of their final salary, provided they have served at least 10 years and that the sum of their age and years of Supreme Court service is at least 80 (Longley 2012).

In Zanzibar, public service employees are covered under a separate system, which began in 1990, predating the country's social security program (Zanzibar Social Security Fund 2009).

Uganda

Preferential pensions are provided to government employees. Employees of the police, army, prisons, civil service, or government teaching service are exempt from contributing to the NSSF because they have their own pension systems. Members of parliament and their staffs are covered under the Parliamentary Pensions Act of 2007 (Barya 2011). Judges have particularly favorable pensions and are eligible for a pension after one year of service (Barya 2011).

The pensions for government employees are unfunded defined benefit plans. The Public Service Pension Program, managed by the Ministry of Public Service, covers most civil servants. As of 2012, it has about 269,000 participants. The Armed Forces pension has about 45,000 participants (Katto 2012). It was established in 1939, predating the Public Service Pension Program, which was established in 1946. An earlier program was established in 1939 for public service employees, but it excluded African employees and only covered colonial Europeans (Inter Ministerial Task Force 2012).

Covered workers do not contribute to the Public Service Pension Program, with the funds coming from general government revenue. A reform proposal in 2012 would make the program contributory. The minimum qualifying age for benefits is 45 with continuous service of 10 years, with compulsory retirement at age 60 (Barya 2011). Workers with 20 years of contributions can retire at any age. There are no penalties for early retirement. Female employees are eligible for a special pension if they retire because of marriage (Pensions Act 1946).

As well as having generous provisions for early retirement, the Public Service Pension Program has a generous benefit formula, calculated as 2.4 percent of final gross pay multiplied by the number of years of service, with the maximum capped at 87 percent of gross pay (after 36.25 years of work). They vest after 10 years of work. The pensions are indexed to wages, which is generally more generous than price indexation (Nyakundi 2009). Pensions are paid either in Uganda shillings or U.S. dollars and are paid for a maximum of 15 years.

Pensions are not being paid to some retirees, however, because of a lack of sufficient funds to provide such generous benefits, creating a problem of arrears. The Pensions Act has a provision that public servants cannot contest in courts (Pensions Act 1946). According to Kiwanuka (2012), the unfunded liability for this program is an astounding 63 percent of GDP.

The generosity of this system can be compared to that of the Civil Service Retirement System for federal government workers in the United States. In that system, maximum benefits of 80 percent of the average of the highest three years of earnings are received after 42 years of work, with these benefits being indexed to prices once in payment. The Civil Service Retirement System was closed to new entrants in 1980, and a less generous pension system has since replaced it. The pensions for civil servants in Uganda are thus substantially more generous than for civil servants in the United States.

The Public Service Pension Program and other plans for civil servants and other government employees are run by the Ministry of Public Service. The Public Service Pension Program covers about 2.8 percent of the workforce, which is larger than the 2.3 percent covered by the private sector program, the National Social Security Fund (Barya 2011). In addition, the military is covered under the Armed Forces Pension Program. Until 1994, local government employees had their own program, which was a provident fund, but since then they are covered under the Public Service Pension Program (Nyakundi 2009). Because many local governments do not have much money, the central government pays for their pension expenses.

Rwanda

The National Social Security Fund in Rwanda covers all private sector employees and all public sector employees, including the military.

Burundi

Civil servants and judges in Burundi are not covered by the National Social Security Fund, but are instead covered by special programs. Pensions for civil servants are noncontributory, but as of 2012 they are being restructured to require employee contributions.

CONCLUSION

This chapter has surveyed the social security and pension systems in the five countries of the East African Community. It has described pensions for both private and public sector workers. As well as describing the basic features of the systems, it has focused on areas of innovation and also on areas in need of reform. Extending coverage to workers in the informal sector is a major challenge in all of these countries. Kenya and Rwanda have innovative programs to extend coverage to workers in the informal sector by facilitating the regular collection of contributions of small amounts. Regulating pensions to help protect the interests of participants is another issue, and now all of the countries have in place pension regulators. Some of the countries have pensions for government employees that are overly generous by international standards.

Some of the countries discourage the provision of private sector pensions by high mandatory contribution rates for social security, but Kenya has low mandatory contribution rates and has successfully developed a pension sector with more than 1,000 pension plans.

Notes

I have received valuable comments from David Rajnes.

1. The EAC countries are also members of the East African Trade Union Confederation (EATUC), which is an organization of labor unions, with Burundi having observer status, and the East African Development Bank. In addition, the government officials involved in the retirement systems of these countries work with, and are influenced to some extent by, other international organizations, such as the World Bank, the International Labour Organization, the International Monetary Fund, the International Organisation of Pension Supervisors, the African Development Bank, and by private sector nongovernment organizations such as the Gates Foundation and the Financial Services Volunteer Corps.

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