Human Development *Network*

PENSION PATTERNS & REFORM CHALLENGES IN SUB-SAHARAN AFRICA

Pensions Core Course
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Organization

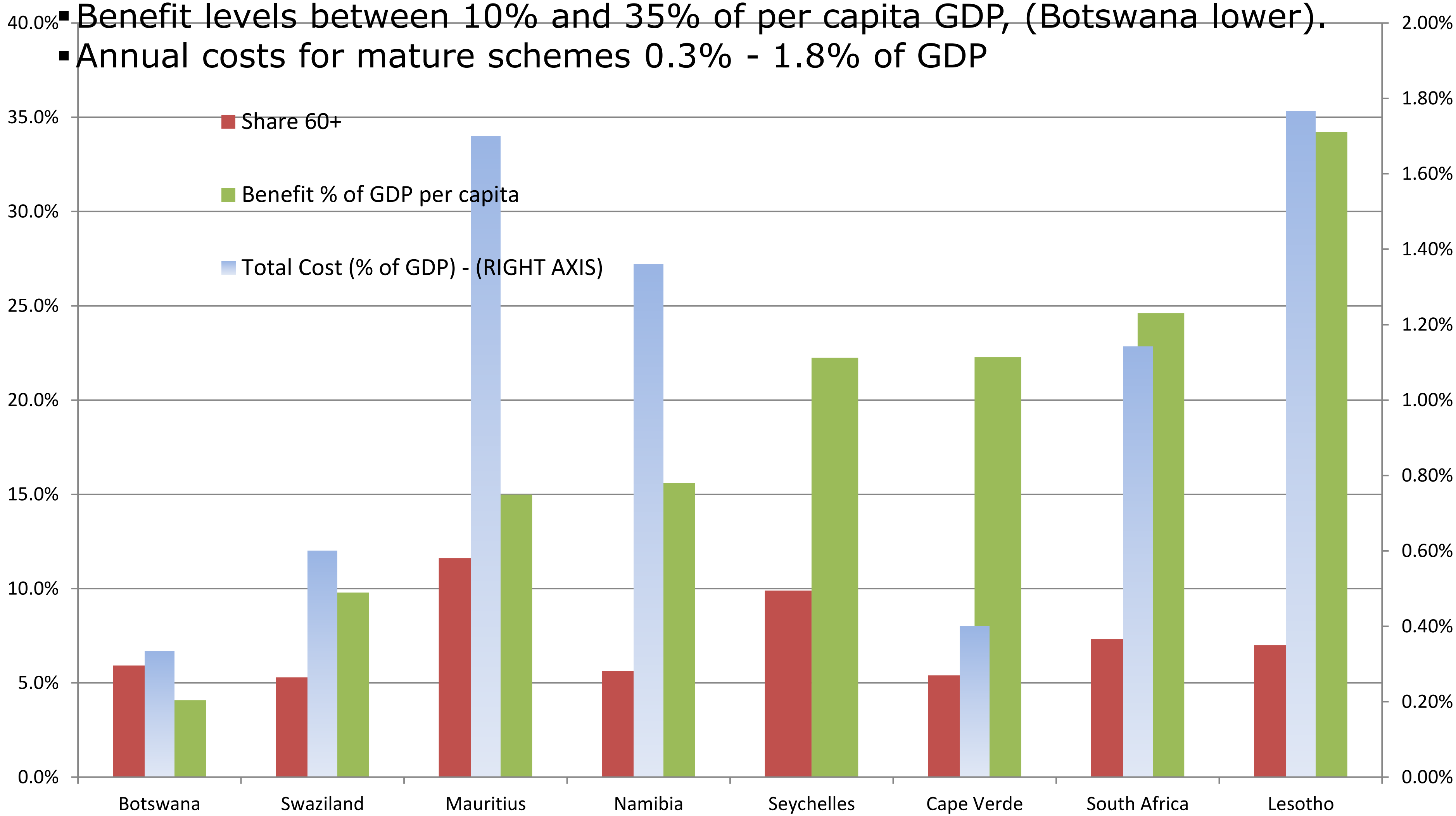
1. Design summary
2. Challenges
3. Design reform principles
4. A process for evaluation

I. Stylistic Design Typology

	Label and Description	Countries
1.	Near universal non-contributory pension + Civil Service scheme + prominent occupational schemes (coverage + benefit level)	South Africa, Botswana, Namibia, Lesotho, Namibia, Swaziland
2.	Strong and near universal non-contributory pension + Civil Service scheme, First pillar w/modest target income replacement & Third Pillars (Modest coverage and benefits for select workers)	Seychelles, Mauritius, Cape Verde
3.	Civil service + limited & weakly regulated occupational schemes	Ethiopia (until 2011), Malawi (until 2011).
4.	Modest contributory partially funded defined-benefit scheme, civil service scheme & some occupational schemes (heterogeneous)	Benin, Burkina Faso, Burundi, Cameroon, CAR, Chad, Congo Republic, Cote d'Ivoire, DRC, Ethiopia (2012+), Equatorial Guinea, Gabon, Guinea, Guinea-Bissau, Liberia, Madagascar, Mali, Mauritania, Mozambique, Niger, Rwanda, San Tome & Principe, Senegal, Sierra Leone, Sudan, Togo, Zambia, and Zimbabwe
5.	National non-contributory pension (Swaziland) & pilots (Kenya). Provident Funds, civil service + limited occupational schemes (modest coverage and benefits for select workers)	Uganda, Swaziland, Kenya, The Gambia
6.	2nd Pillars or Hybrids & occupational schemes	Nigeria, Ghana (after 2008), Malawi (2011)

I. Social Pensions

- 8 countries with national schemes, 4 pilot programs.
- 7 universal, 3 pensions tested & 3 means-tested
- Benefit levels between 10% and 35% of per capita GDP, (Botswana lower).
- Annual costs for mature schemes 0.3% - 1.8% of GDP



I. Social Pensions

Country	Share 60+	Benefit % of GDP per capita	% of poverty line	Age	Targeting	Total cost (% of GDP)
Mature Schemes						
Botswana	5.9%	4%	143%	65	Universal	0.33%
Swaziland	5.3%	10%	114%	60	Pensions-tested	0.60%
Mauritius	11.6%	15%	491%	60	Universal	1.70%
Namibia	5.6%	16%	240%	60	Universal	1.36%
Seychelles	9.9%	22%	1138%	63	Universal	n.a.
Cape Verde	5.4%	22%	182%	60	Means-tested	0.40%
South Africa	7.3%	25%	592%	60	Means-tested	1.14%
Lesotho	7.0%	34%	156%	70 (men); 65 (women)	Pensions-tested	1.77%
Pilot Schemes						
Zambia	4.8%	10%	37%	60	Universal	*no data*
Kenya	4.1%	25%	94%	65	Means-tested	0.02%
Kenya		18%	67%	55	Universal	*no data*
Uganda	3.8%	26%	72%	65 (60 in Karamoja	Universal	*no data*
Nigeria	4.9%	23%	135%	65 (residents of Ekiti State	Pensions-tested	*no data*

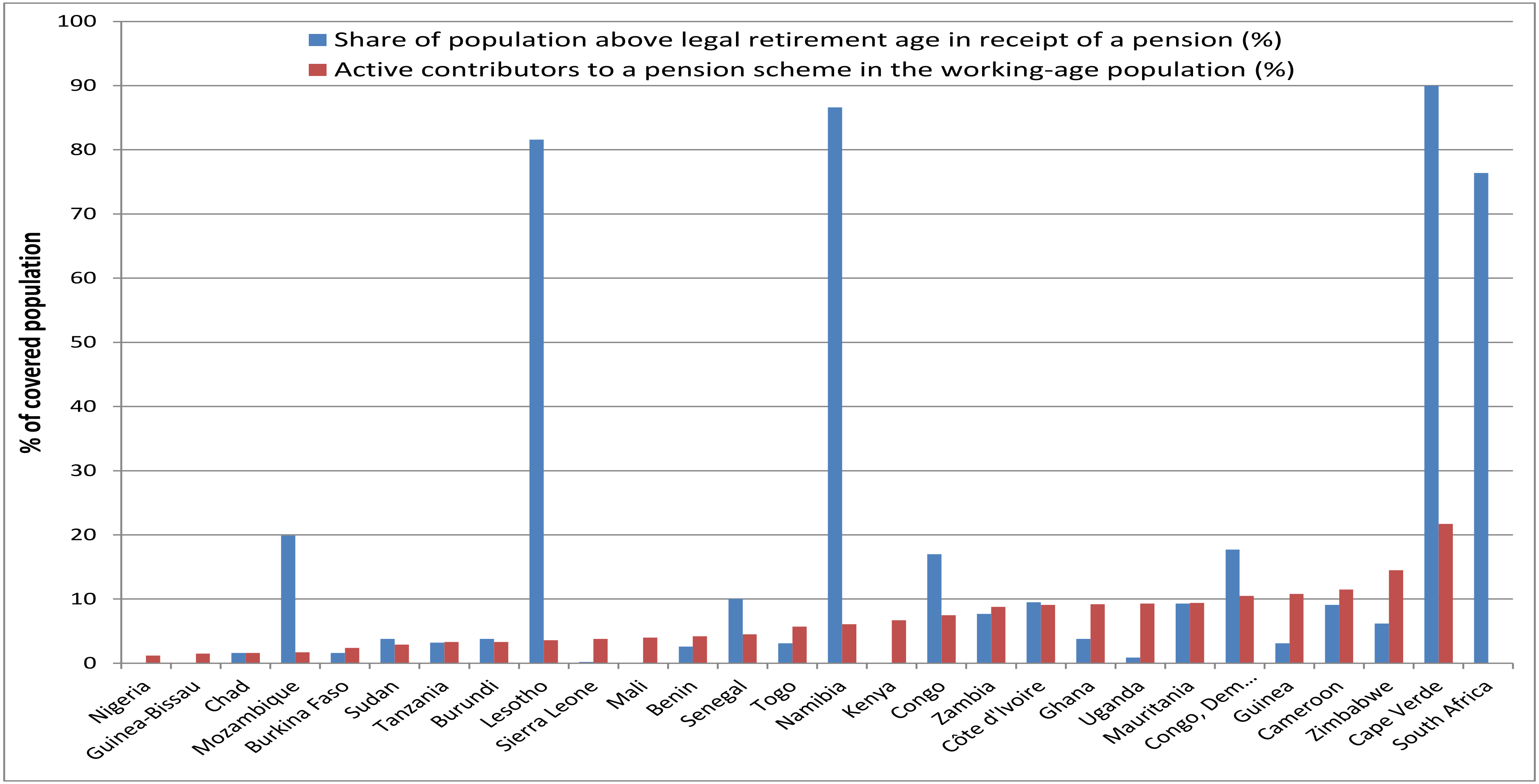
II. Challenges - Earnings-related schemes have largely failed

1. Coverage. Small fraction of covered workers & elderly
2. Fiscal pressure. Civil servant scheme maturation & some aging
3. Efficiency & weak reserve management yielded poor returns & incentives (augmented by administrative costs)
4. Alignment of designs to needs

1. Poor coverage

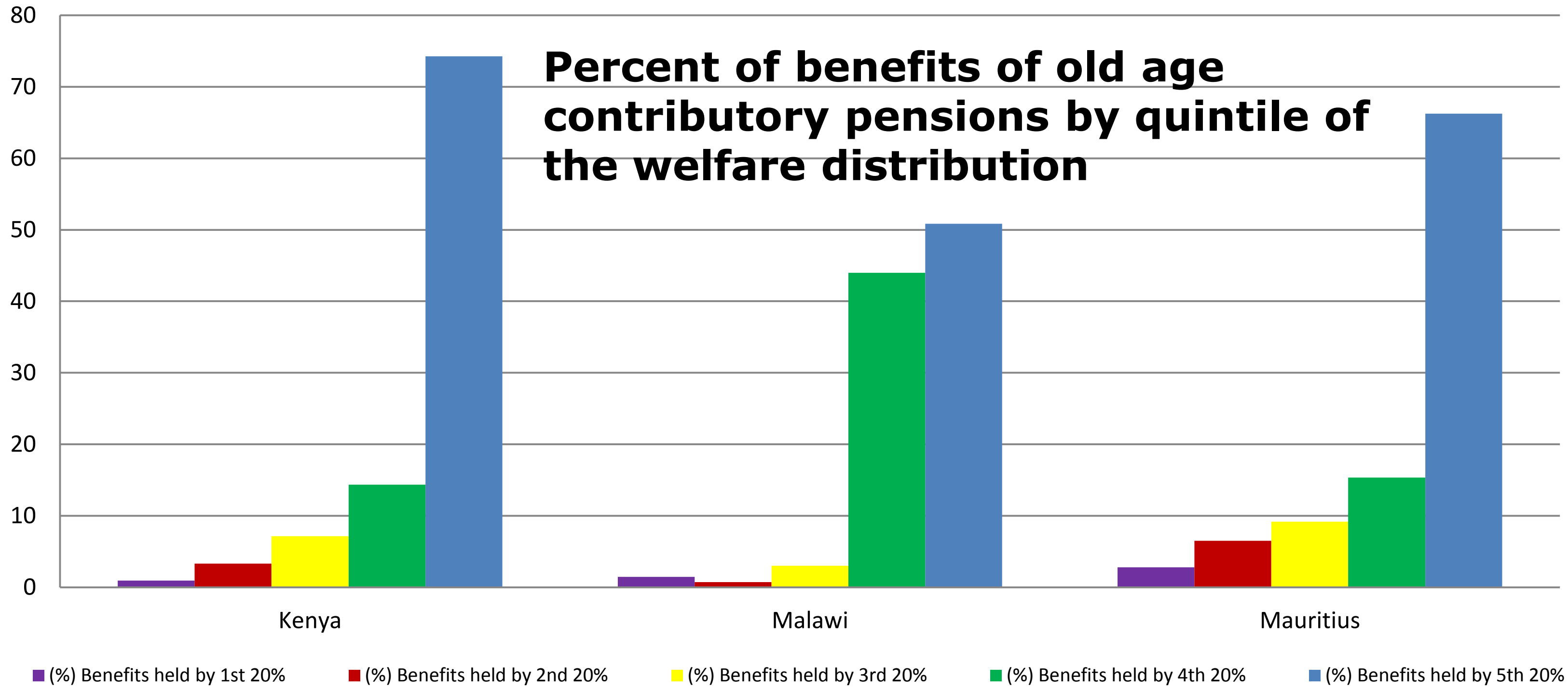
Tiny % of workers covered in 50 years (median 5.1% of working age pop):

- Earnings-based design ill-suited to rural/informal populations
- High target replacement rates & cont. rates
- Sign. elderly coverage only in 8 countries w/non-contributory schemes.



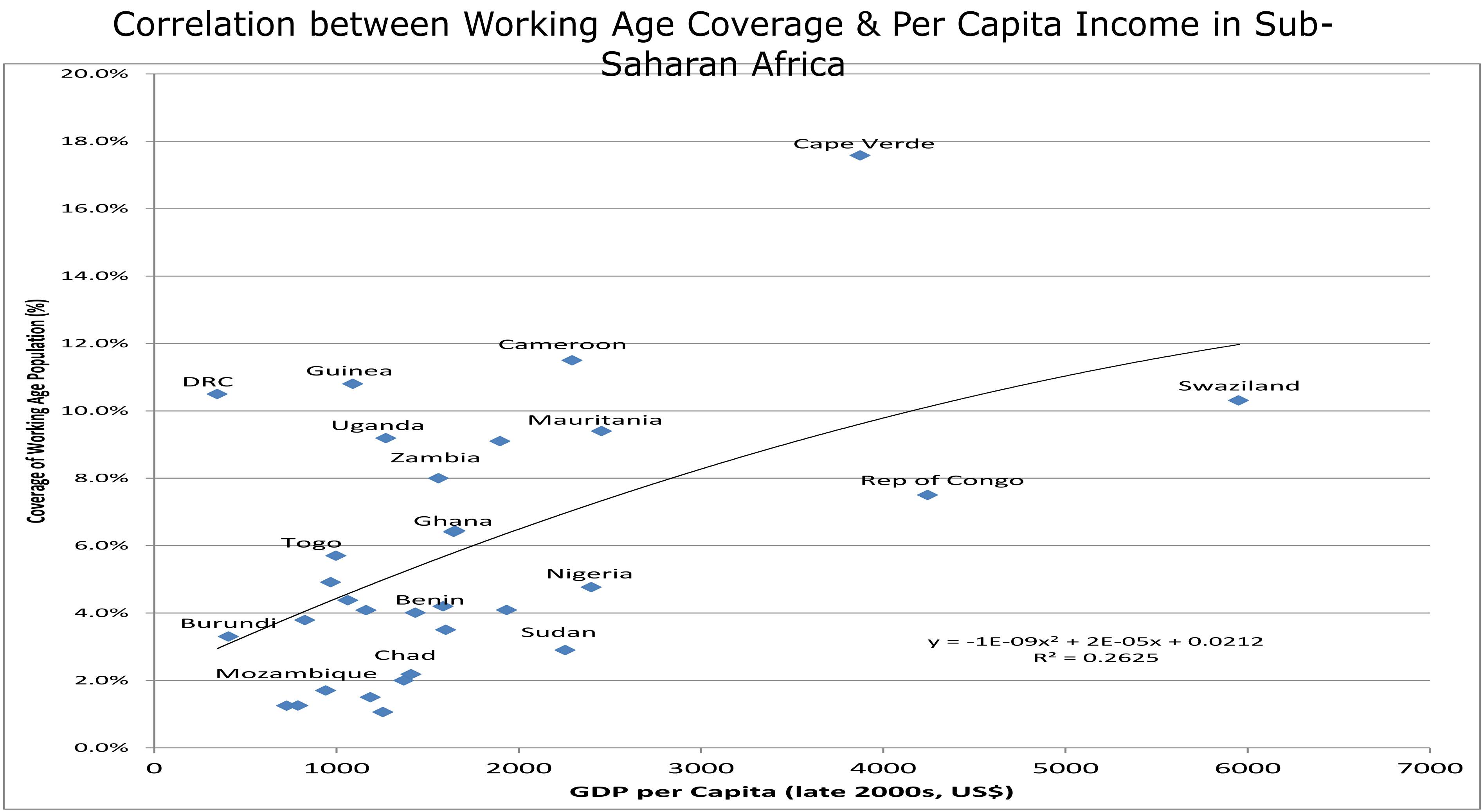
1. Poor coverage

Contributory schemes tend to benefit the most well-off workers while most are left uncovered.



Source: The World Bank, *The Rise and the Risks of non-contributory pensions*, draft mimeo, 2013.

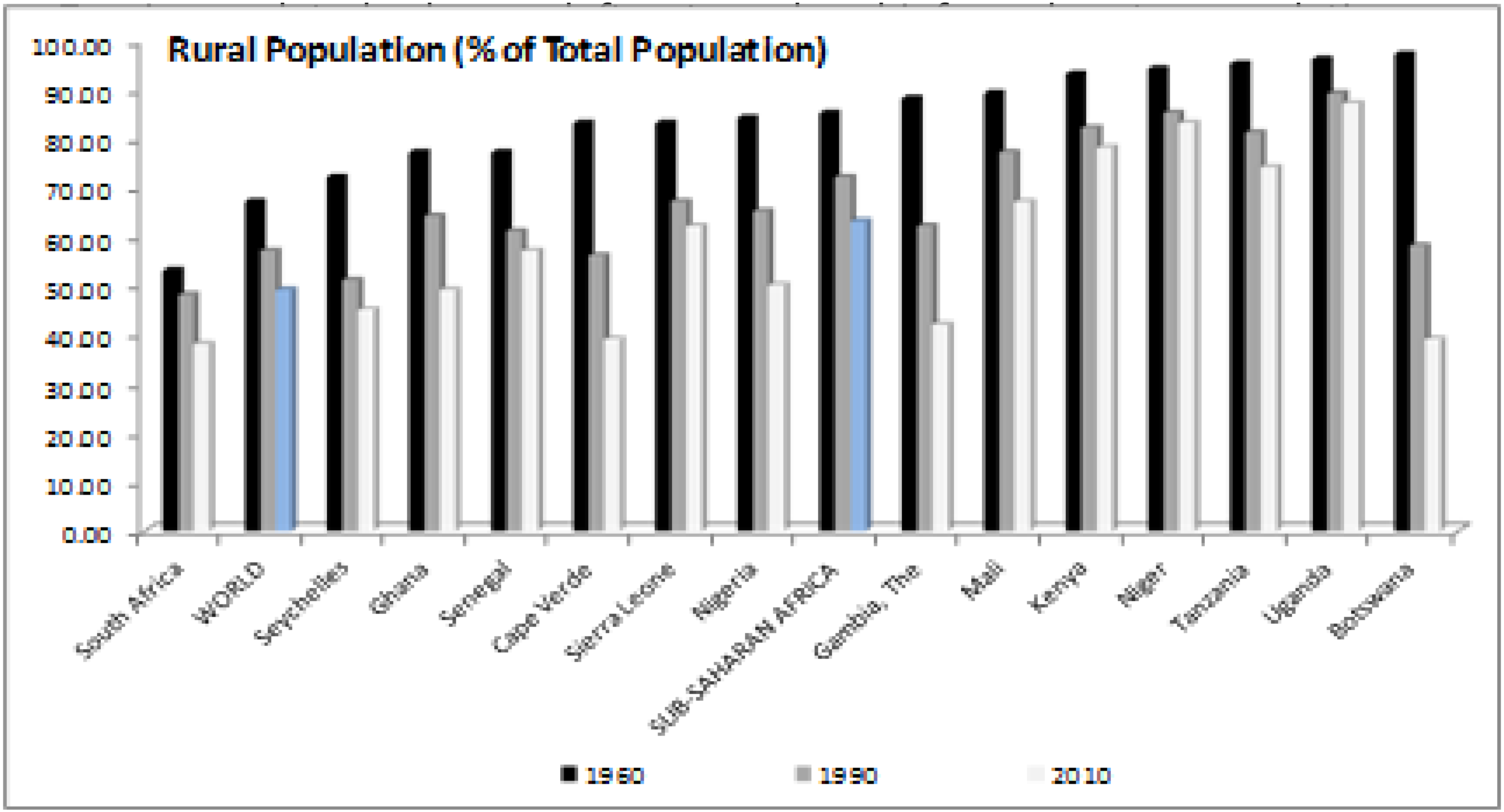
…in part because of low & volatile non-wage incomes



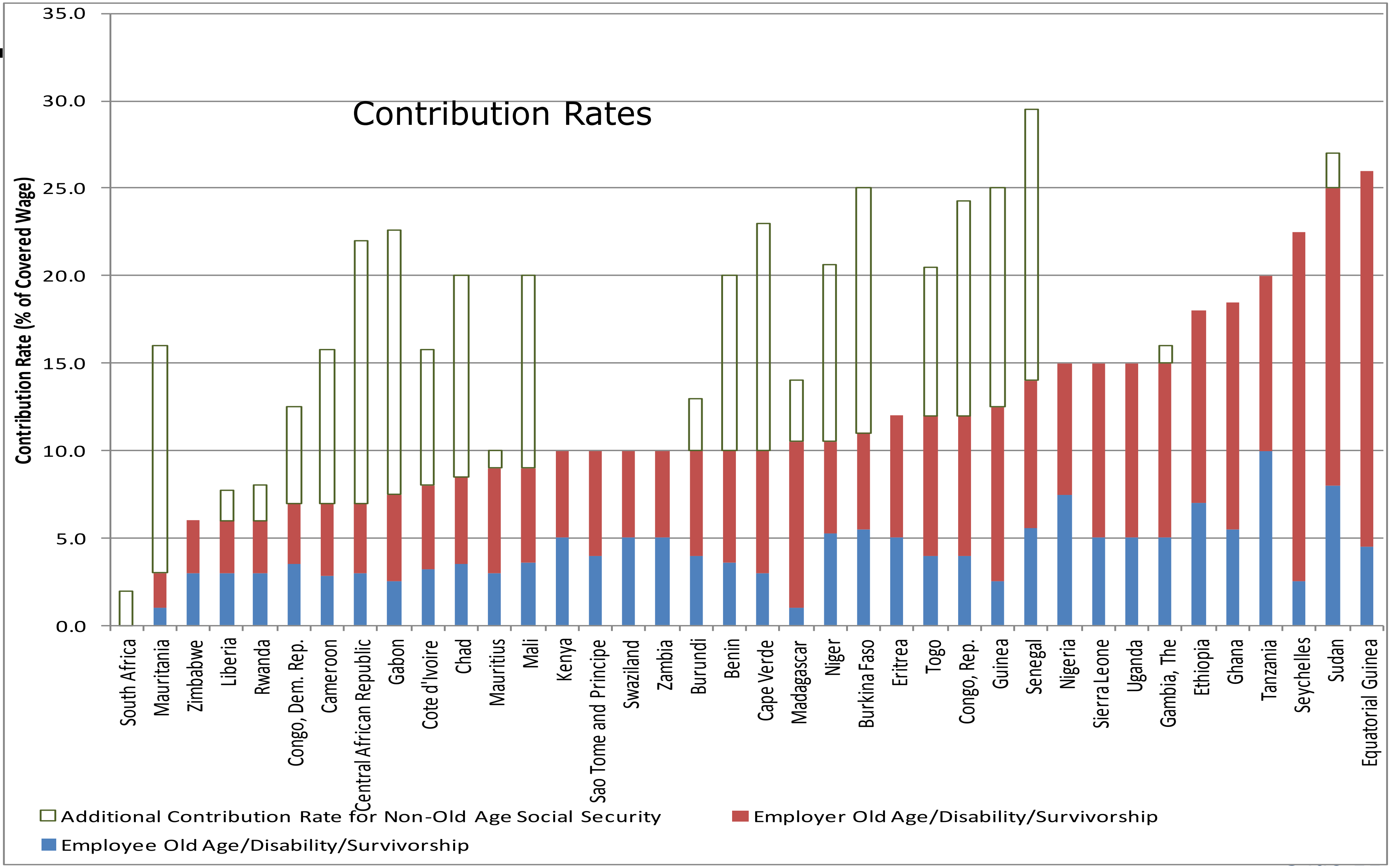
Source: World Bank database.
Note: Data points are from late 2000s.

…with populations largely rural and informal

- Rural pop. prominent but declining.



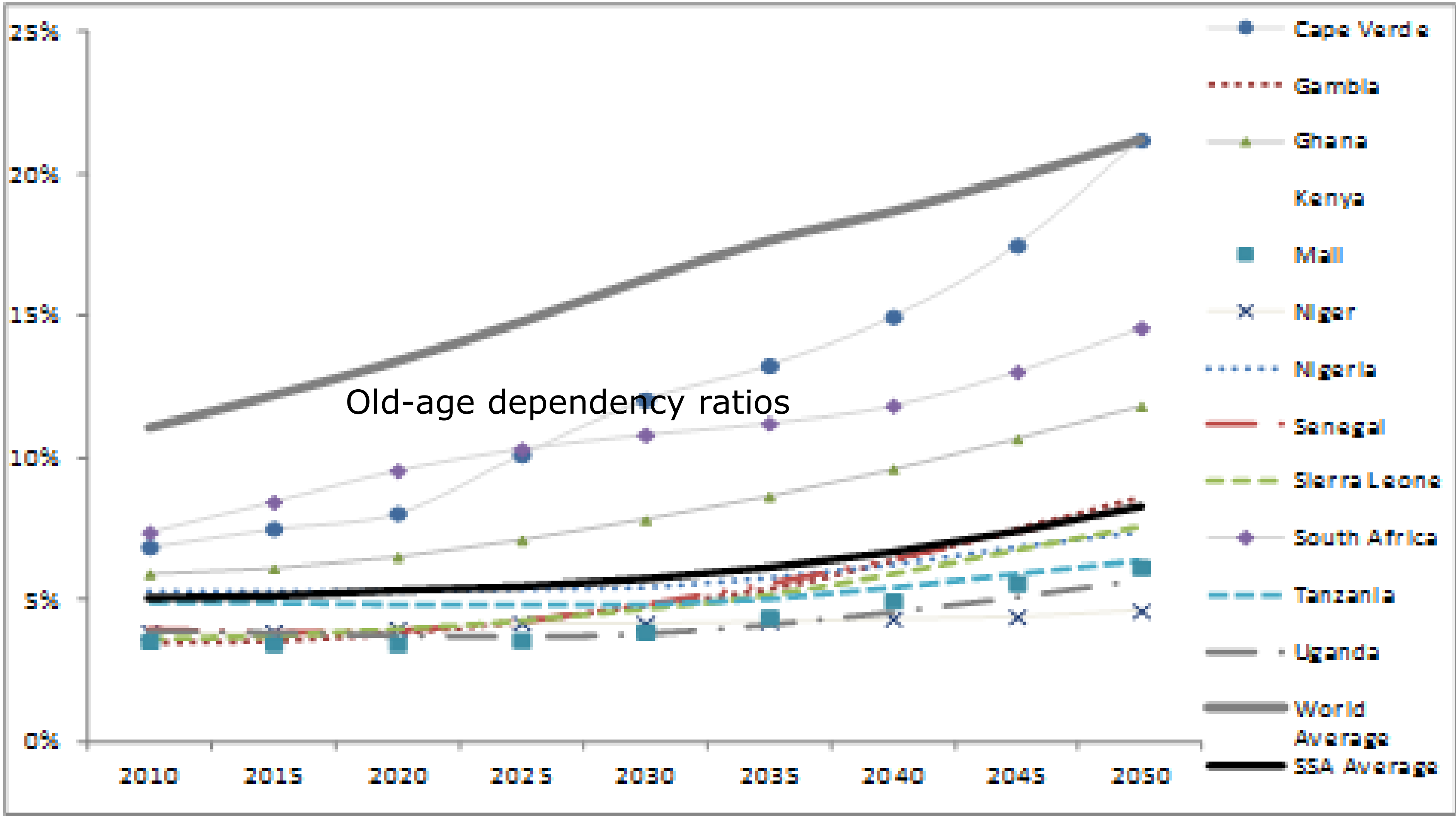
…and contribution rates relatively high for low income workers



2. Compounding the inequity of support is an emerging fiscal sustainability issue, particularly in civil servant schemes

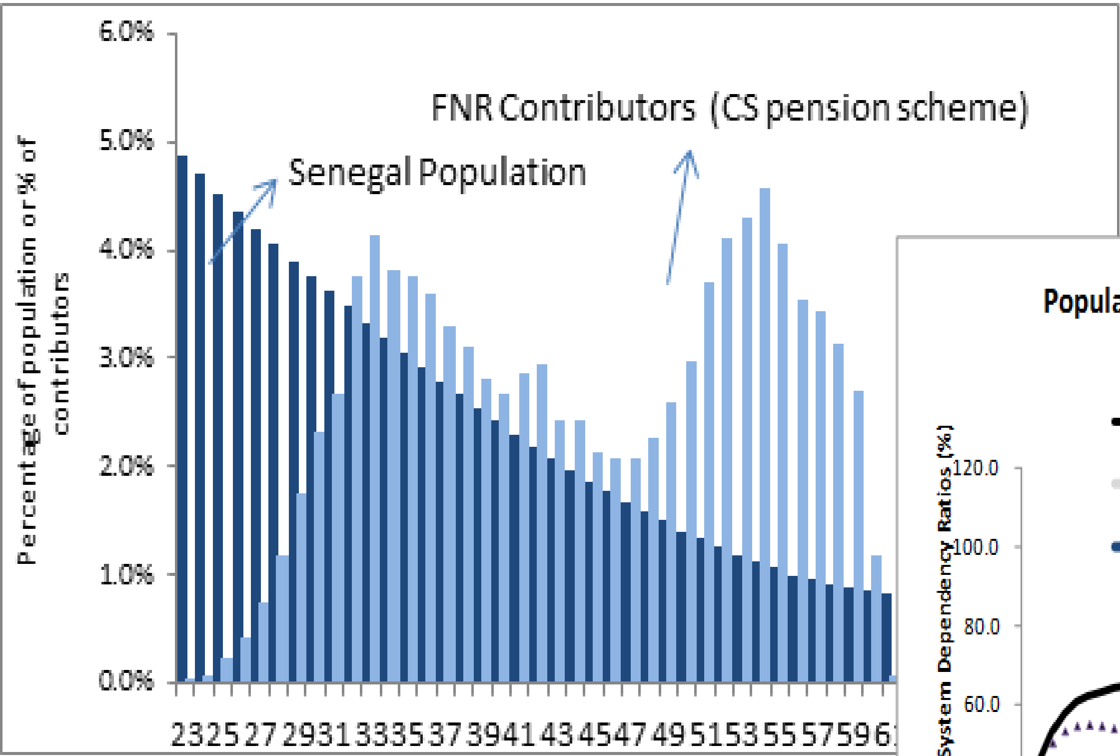
- Many pensions, especially for civil servants, starting to consume an increasing portion of government budgets, potentially crowding out other programs.
- Partly due to flawed parameters (contribution rates and benefit formulae) inconsistent w/long-run balances & partly worsening scheme demographics.
- Early stage in demographic transition, but covered workforce (esp. in civil servant schemes) older and aging more rapidly.
- Separate civil service & national schemes (except CV, Zambia, Ghana) segment labor markets

Modestly worsening demographics

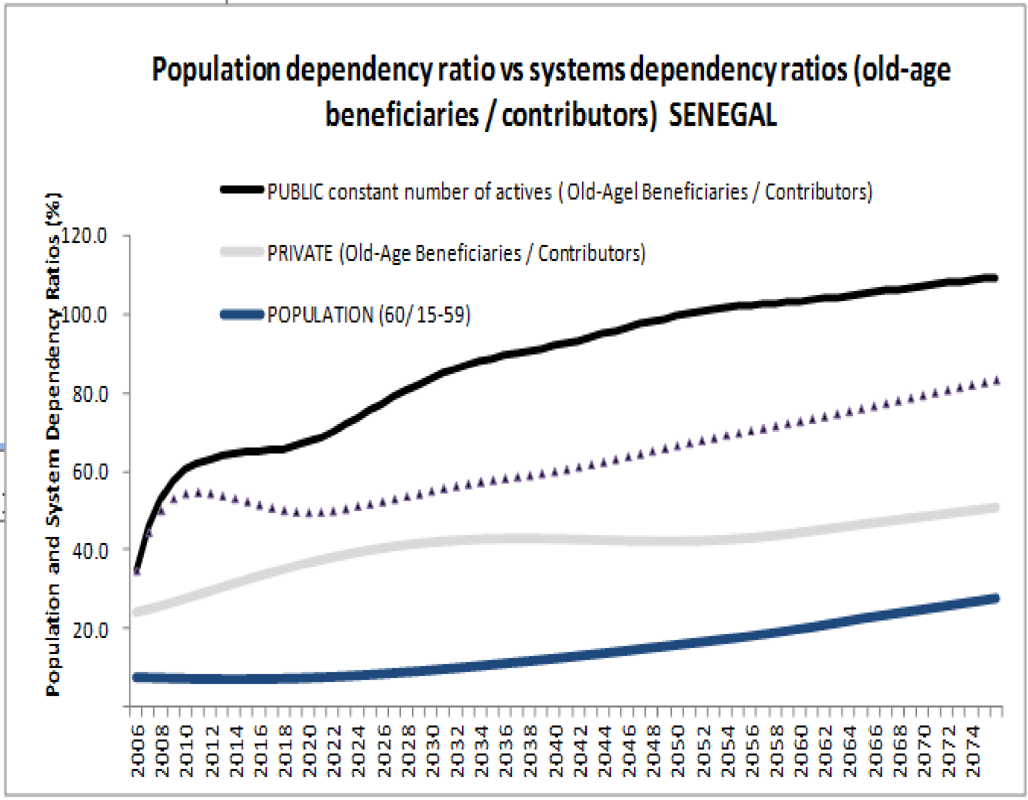


… and old-age dependency rates likely higher for covered populations

Senegal: Projected National and Civil Service Population Age Distributions



Senegal: Projected Dependency Ratios



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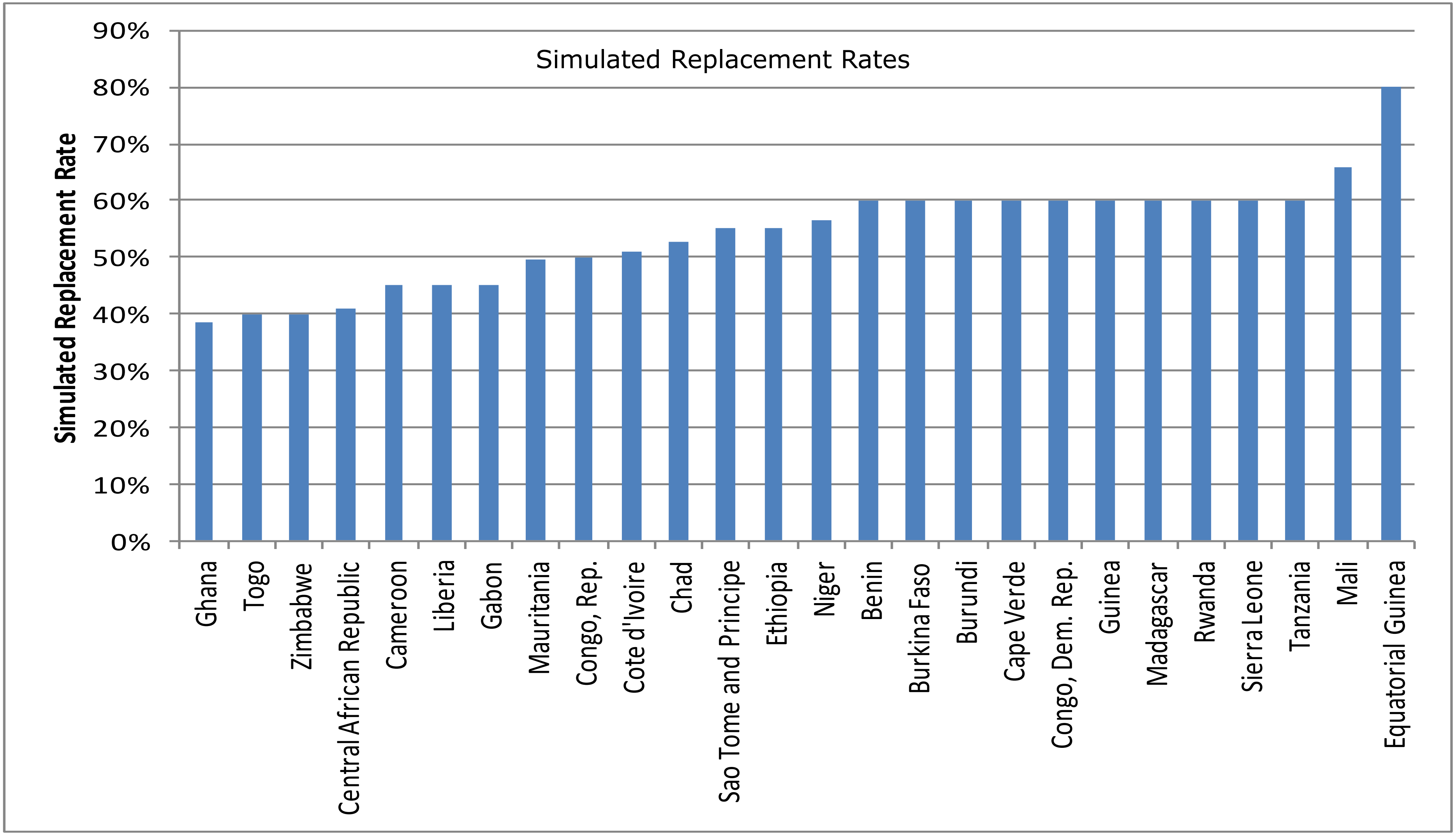
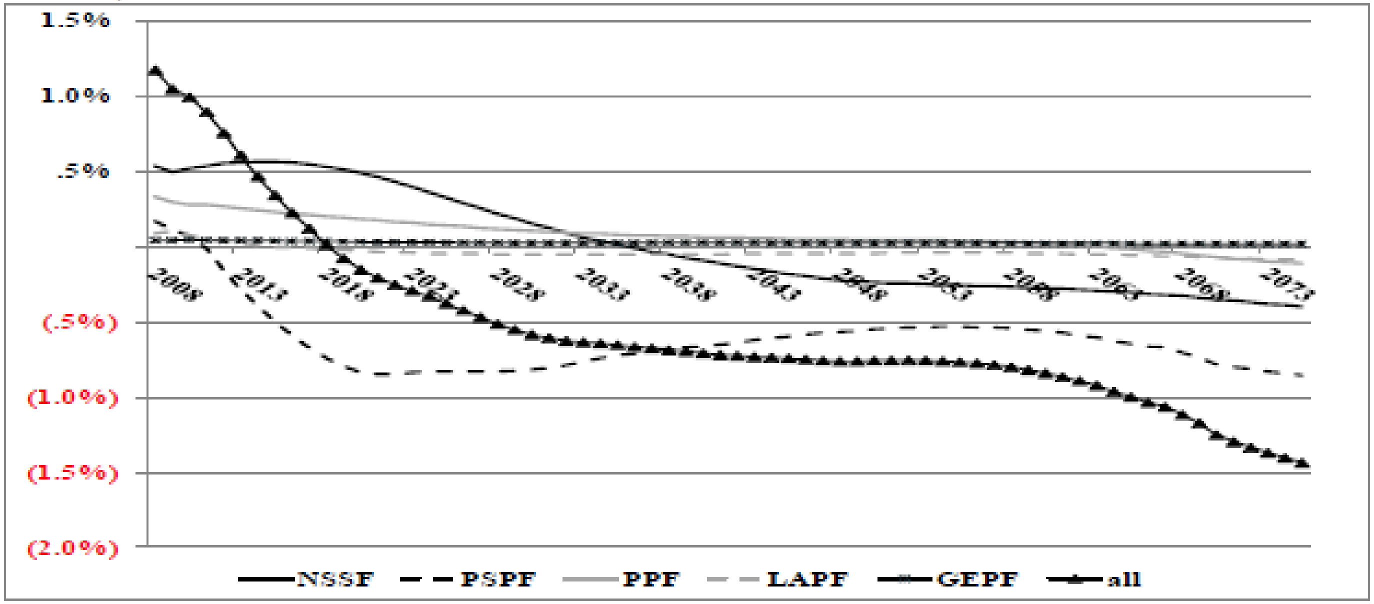
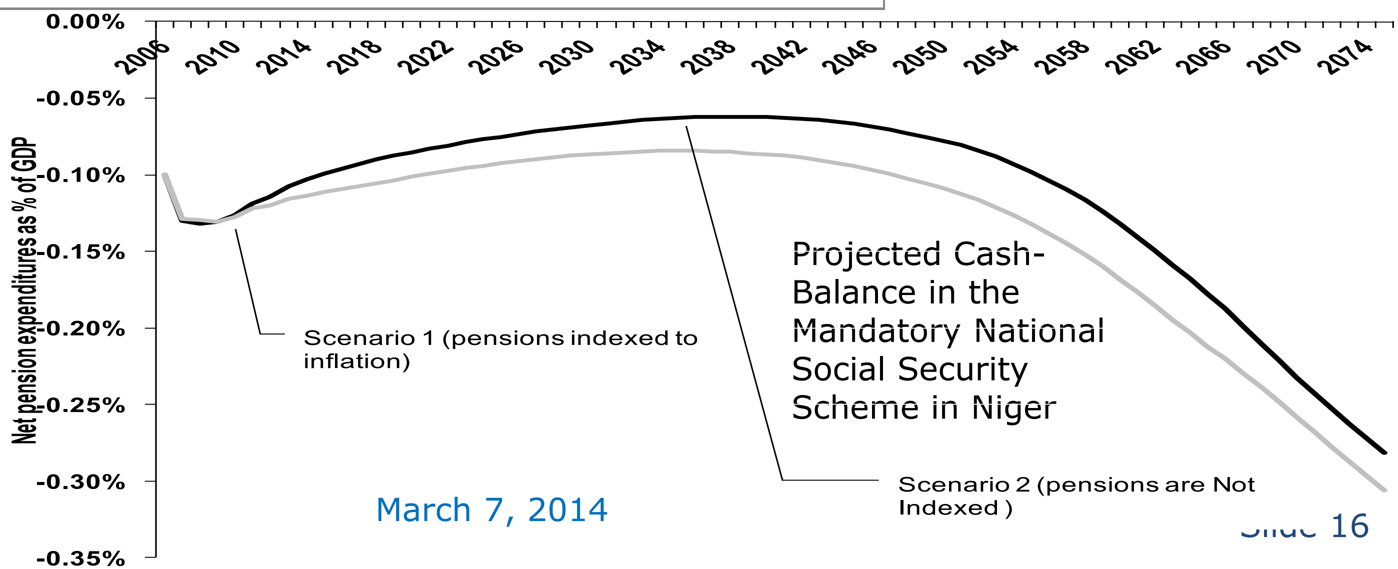
…with target replacement rates too high to be sustained or affordable



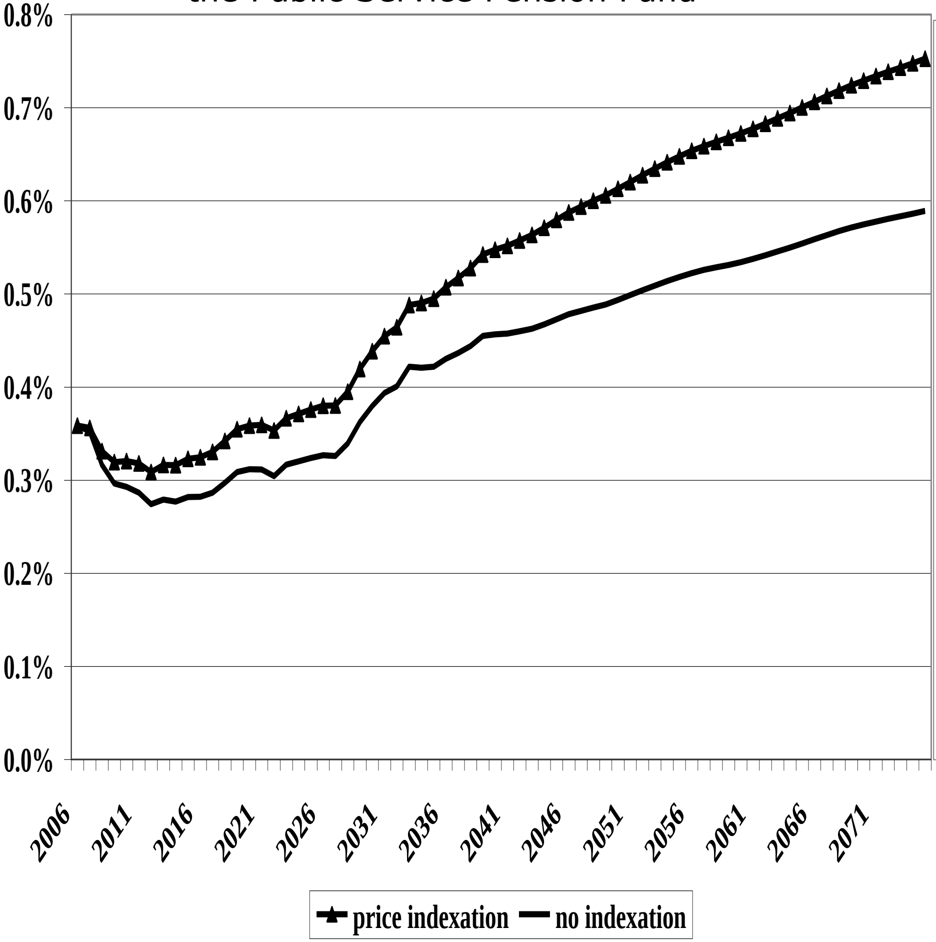
…and unsustainable fiscal burdens over the medium-term



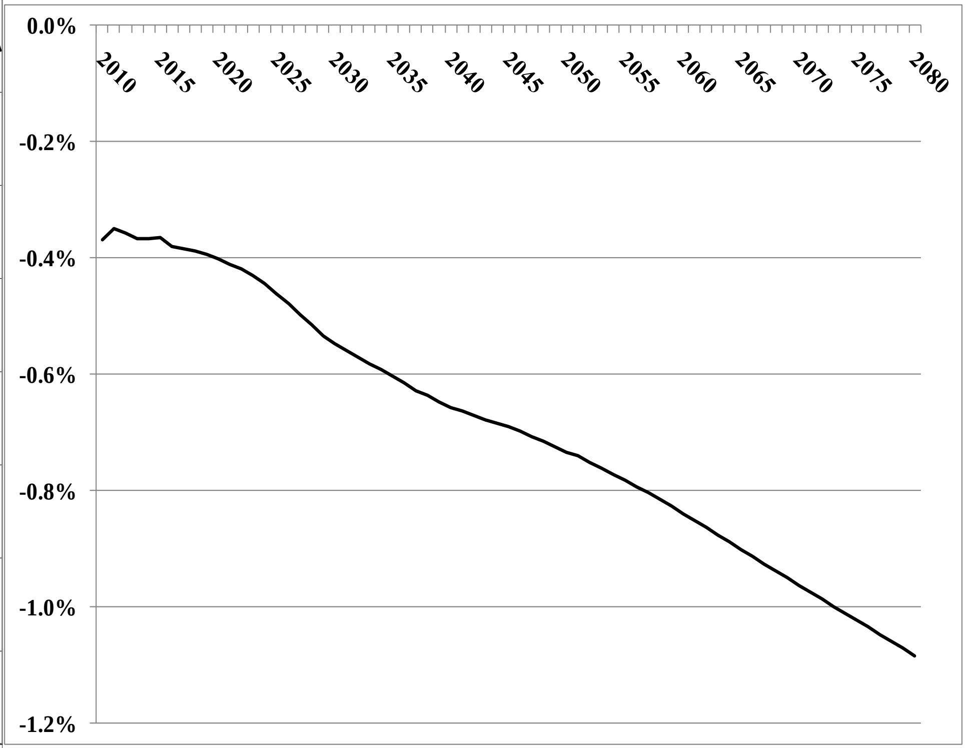


…as well as growing costs of civil service schemes as covered populations age

The Gambia: Projected Expenditures for the Public Service Pension Fund

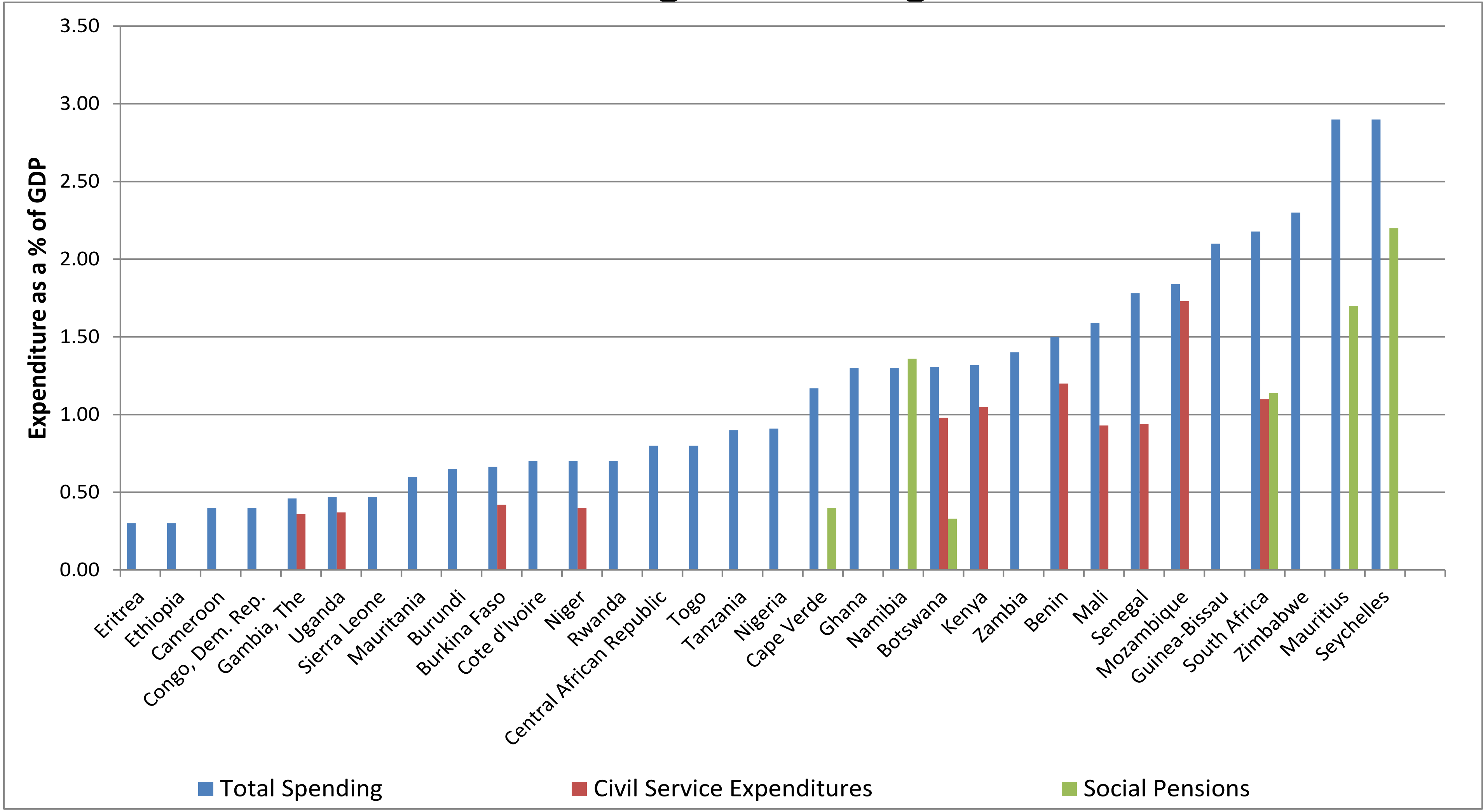


Uganda: Public Service Pension Fund Projected Baseline Pension Expenditure



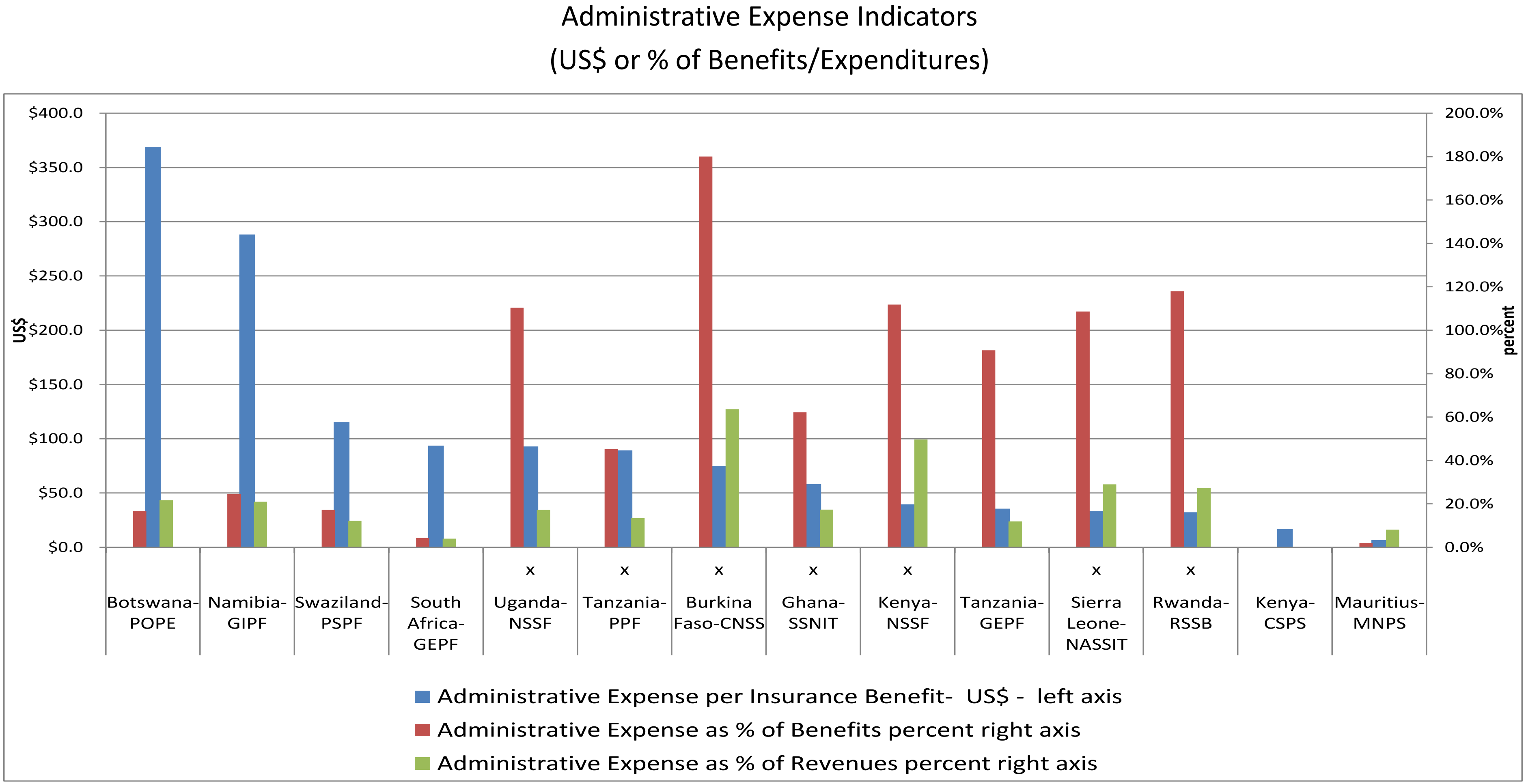
Source: World Bank, Options for the Reform of the Public Service Pension Fund in Uganda, December 2010.

…expenditures on national and civil service schemes are modest though increasing



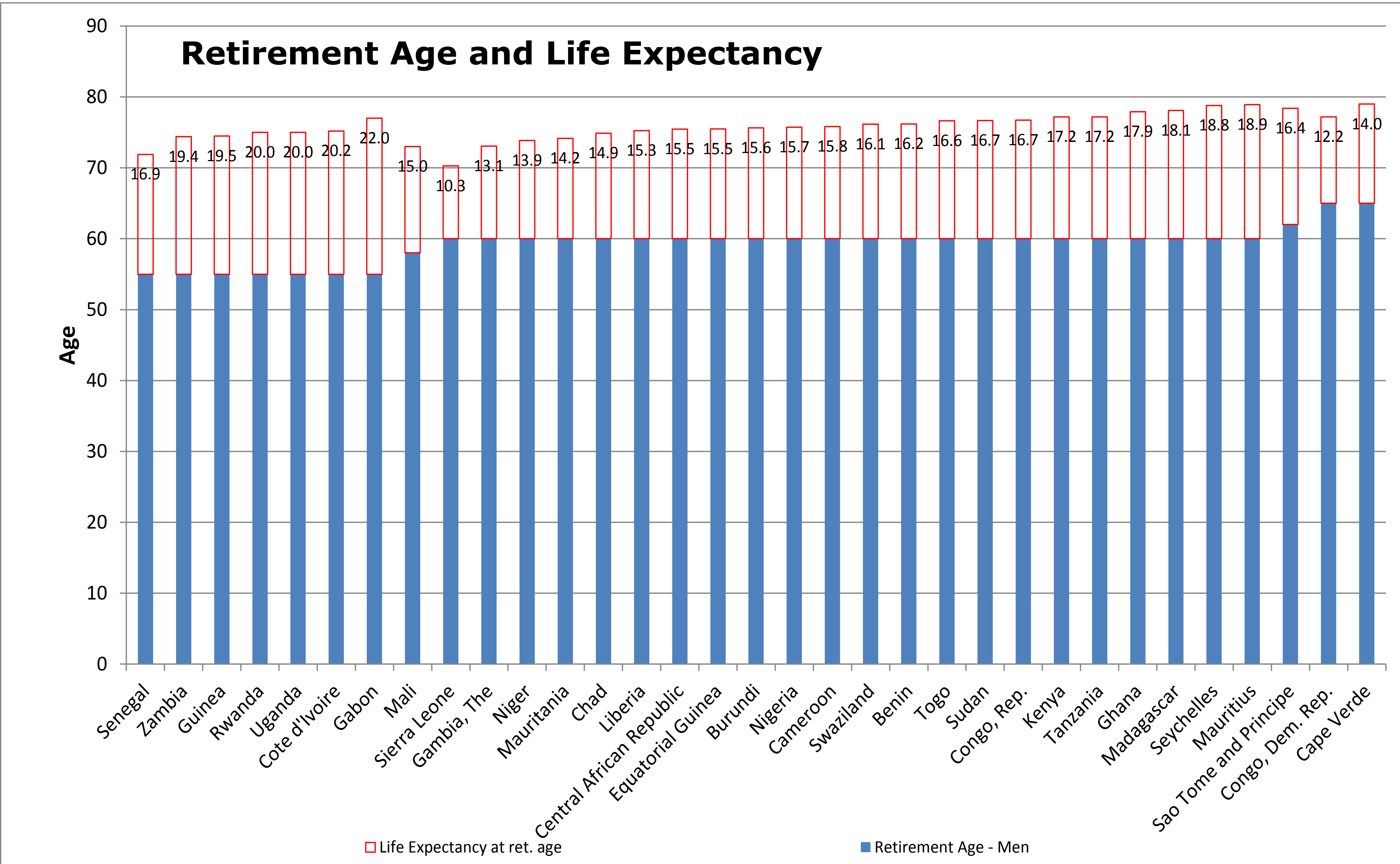
Source: World Bank database.

…and administrative costs further aggravating the fiscal threat

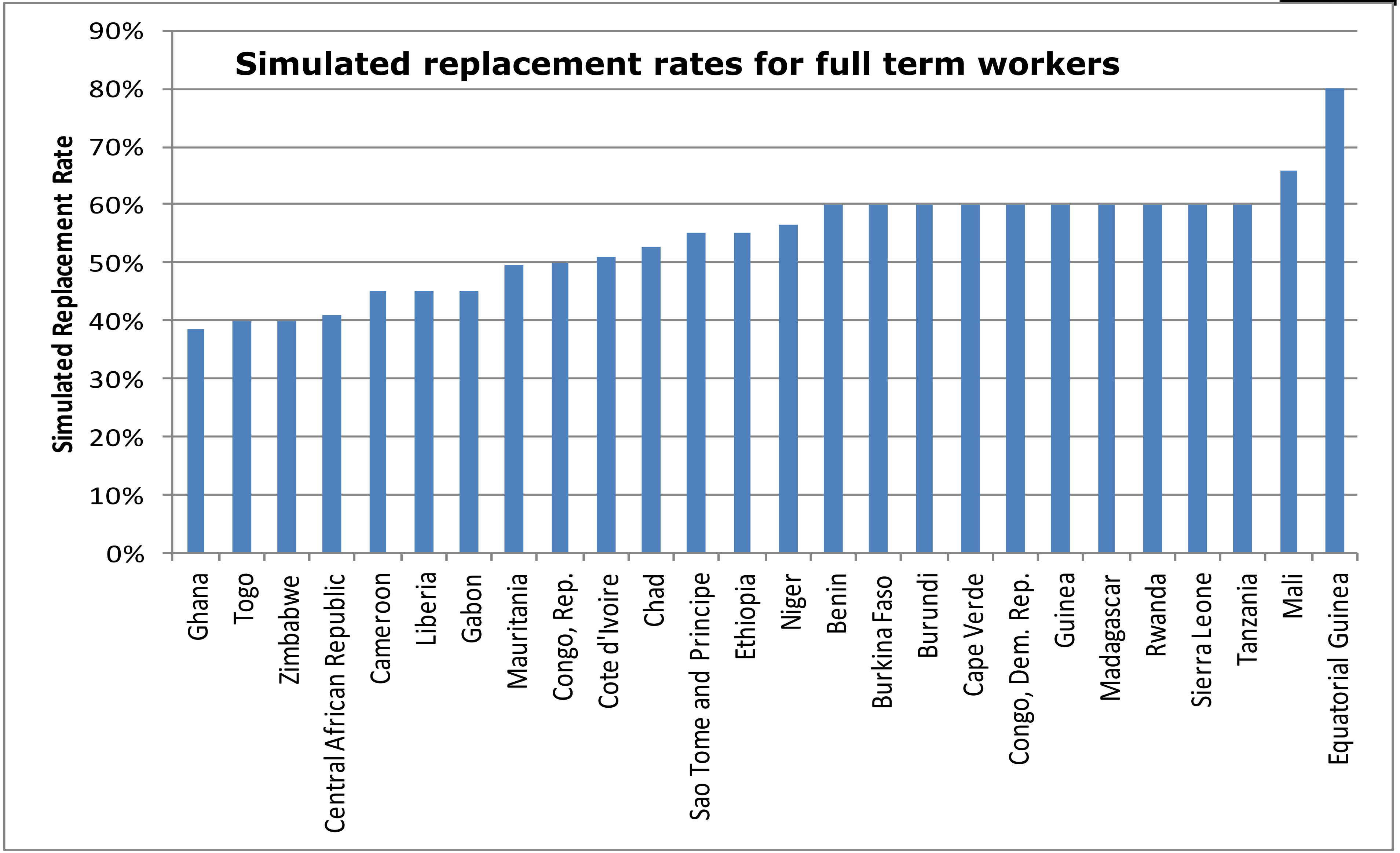


Source: Oleksiy Sluchynsky, Defining, Measuring and Benchmarking Administrative Expenditures of Public Pension Programs. Draft, mimeo, 2012. Note: An "x" above the scheme indicates that the actual costs of operation are more than 5 times the predicted levels based on the averages observed for 100 pension and social security programs throughout the world.

4. *Need for Parametric Modernization … including the retirement age*



More modest accrual rates from mandatory schemes…

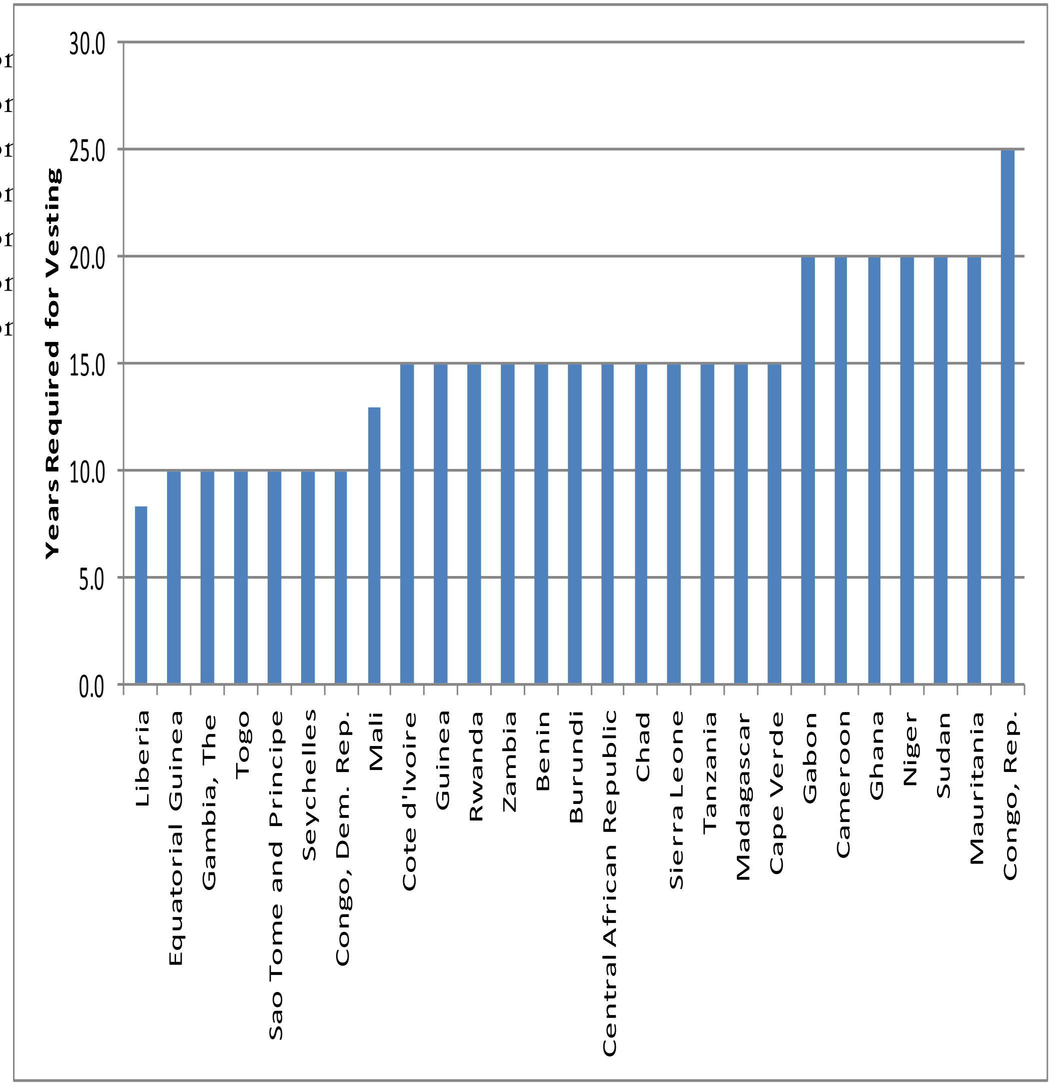


Explicit indexation, reduced vesting periods (& minimums), lengthening of wage bases + valorization …

Indexation

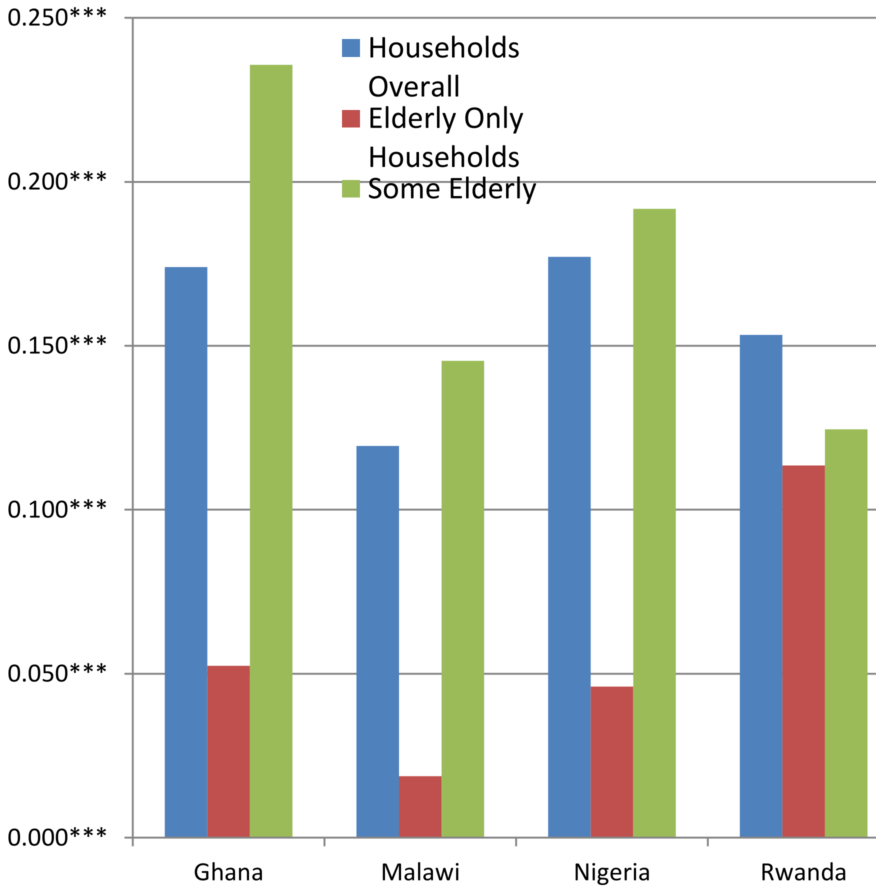
Central African Republic	No explicit indexation
Cameroon	No explicit indexation
Ethiopia	No explicit indexation
Niger	No explicit indexation
Guinea	No explicit indexation
Equatorial Guinea	No explicit indexation
Zimbabwe	No explicit indexation
Gabon	Disretionary
Chad	Disretionary
Benin	Disretionary
Cape Verde	Disretionary
Congo, Dem. Rep.	Disretionary
Madagascar	Disretionary
Tanzania	Disretionary
Togo	Price indexation
Mauritania	Price indexation
Congo, Rep.	Price indexation
Cote d'Ivoire	Price indexation
Burkina Faso	Price indexation
Burundi	Price indexation
Rwanda	Price indexation
Mali	Price indexation
Ghana	Wage indexation
Sao Tome and Principe	Wage indexation
Sierra Leone	Wage indexation

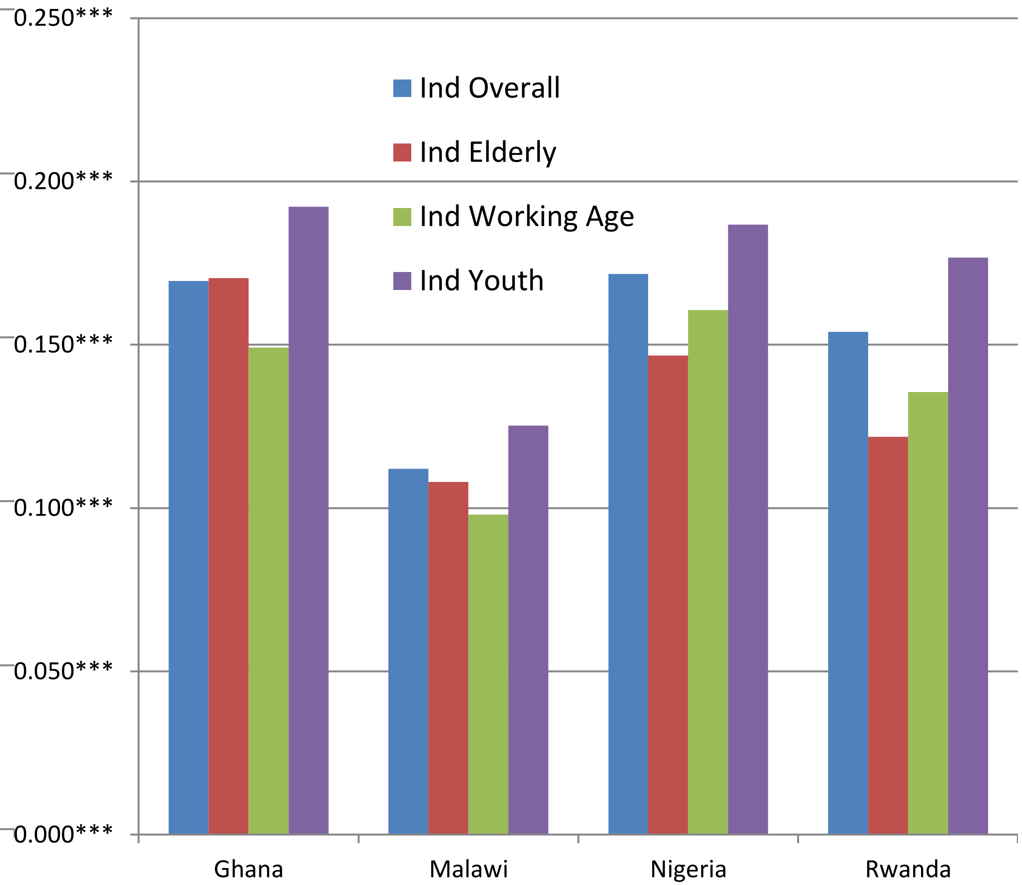
Vesting periods



5. Need for Reconsideration of Social Pensions vs. Social Assistance

Poverty Prevalence





Source: Bank estimates, 2013.

5. *Question of whether existing designs need to be reconsidered*

1. Do mandatory wage-based schemes make sense for populations with much of the population without predictable wage incomes?

2. How does contributing for old-age fit with other SP priorities (eg. loss of income, health or other shocks)?

3. What are sensible principles for social assistance & social insurance design appropriate to needs, objectives & conditions in SSA?

IV. Design Reform Principles (1)

- ***Modest benefit targets*** - Target a modest replacement rate – cont. schemes (affordable & sustainable contribution rate)

- ***Designs for rural & informal populations***. Design experimentation & sequencing (health insurance expansion, enhanced savings instruments, matching contributions, default options, consumer education; UID, data & payments infrastructure; SP systems).

- ***Modernize DB parameters -*** parametric reforms (retirement age, linear & sustainable accrual rate, cont. rate, wage base & valorization, indexation) w/transitions (take advantage of immature schemes & young populations to minimize impact on older cohorts)

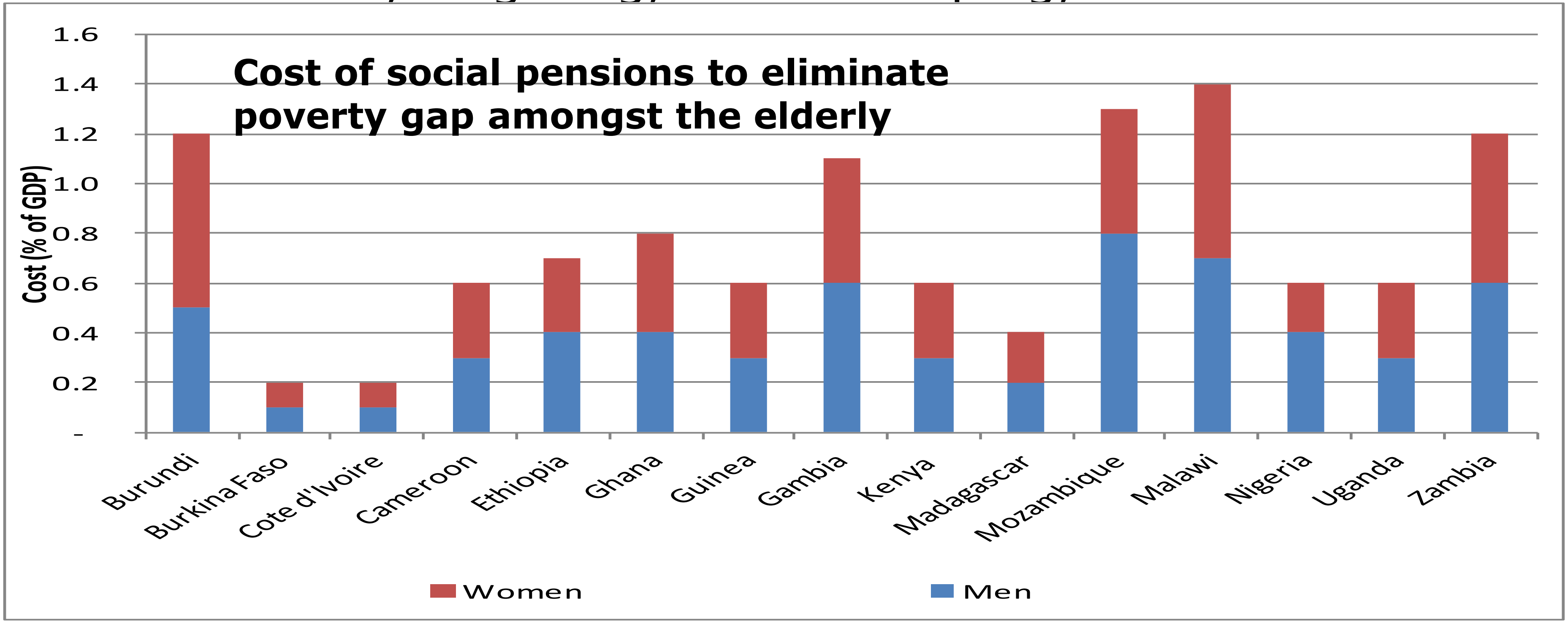
- ***Harmonize & merge civil service & national schemes*** (w/occupational top-up as necessary - 28 sep., 7 integ, 2 only cs schemes)

- ***Build enabling conditions***. *Funded DC schemes* require sufficient enabling conditions (fiscal, macro, supervision, financial market depth & breadth, legal & administrative infrastructure). Strengthen occupational & individual schemes as stepping stone to FDC.

IV. Design Reform Principles (2)

▪ Social pensions

- ➢ Social pensions vs. social assistance.
- ➢ Link benefits & targeting to contributory benefits
- ➢ Establishment of infrastructure for public transfers - identification, targeting, record-keeping, disbursement.



Source: Kakwani and Subbarao, Aging and Poverty in Africa and the Role of Social Pensions. 2005.

V. A Process to Consider Reform

- Evaluate full scope & sequencing of social protection measures for coverage expansion (health insurance, old-age, survivorship, CCTs)
- Map programs to satisfy institutional requirements & enabling conditions + consider systemic approach
- Project baselines of existing schemes & parametric reforms with actuarial modeling (PROST)