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RBA Retirement Benefits Authority

"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

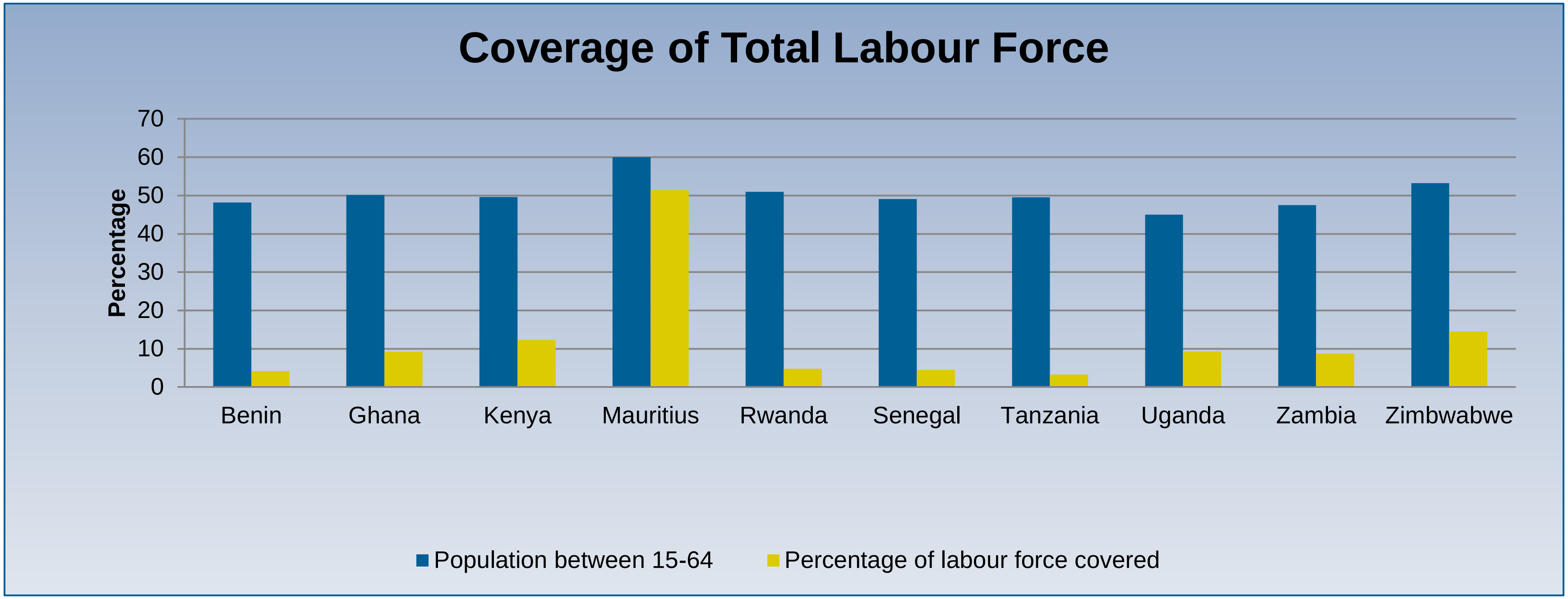
- Pensions coverage in Sub-Saharan Africa
- Key reasons for low coverage
- Innovations in expanding coverage and way forward

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:

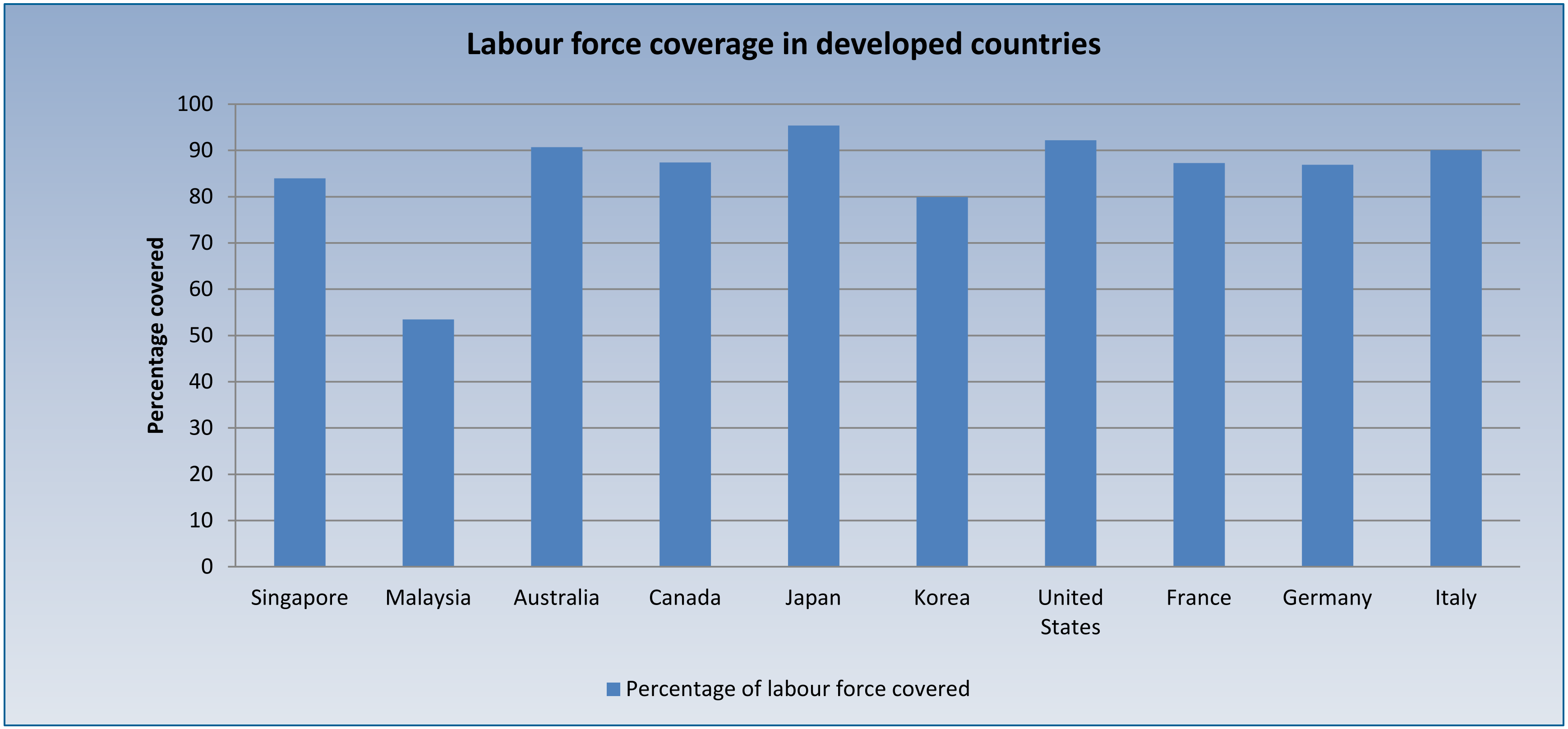


Source: Brooks World Poverty Institute, University of Manchester

Pensions Coverage in Sub Saharan Africa

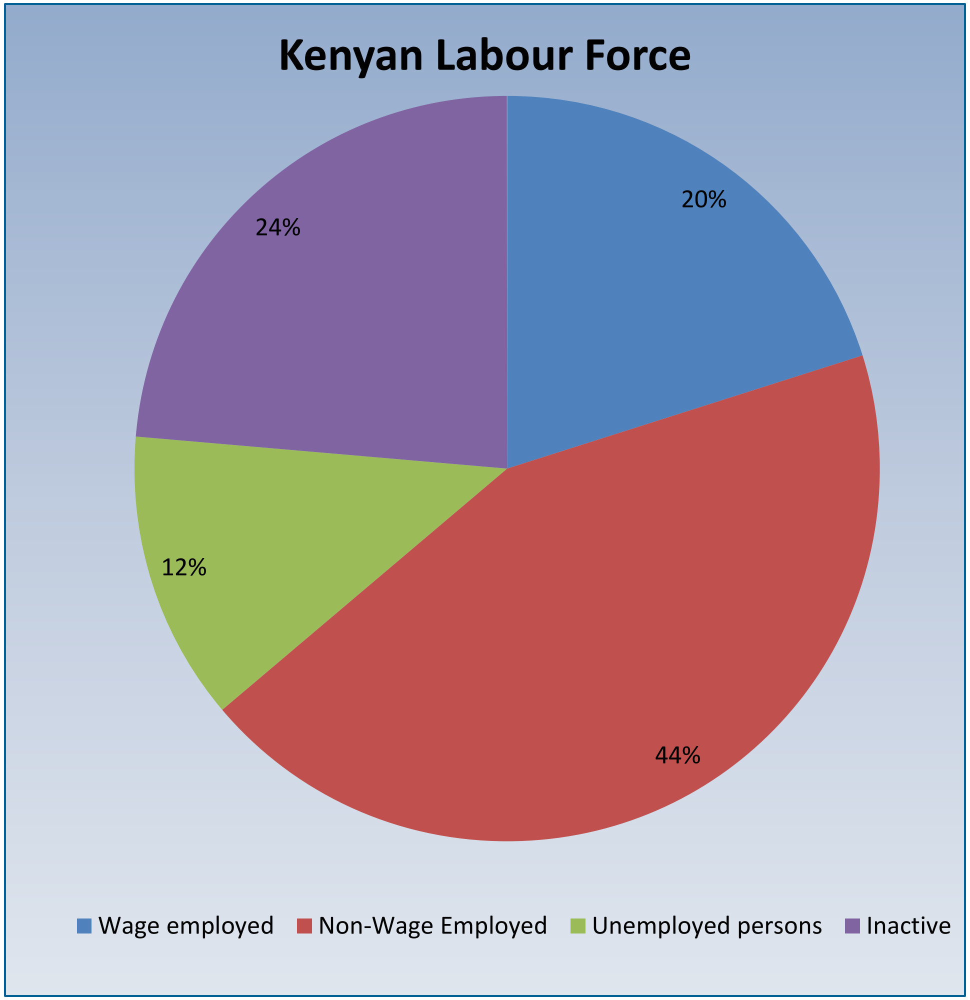
- ✓ Most SSA countries have approx 50% of population aged 15 – 64 years
- ✓ On average, most SSA countries have <10% of total labour force covered
- ✓ In contrast, many developed countries have around 80% of labour force covered by a pension arrangement as graph below indicates:

Pensions Coverage in Selected Industrialized Countries



Source: OECD iLibrary

Kenyan Labour Force



Source: Kenya National Bureau of Statistics

- ✓ 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

Structure of Pensions Provision in Kenya

- **Pension provision**
  - **NSSF*** – 1.5 million members
  - **Occupational Pension Schemes** – 450,000 members
  - **Civil Service Pension Scheme** – 483,000 members
  - **Individual Pension Schemes** – 104,000 members

✓Persons covered in a pension arrangement: 2,537,000

✓ Pension coverage of employed persons: 20.0%

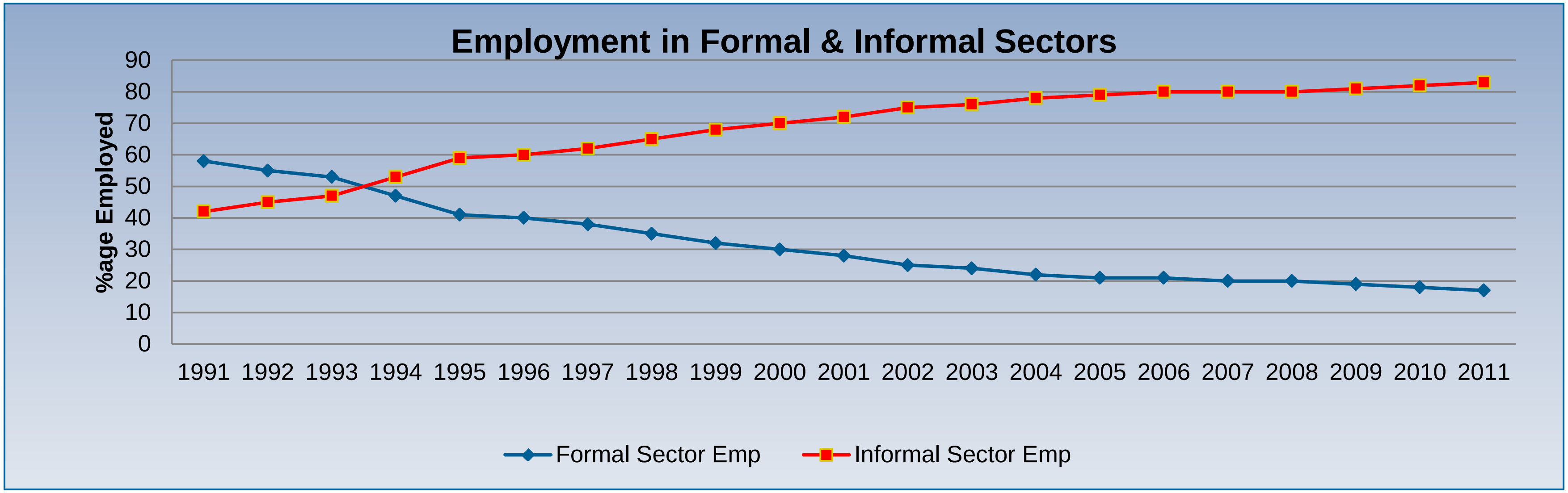
✓Pension coverage of total labour force: 12.7%

✓* 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



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

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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