Challenges and Innovations in Expanding Pensions Coverage

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“a reasonable and sustainable standard of living for every Kenyan worker after their retirement”
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:

![Coverage of Total Labour Force](chart)

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

- 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

Labour force coverage in developed 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*
Challenges in Expanding Coverage

- 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:
Challenges in Expanding Coverage

- 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.

Source: Kenya National Bureau of Statistics
Challenges in Expanding Coverage

- 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.
Challenges in Expanding Coverage

- 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