



WORLD BANK GROUP

Social Protection & Labor

Pension Patterns and Challenges in Sub-Saharan Africa

World Bank Pensions Core Course

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The World Bank

Organization

1. Pension Patterns & Challenges
 - a. Scheme Design
 - b. Enabling conditions: Demographics, household composition, poverty and growth
 - c. Coverage
 - d. Adequacy and affordability
 - e. Sustainability
2. Questions for discussion

Scheme Design

Pension scheme design

	National Scheme			Separate or Integrated with National Civil Servants Schemes							Non-Contributory Elderly Assistance				
	Design			Scheme			Contributory and Funding				Universal	Pension-Tested	Means-Tested	Pilot Scheme	
	PAYG DB	Provident Fund	Funded DC	Separate from National Scheme	Integrated with National Scheme	Occupational Scheme (no national scheme)	Noncontrib.	PAYG DB	FDB	FDC					
1	Angola	√		√											
2	Benin	√		√											
3	Botswana						√			√		√			
4	Burkina Faso	√			√					√					
5	Burundi	√			√			√							
6	Cameroon	√			√					√					
7	Cape Verde	√				√		1/		√				√	
8	Central African Rep.	√				√				√					
9	Chad	√				√				√					
10	Congo, Dem. Rep.	√			√			√							
11	Congo, Rep.	√			√					√					
12	Cote d'Ivoire	√			√					√					
13	Ethiopia	√				√				√					
14	Gambia, The		√		√				√						
15	Ghana	√		√		√		2/		√		√			
16	Guinea	√			√					√					
17	Guinea-Bissau	√				√				√					
18	Kenya		√		√				√						√
19	Lesotho						√			√			√		
20	Liberia	√				√		3/		√					
21	Madagascar	√			√					√					
22	Malawi			√		√						√			
23	Mali	√			√					√					
24	Mauritania	√			√					√					
25	Mauritius	√			√					√		√			
26	Mozambique	√			√					√				√	
27	Namibia						√					√	√		
28	Niger	√			√					√					
29	Nigeria			√		√						√			√
30	Rwanda	√				√				√					
31	Sao Tome & Principe	√				√				√					
32	Senegal	√			√					√					
33	Seychelles	√				√						√			
34	Sierra Leone	√				√		4/		√					
35	Somaliiland							5/		5/					
36	South Africa				√		√				√			√	
37	South Sudan							5/		5/					
38	Sudan	√			√					7/					
39	Swaziland		√		√						√		√		
40	Tanzania	√			√					√					
41	Togo	√			√					√					
42	Uganda		√		√					√					√
43	Zambia	√				√		6/		√					√
44	Zimbabwe	√			√					√					

1/ Integrated for civil servants hired beginning in 2005.

2/ Integrated first in 1972 and then further integrated in 1991.

3/ Civil servants are integrated into the national scheme and some receive a supplementary benefit from the Treasury.

4/ Integrated for new civil servants beginning in 2002.

5/ Legislation is being developed to constitute a formal pension scheme for civil servants.

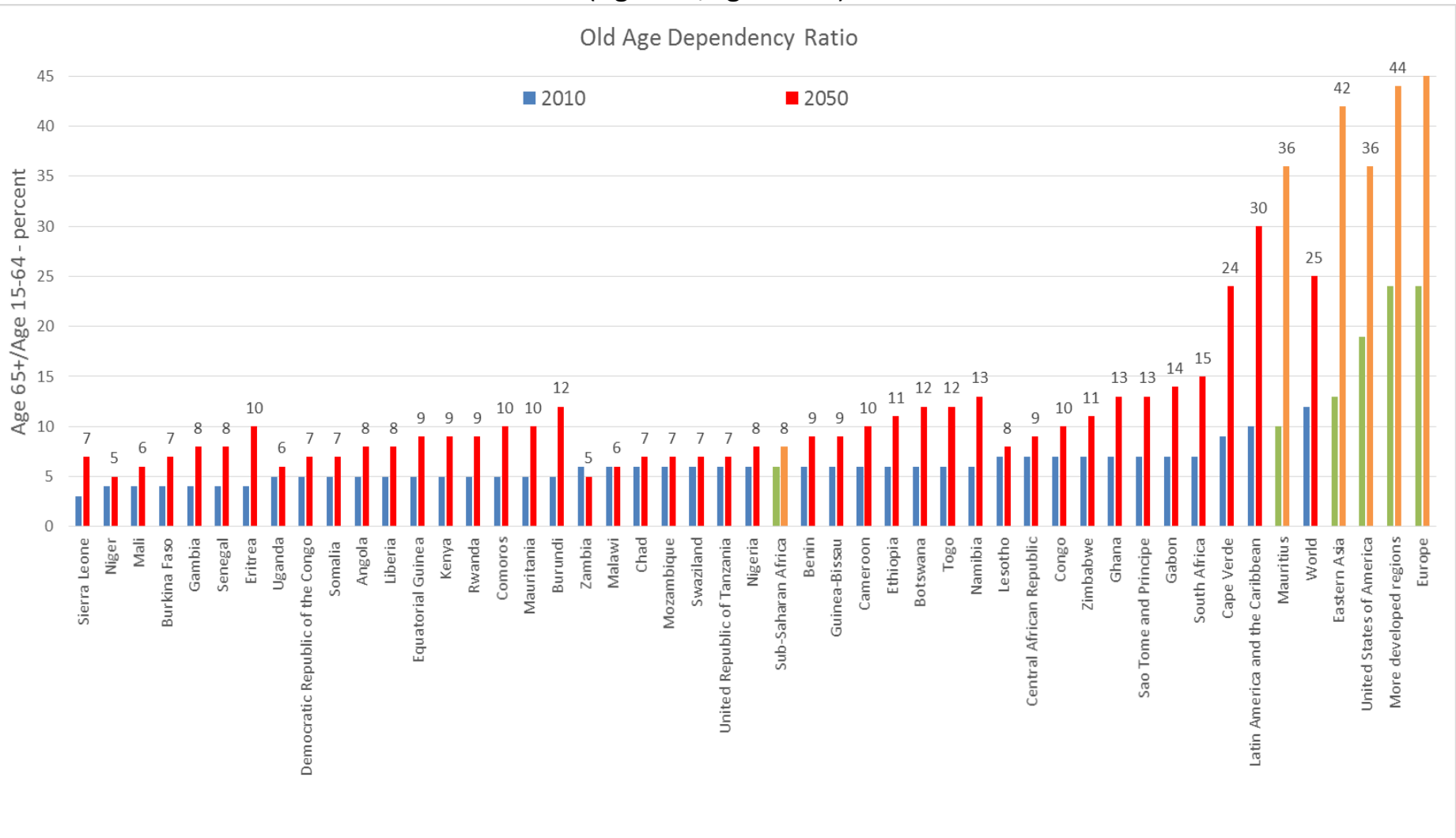
6/ Integrated for new civil servants hired after January 1, 2010.

7/ The contributions for the civil service scheme cannot be identified.

Enabling Conditions: Demographics, Household Composition, Poverty & Growth

Old Age Dependency Rates – low but growing

Projected Old Age Dependency Ratios
(Age 65+/age 15-64)

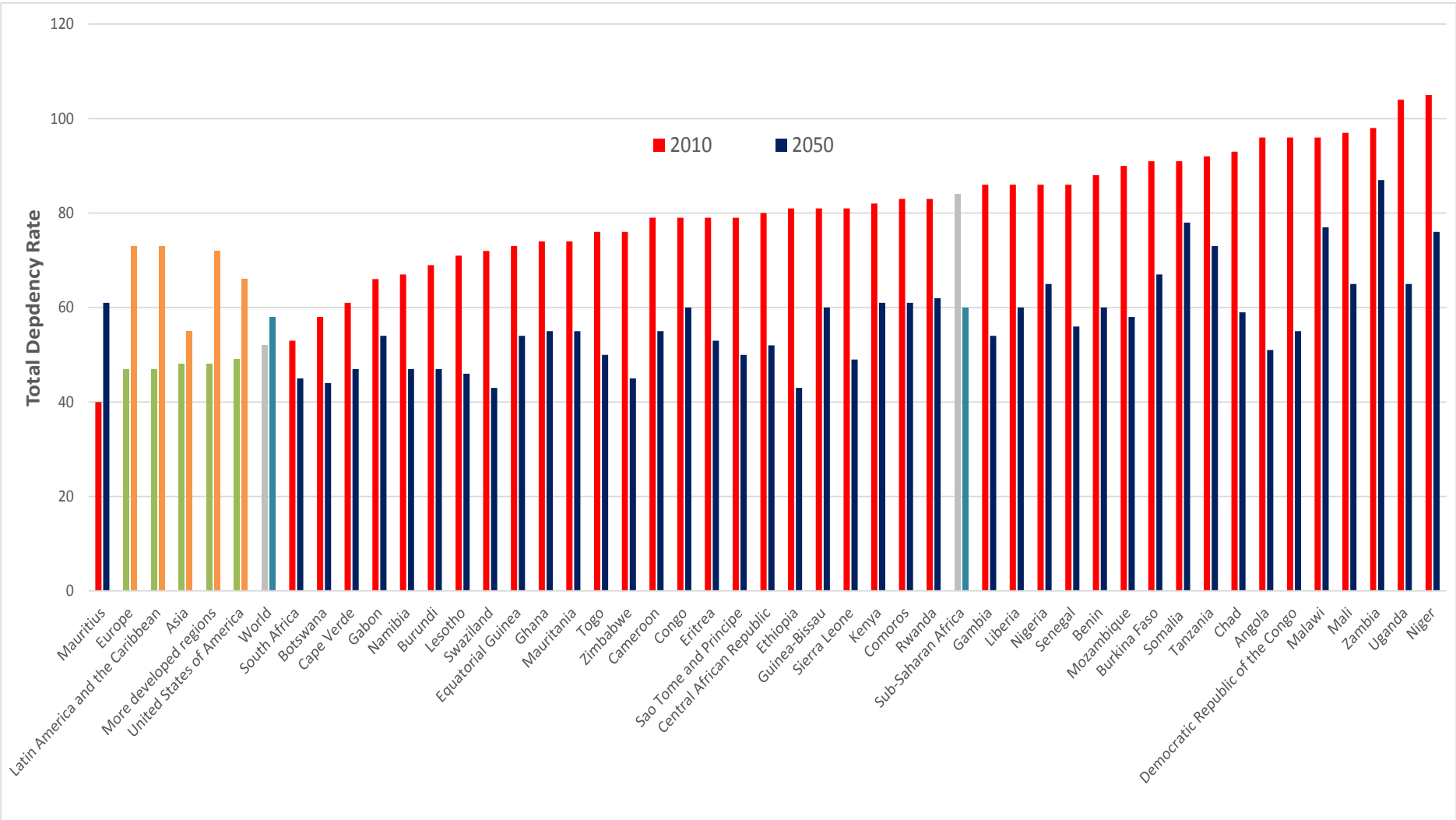


Source: World Bank database based on World Population Projections, 2010 revision.

Note: Mauritius and Seychelles have not been included.

Demographic window offers a positive environment for reform

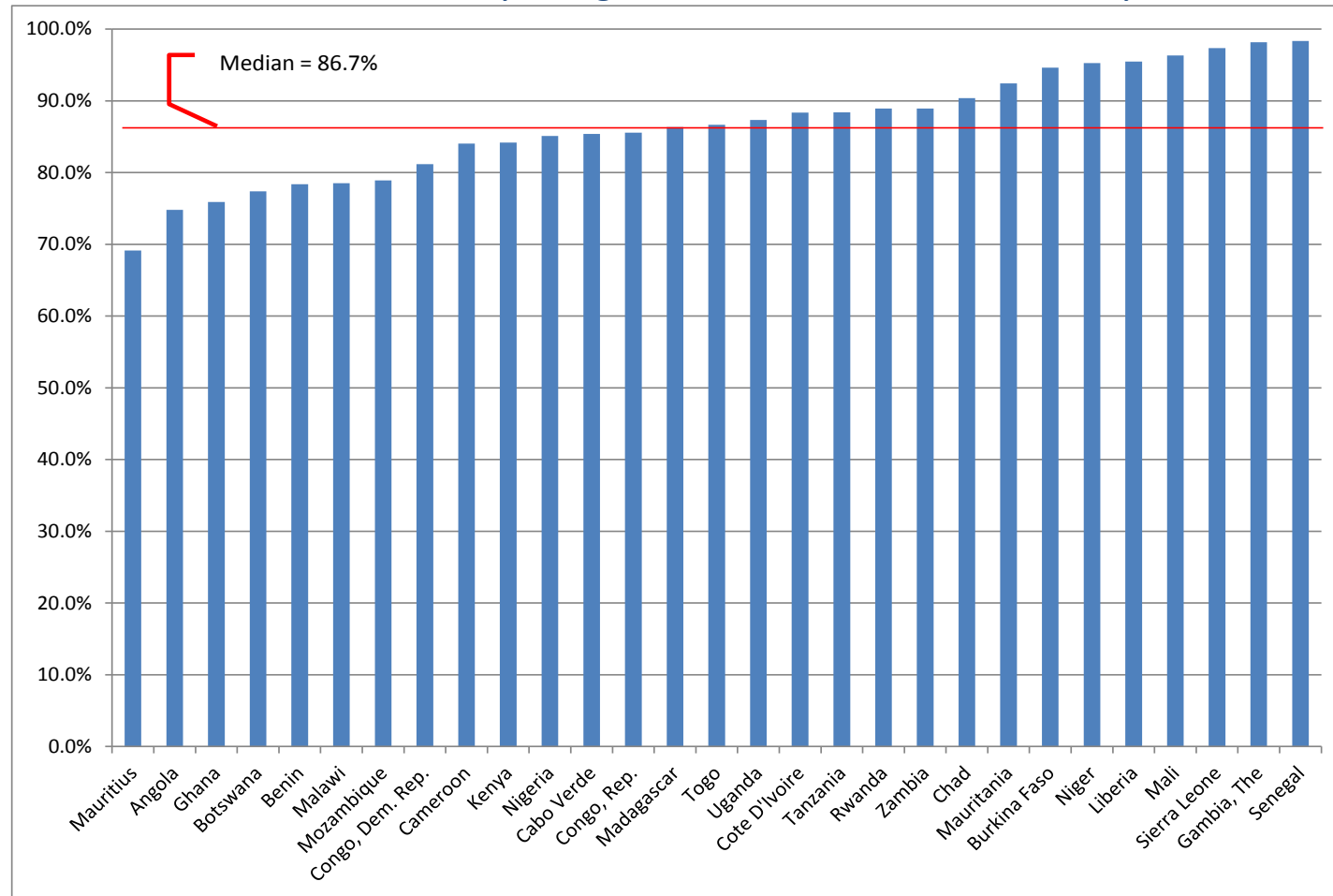
Total Dependency Ratio Projections
(Percent)



Source: United Nations, Population Division, Population Projections, 2012 Revision,

Household composition 87% of elderly live with non-elderly

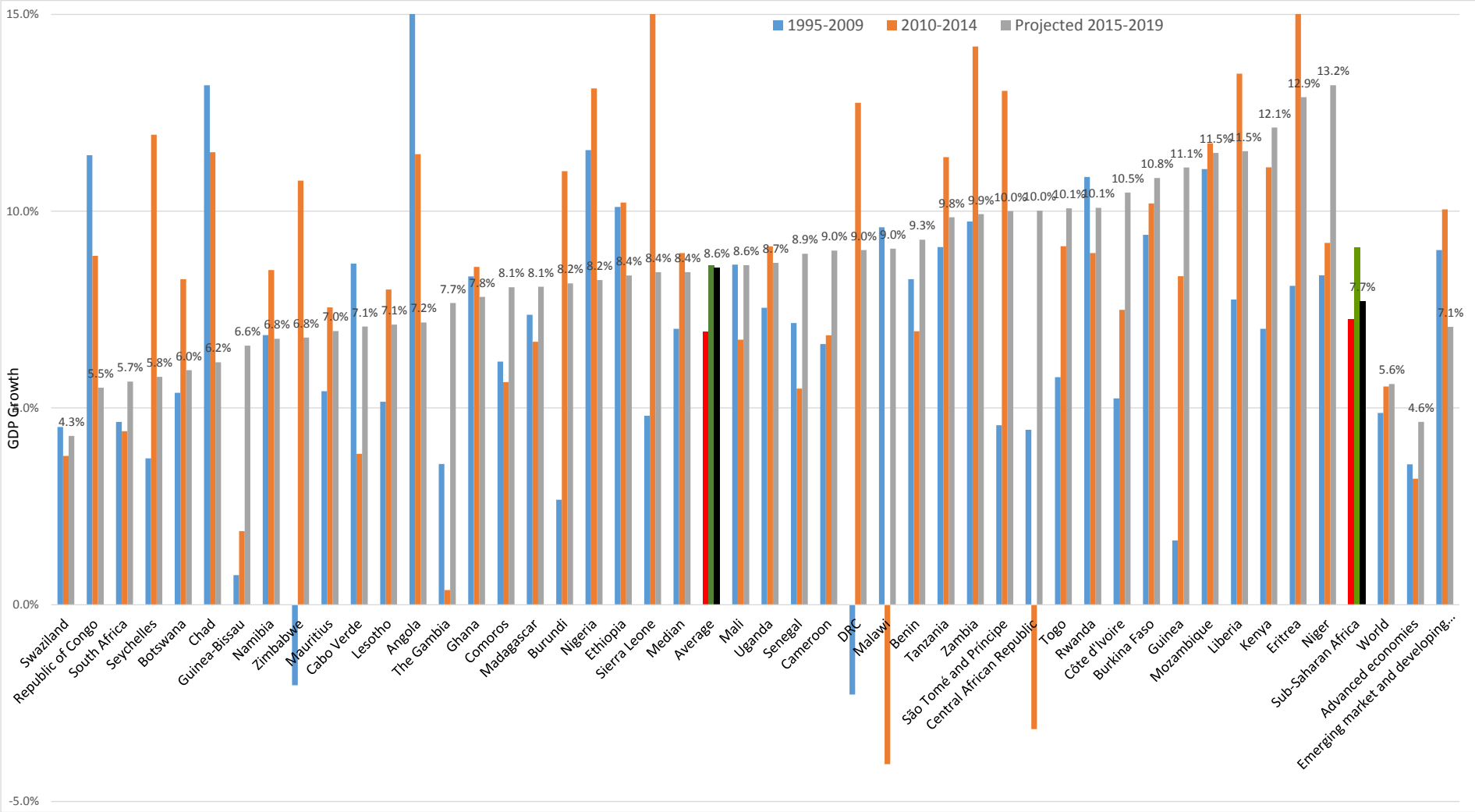
Percent of elderly living in households with non-elderly



Source: World Bank ASPIRE database, accessed November 2014.

Growth Projections offer a Positive Environment for Most

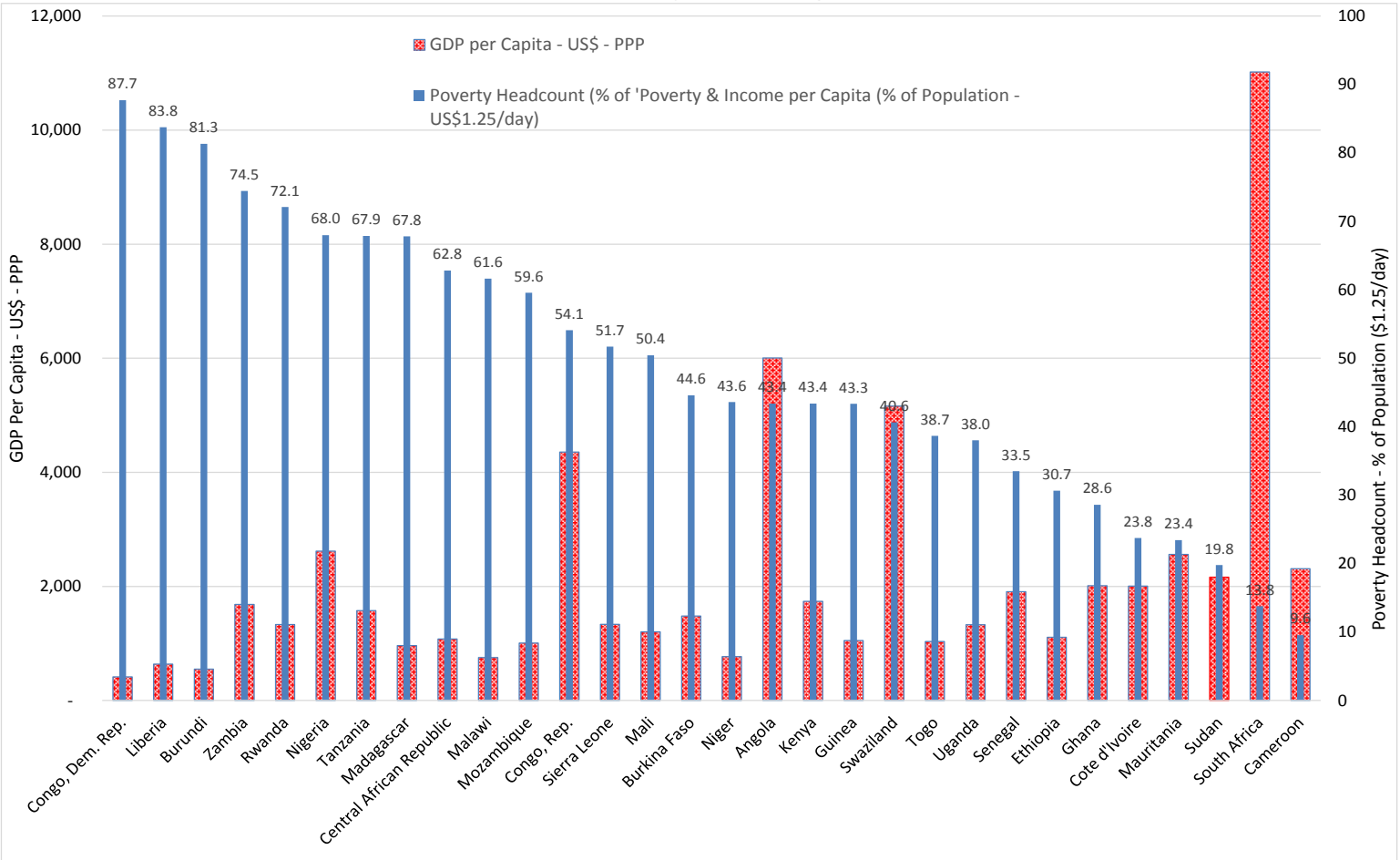
Recent and Projected Annual Real GDP Growth Rates



Source: IMF World Economic Outlook Database, 2015.

High poverty levels < \$1.25/day & weak correlation with GDP/capita

GDP per capita and Poverty Headcount
(US\$ left axis, percent right axis)



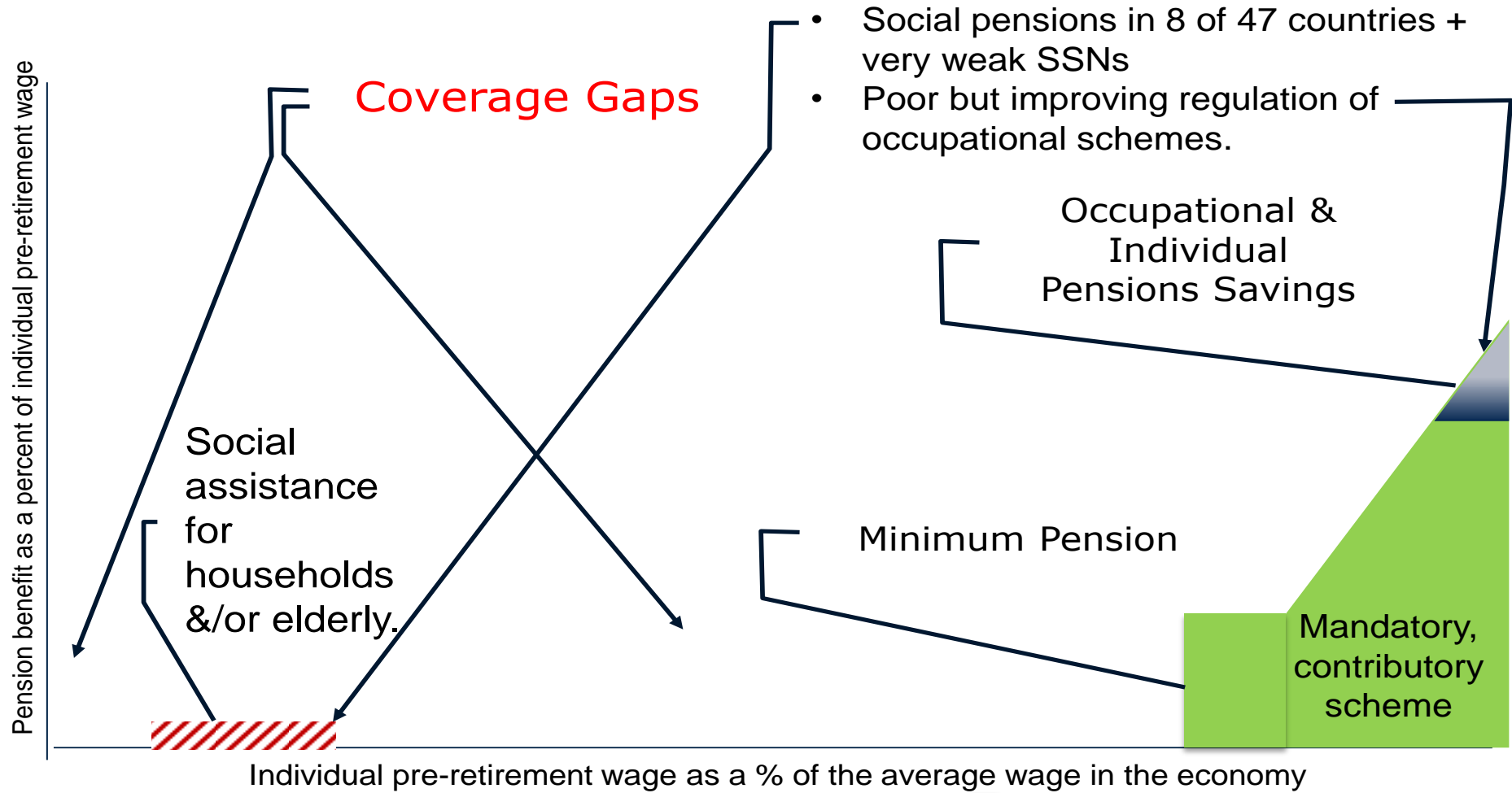
Source: World Economic Indicators, 2012.

Note: Poverty headcount is from the most recent year between 2005 and 2012. The GDP per capita data is from 2012. The lack of uniformity between the poverty headcount figures and the GDP per capita figures reflects the difference in data points.

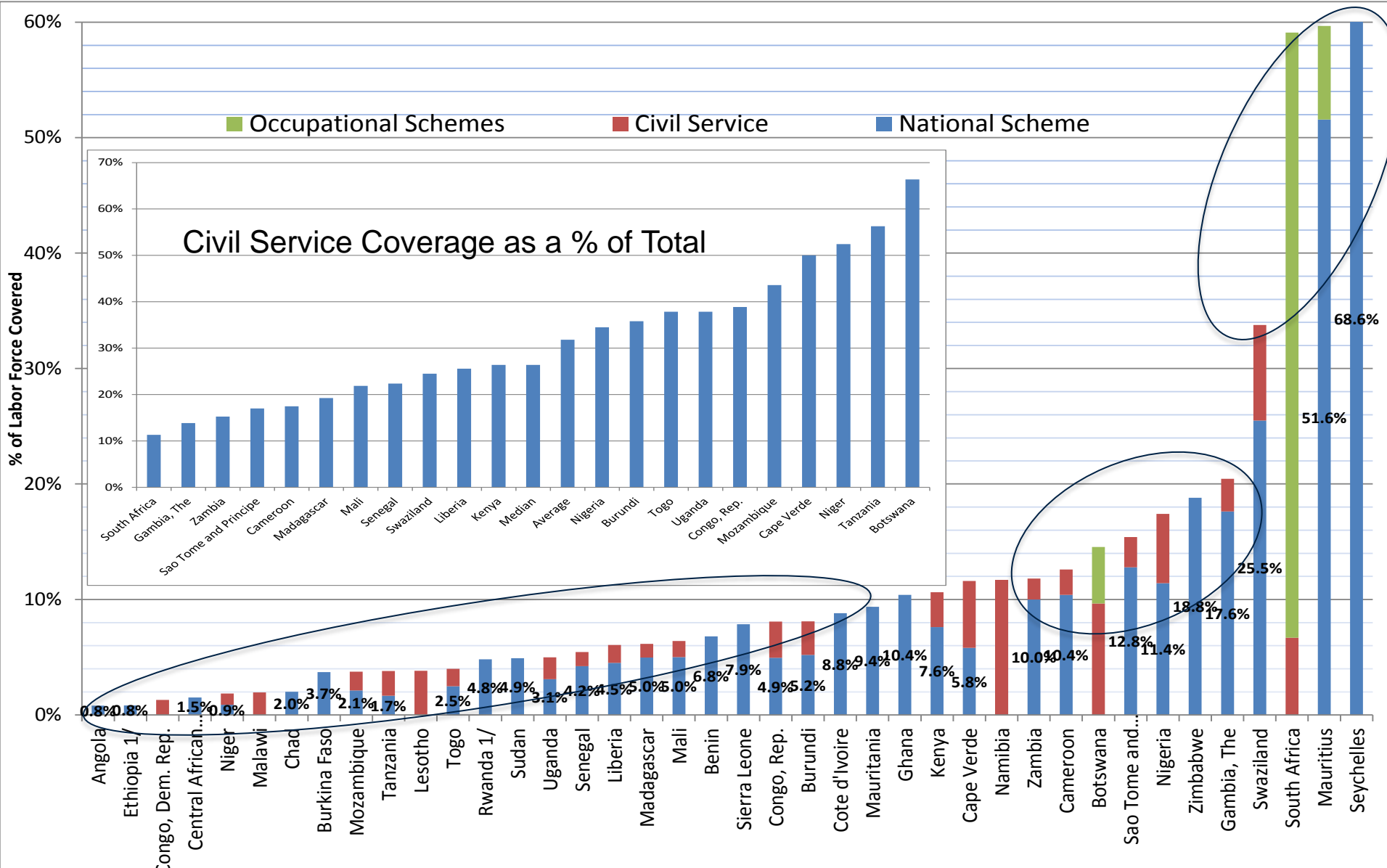


Coverage

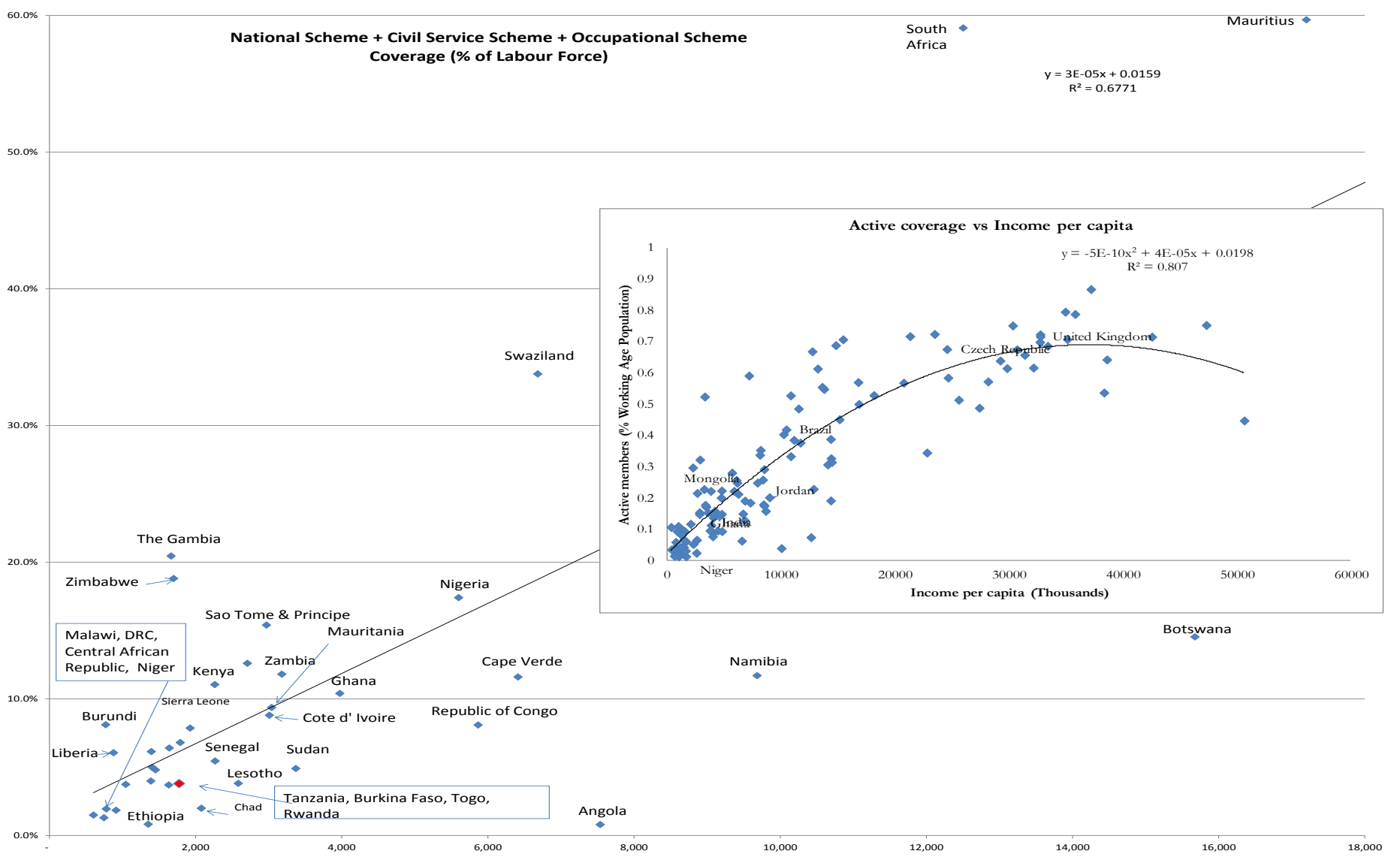
What is the coverage gap?



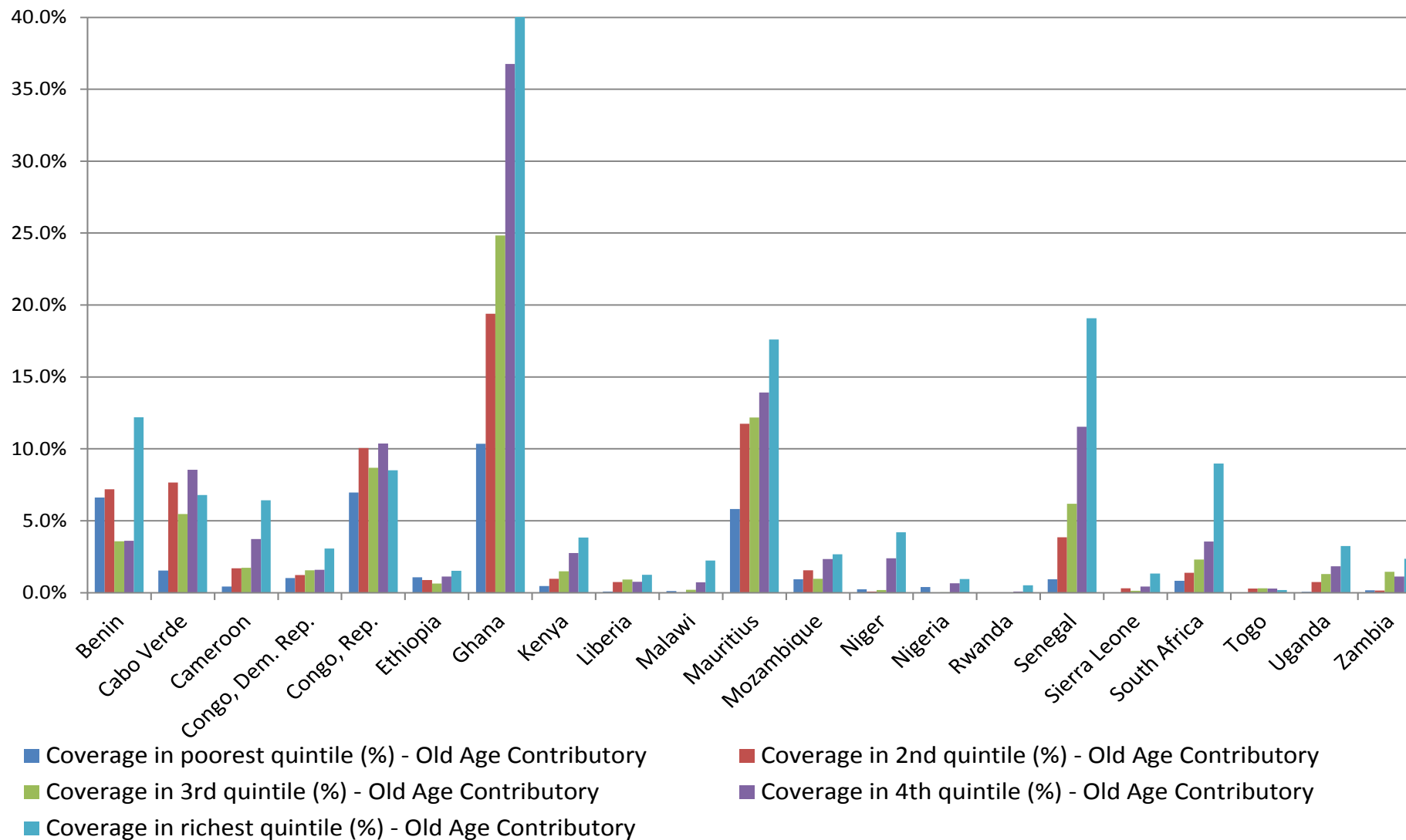
Key Challenge – Labor force coverage



Coverage – strongly correlated w/GDP per capita



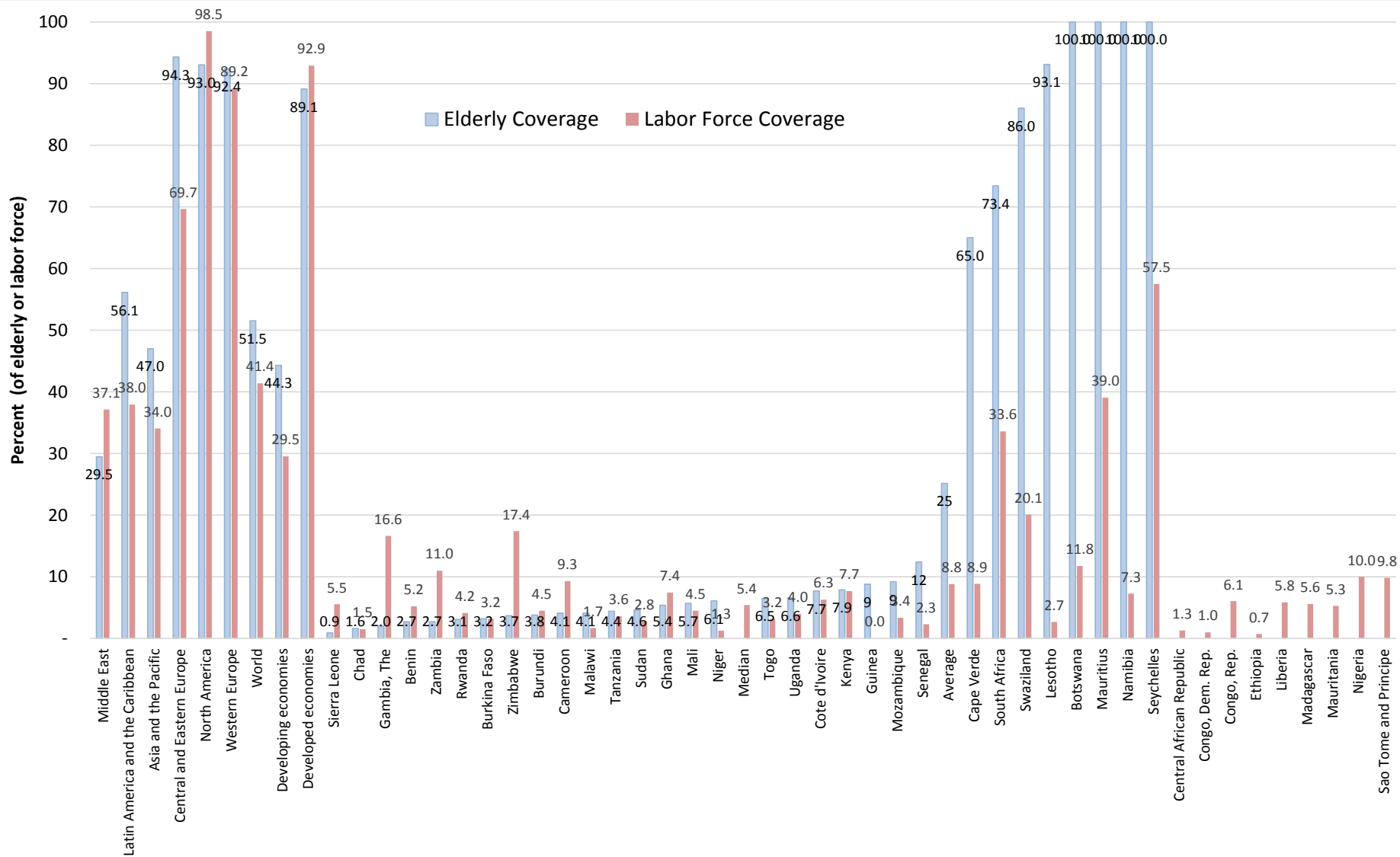
Contributory pensions generally cover those w/wage incomes & better off in retirement



Elderly coverage weak (except in countries with non-contributory schemes)

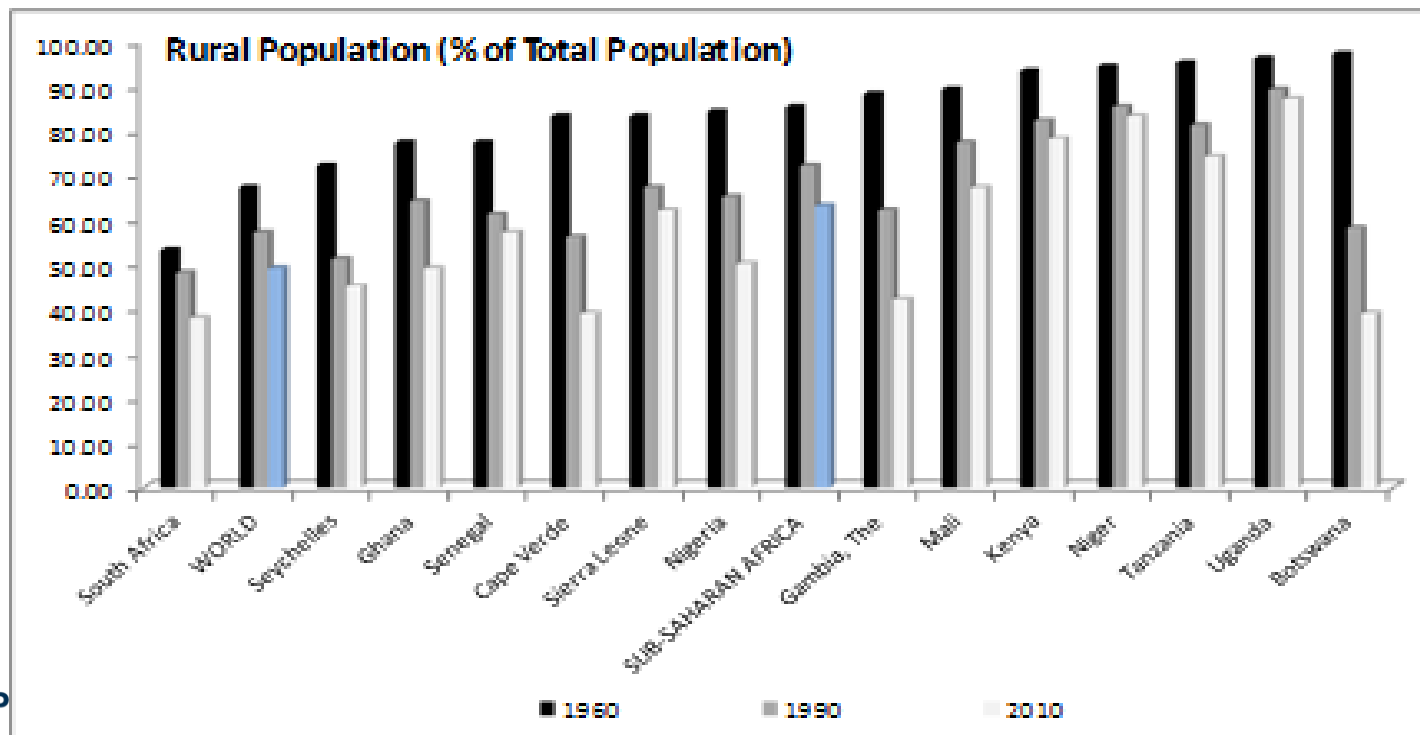
Elderly and Labor Force Coverage

(Late 2000s; percent of elderly over eligibility age; percent of labor force)



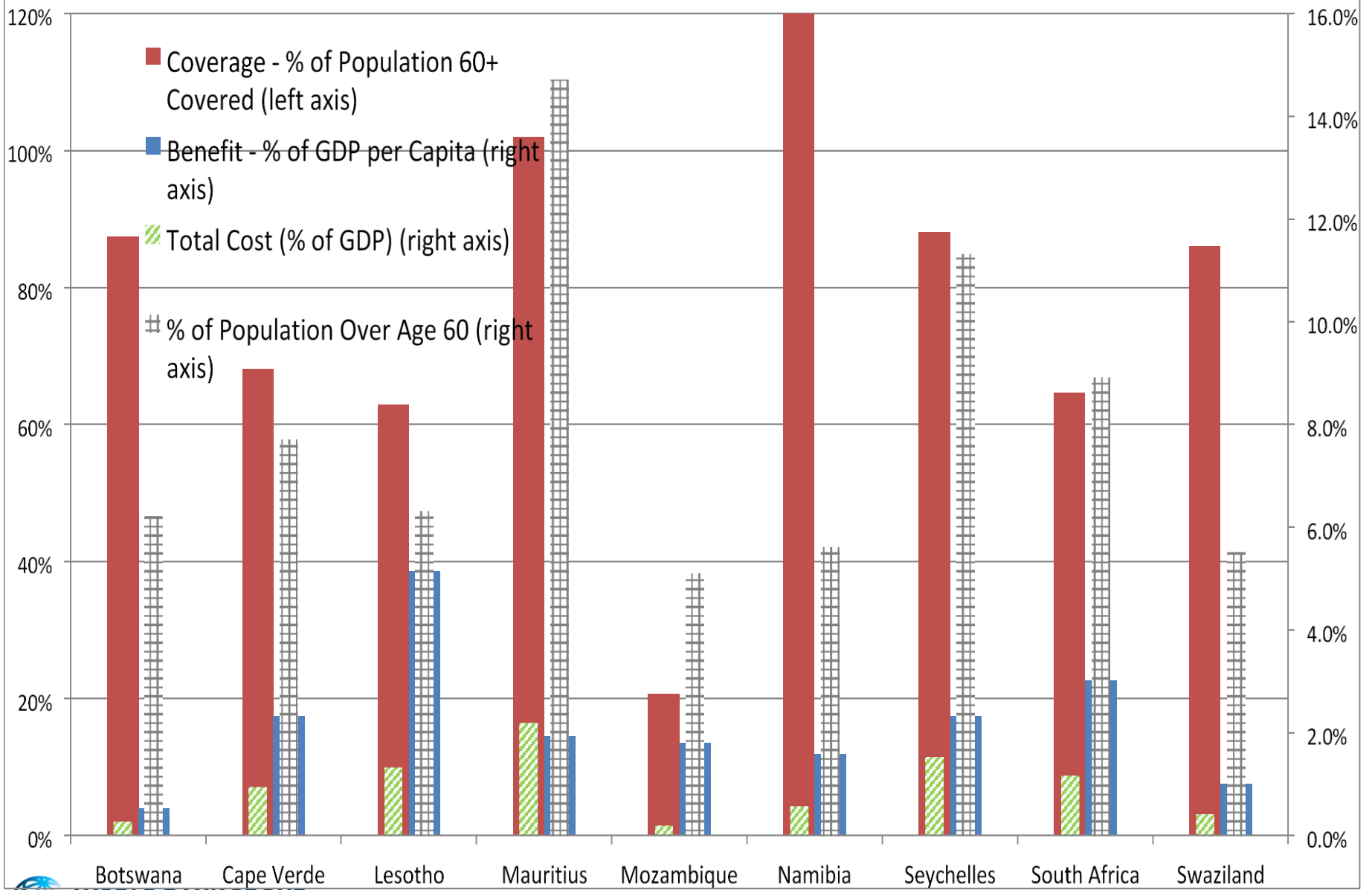
What has contributed to the coverage challenge?

- Low, volatile & non-wage incomes (w/populations substantially rural and informal)
- Payroll-tax contributory schemes best aligned to formal sector employment
 - Contribution rates may discourage coverage & compliance
 - Vesting periods penalize informality
 - Discretionary indexation creates uncertainty
 - Compliance & enforcement costly
- Voluntary occupational & individual schemes offer options but need to be better regulated & supervised in many countries to ensure public confidence.

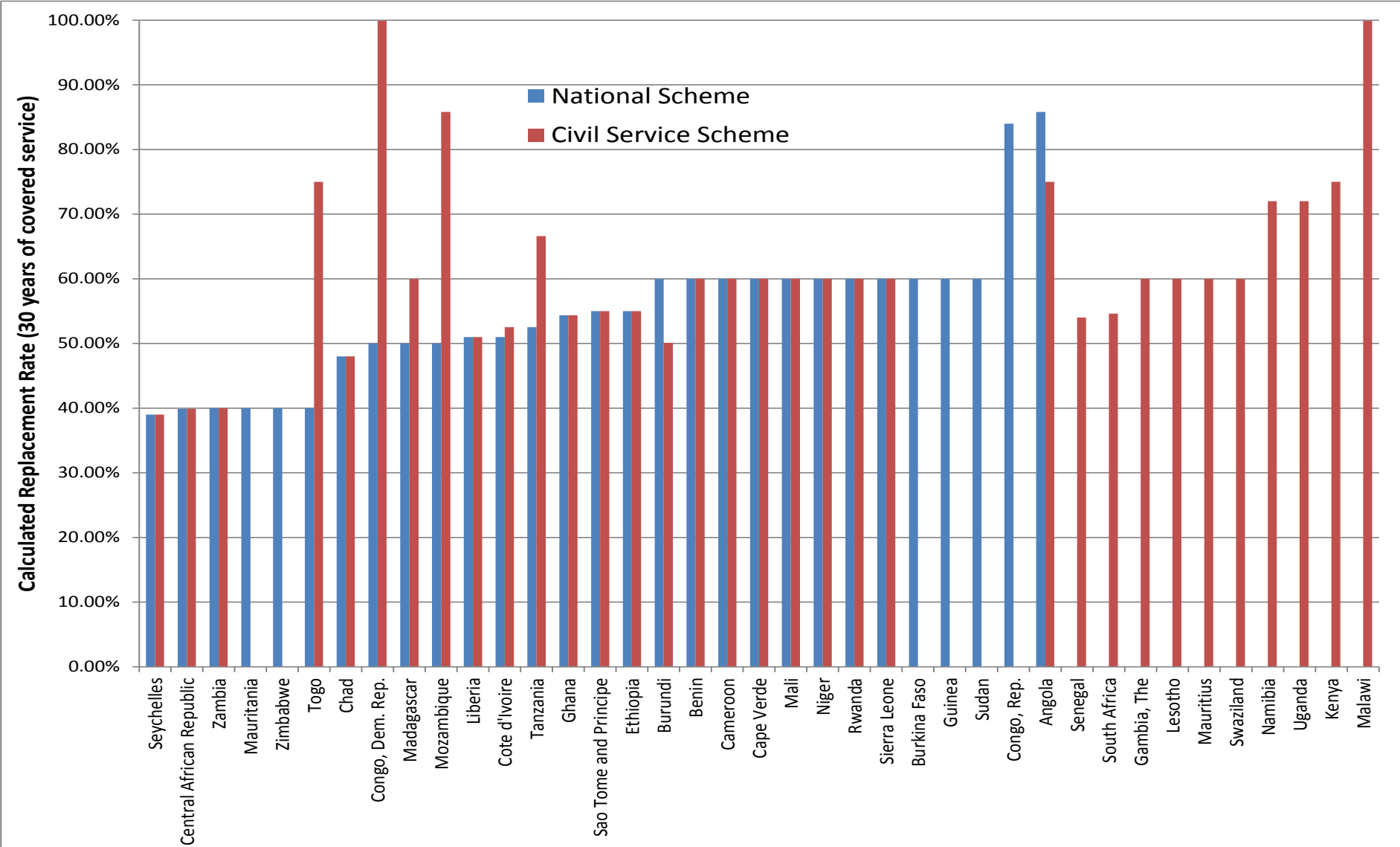


Adequacy & Affordability

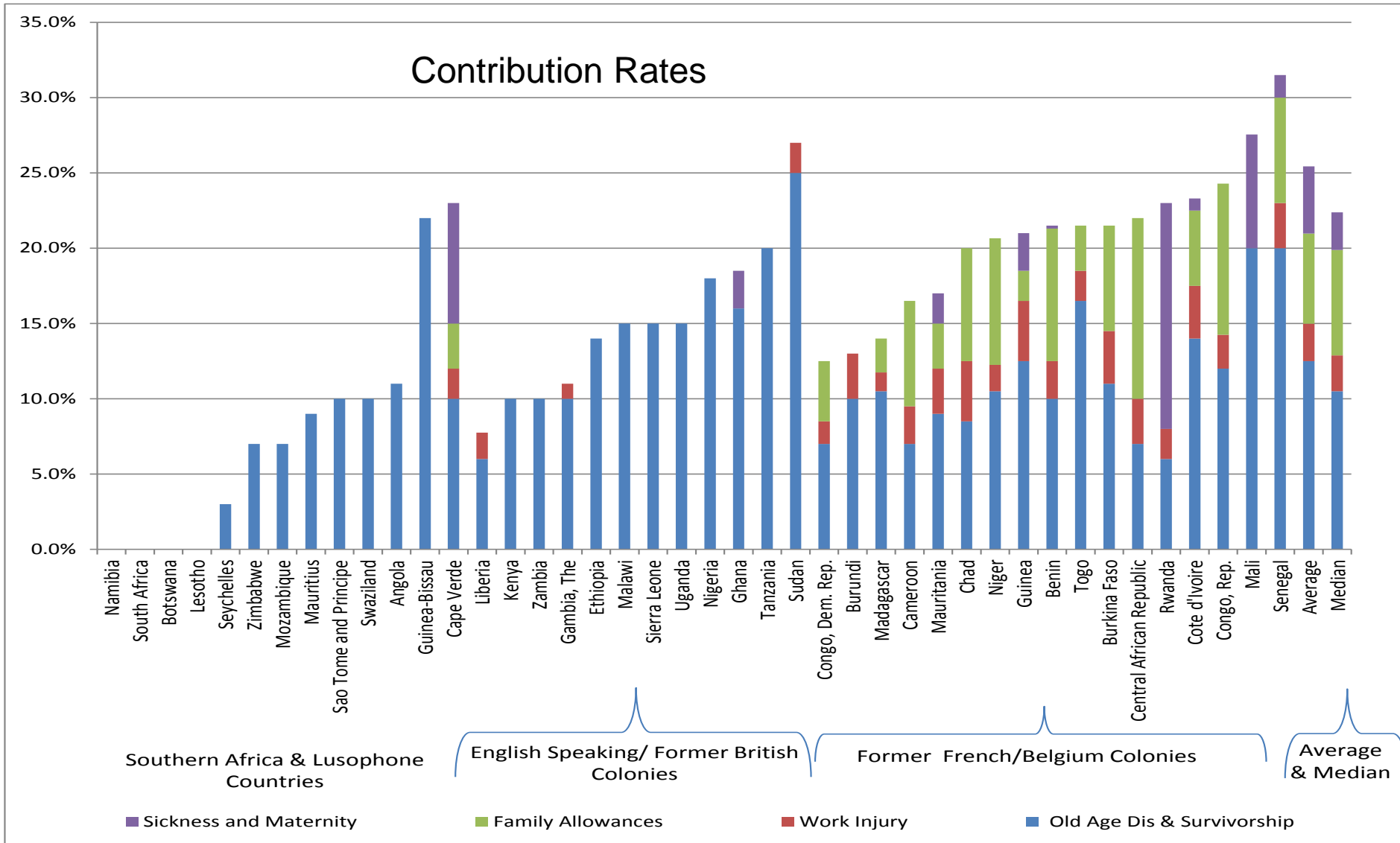
Adequacy of non-contributory pensions – tension with coverage and cost



...target replacement rates in some cases too high to be widely afforded or sustained



...Contribution rates linked to target income replacement & scope of benefits



Source: Social Security Programs throughout the World: Africa 2013.

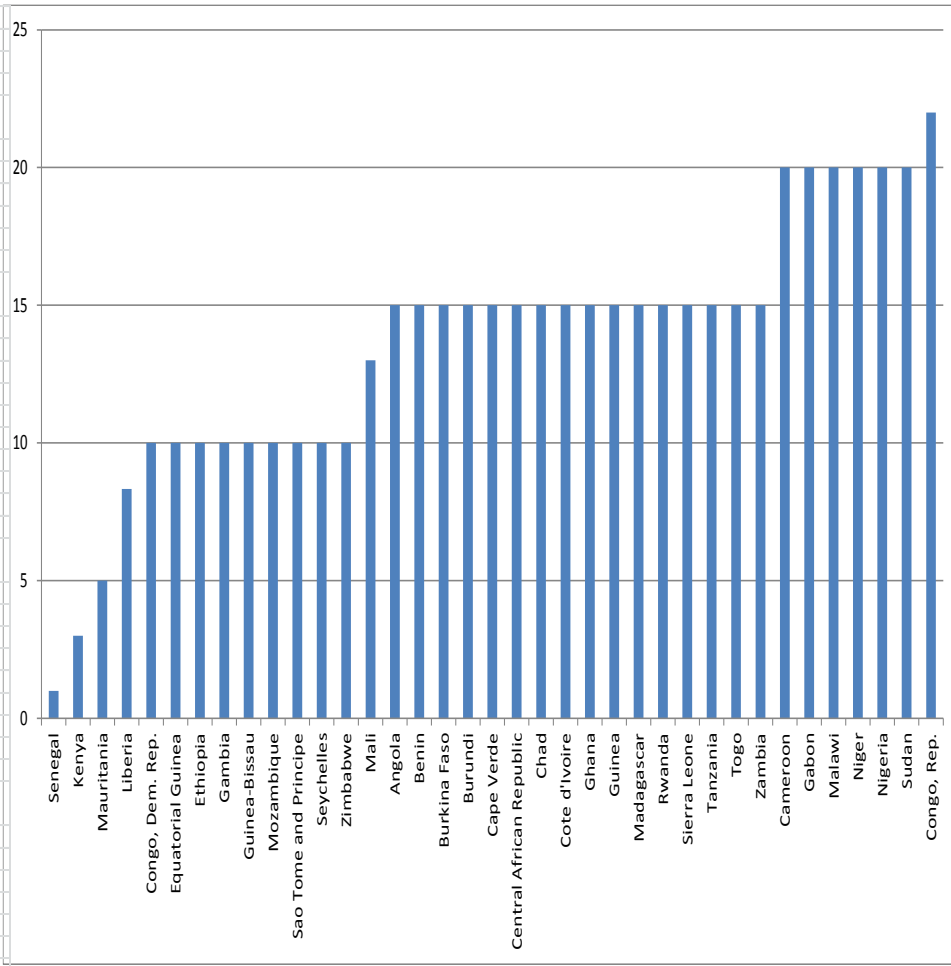
...uncertain indexation & vesting periods can discourage participation of some workers ...

Indexation

Contributory Pension Indexation

Angola	NA
Benin	Discretionary
Botswana	1/
Burkina Faso	Discretionary (acc to wages, minimum wage & resources of the scheme)
Burundi	Discretionary (according to changes in the cost of living, depending on the financial resources of the system)
Cameroon	No explicit indexation
Cape Verde	Ad-hoc
Central African Republic	No explicit indexation
Chad	Discretionary (by decree according to actuarial projections by the National Social Insurance Fund)
Congo, Dem. Rep.	Discretionary
Congo, Rep.	Price
Cote d'Ivoire	Price (and according to changes in the cost of living, depending on the financial resources of the system)
Ethiopia	NA
Gambia, The	2/
Ghana	Wage indexation
Guinea	Wage, depending on the financial resources of the system
Guinea-Bissau	NA
Kenya	2/
Lesotho	1/
Liberia	NA
Madagascar	According to increases in the legal minimum wage
Malawi	4/
Mali	Benefits are indexed (adjusted) by decree according to changes in the average salary and the legal minimum wage, depending on the financial resources of the system.
Mauritania	Price, depending on the financial resources of the National Social Security Fund
Mauritius	NA
Mozambique	NA
Namibia	1/
Niger	3/
Nigeria	4/
Rwanda	Ad hoc on the basis of Presidential Decree
Sao Tome and Principe	Wages
Senegal	3/
Seychelles	Periodically according to revisions in the regulations which specify the benefit scales and benefit adjustments
Sierra Leone	Wages, depending upon the financial position of NASSIT
South Africa	1/
South Sudan	1/
Sudan	NA
Swaziland	2/
Tanzania	Discretionary, according to the recommendation of the actuary
Togo	Price
Uganda	2/
Zambia	Wages
Zimbabwe	No explicit indexation

Vesting periods

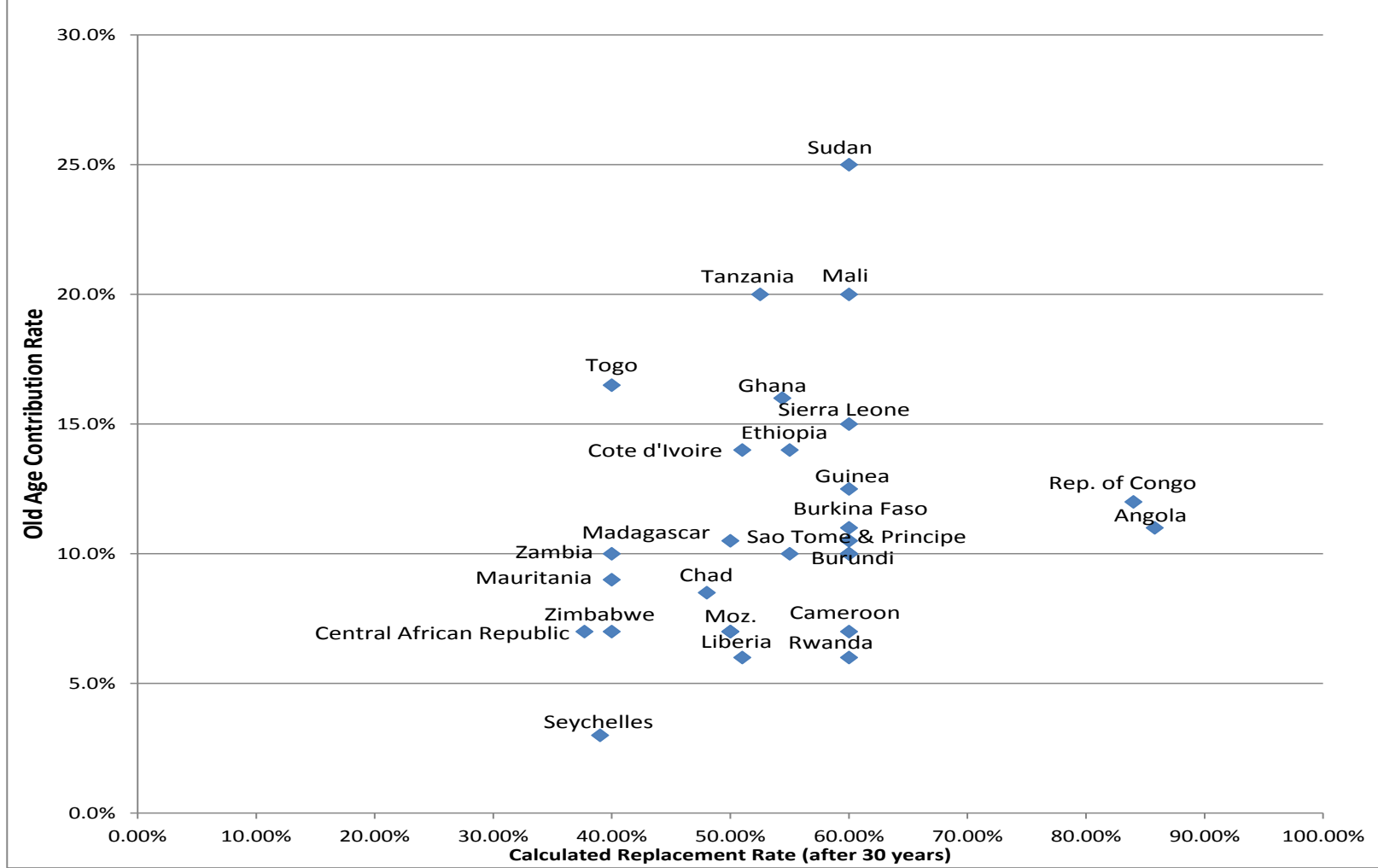


1/ No national scheme
 2/ Provident fund
 3/ Points scheme
 4/ Defined-contribution scheme

Sustainability

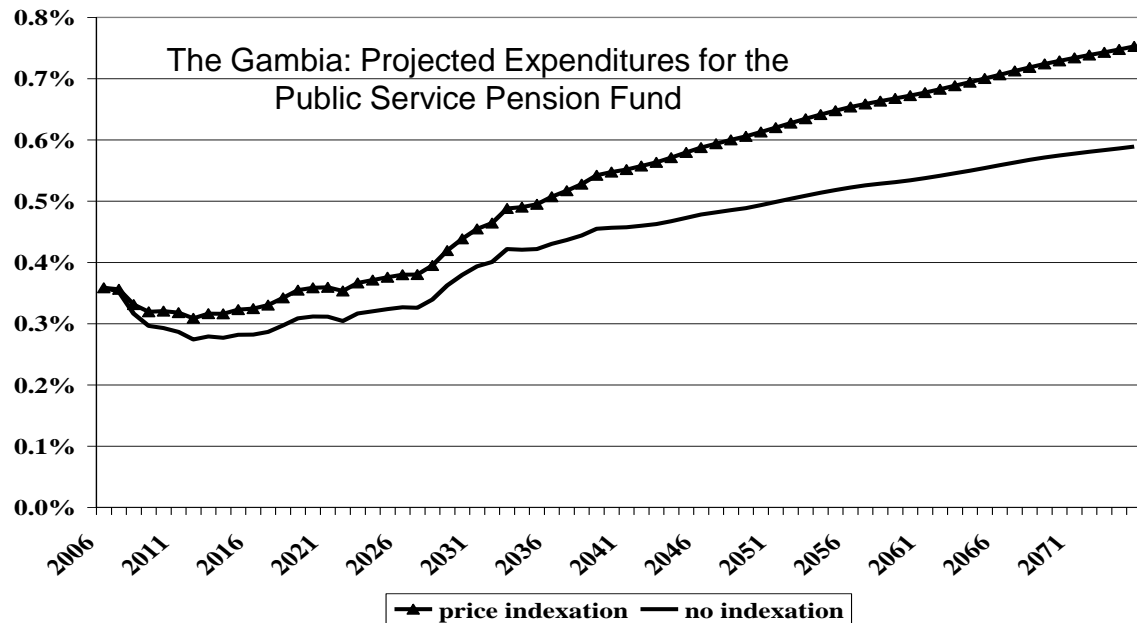
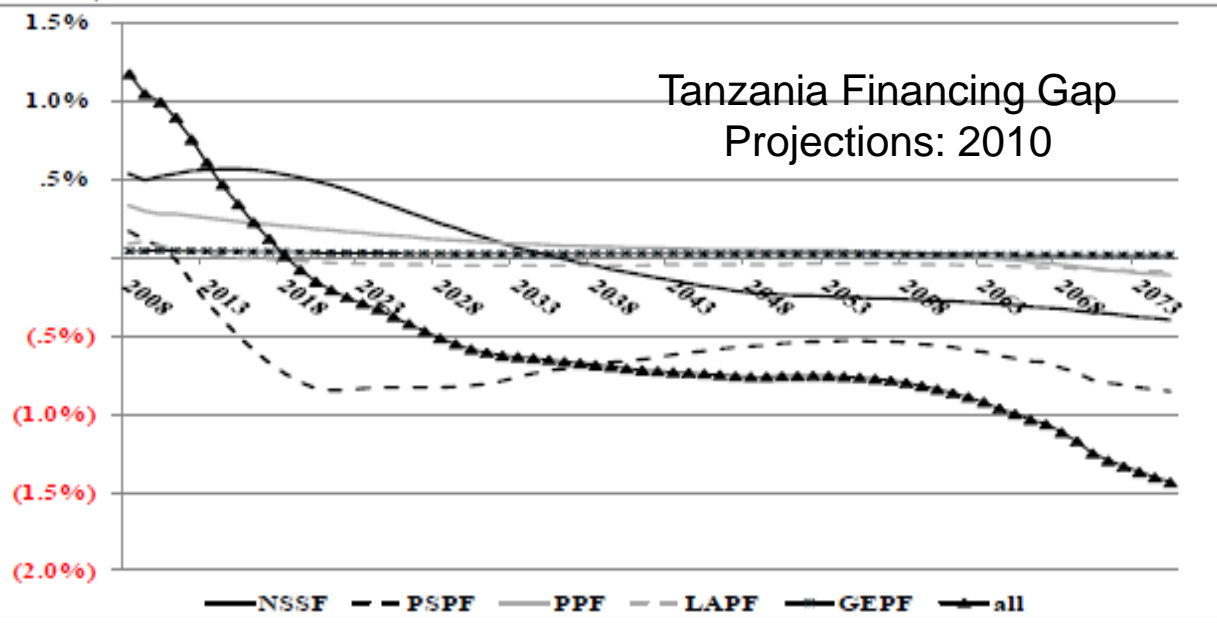
Mapping contribution rates against full career replacement rates suggests that some countries may face sustainability challenges

Contribution Rates and Calculated Replacement Rates for Defined-Benefit Schemes



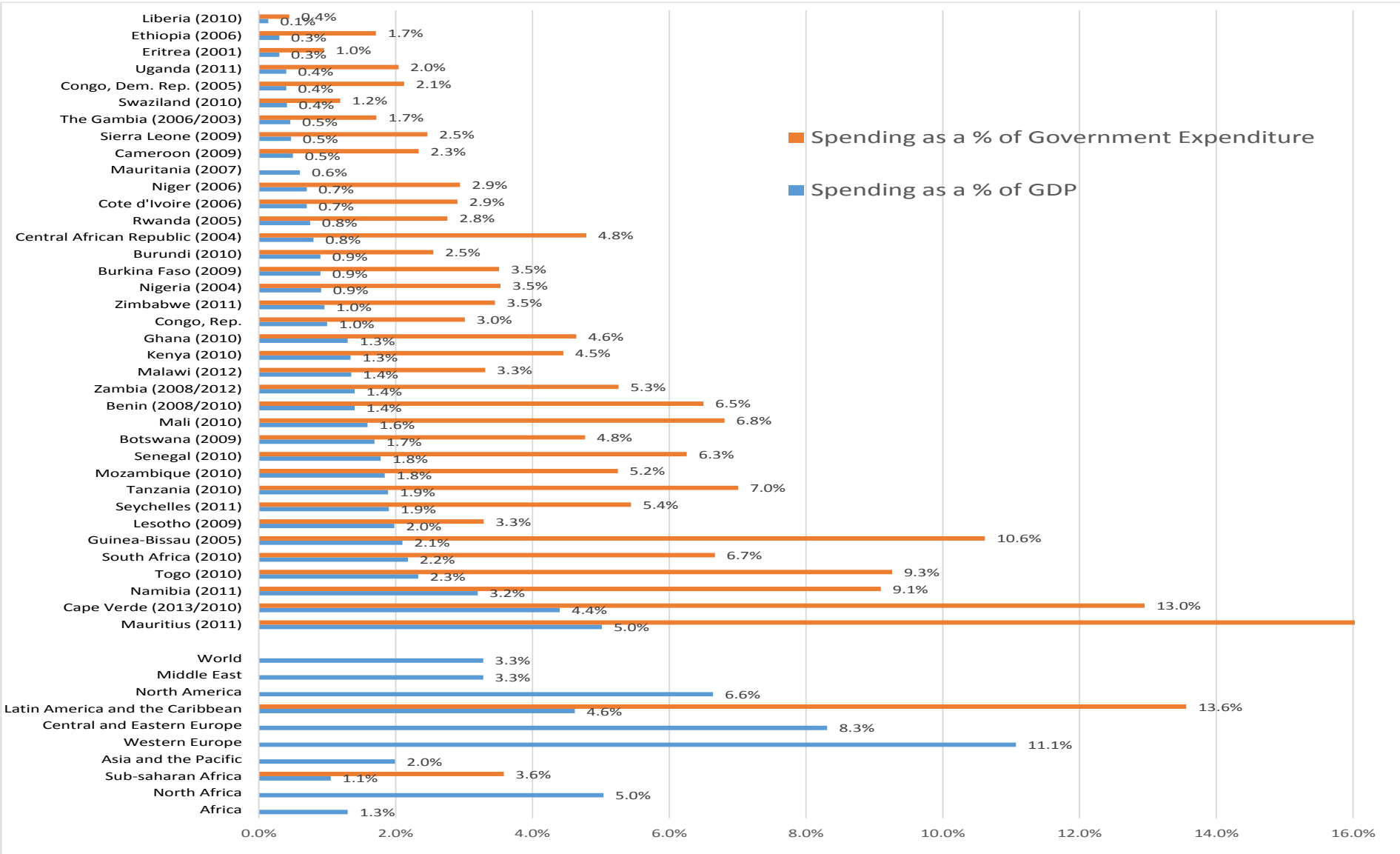
Source: Social Security Programs throughout the World, Africa: 2013 and World Bank estimates.

... and some countries have projected unsustainable fiscal burdens over the medium-term



Pension spending generally low compared to regional benchmarks yet understandable when considering dependency and coverage rates

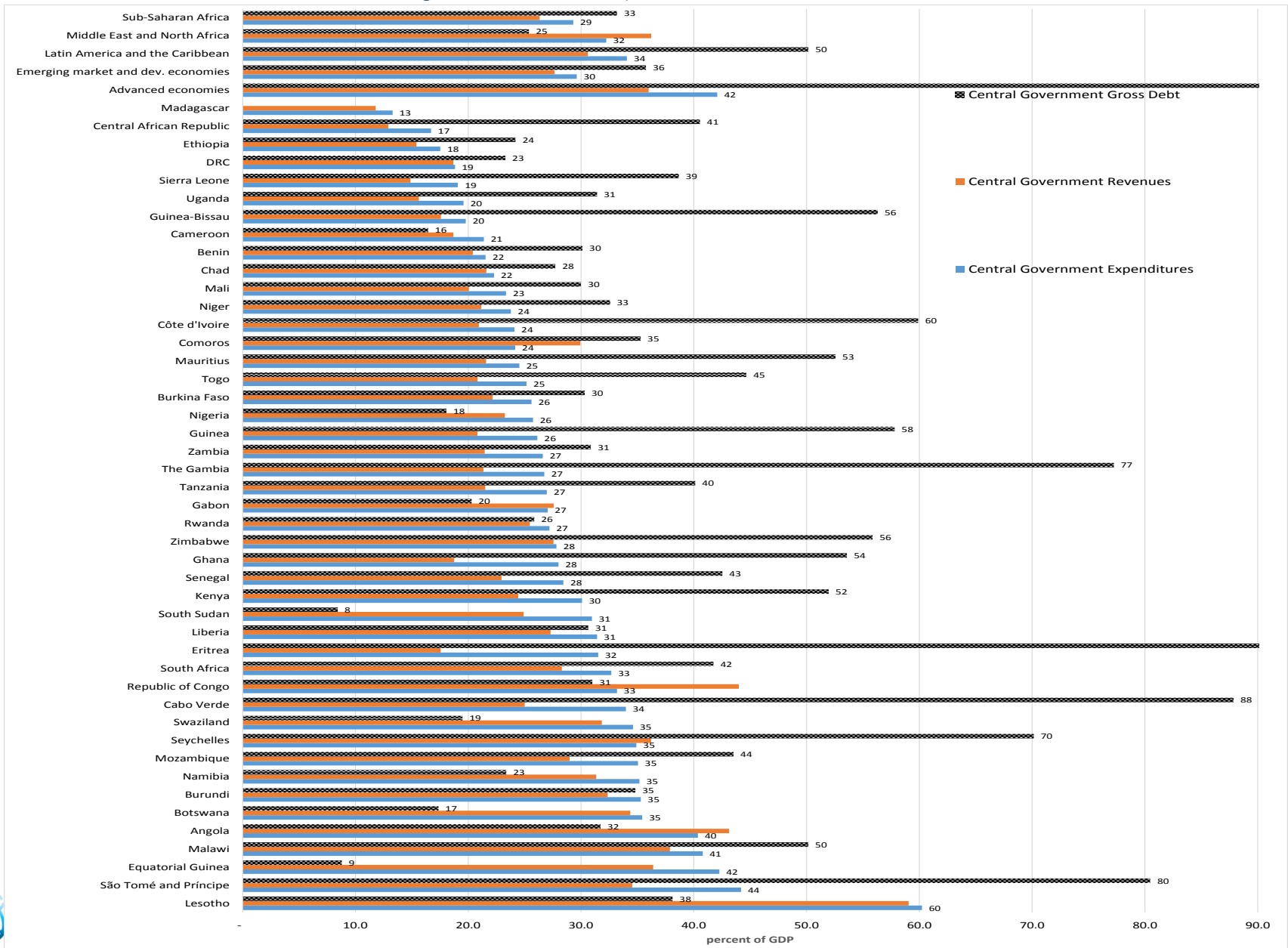
Pension Spending
(% of GDP, % of Government Expenditure – late 2000s)



Source: ILO, Social Protection & Labor; World Bank estimates, IMF World Economic Outlook Database, 2014.

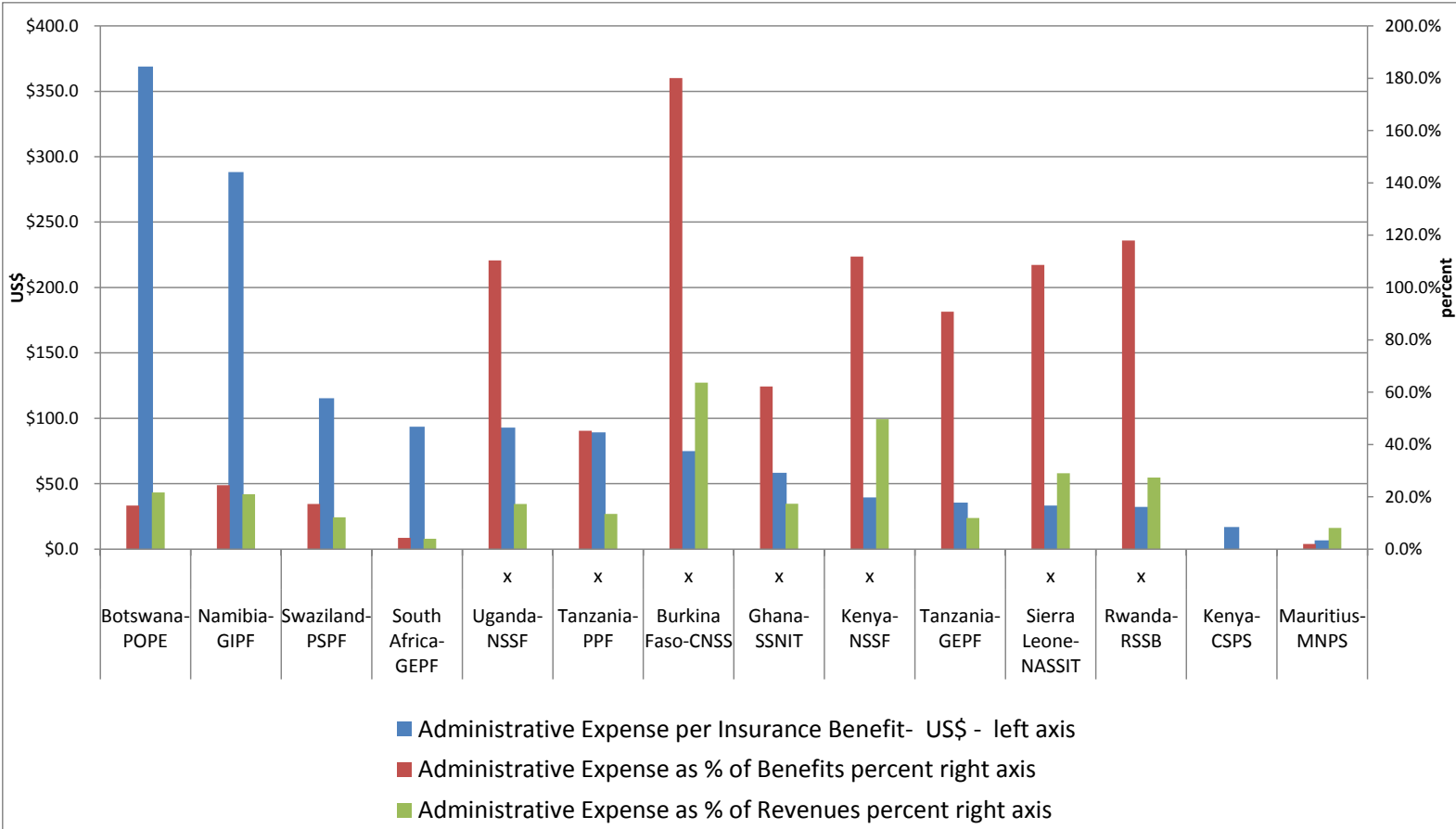
And the fiscal envelope is modest compared to other benchmarks

Central Government Expenditures, Revenues and Gross Debt
Annual average, 2010-2014, % of GDP)



Efficiency can exact a high cost

Administrative Expense Indicators
(US\$ or % of Benefits/Expenditures)

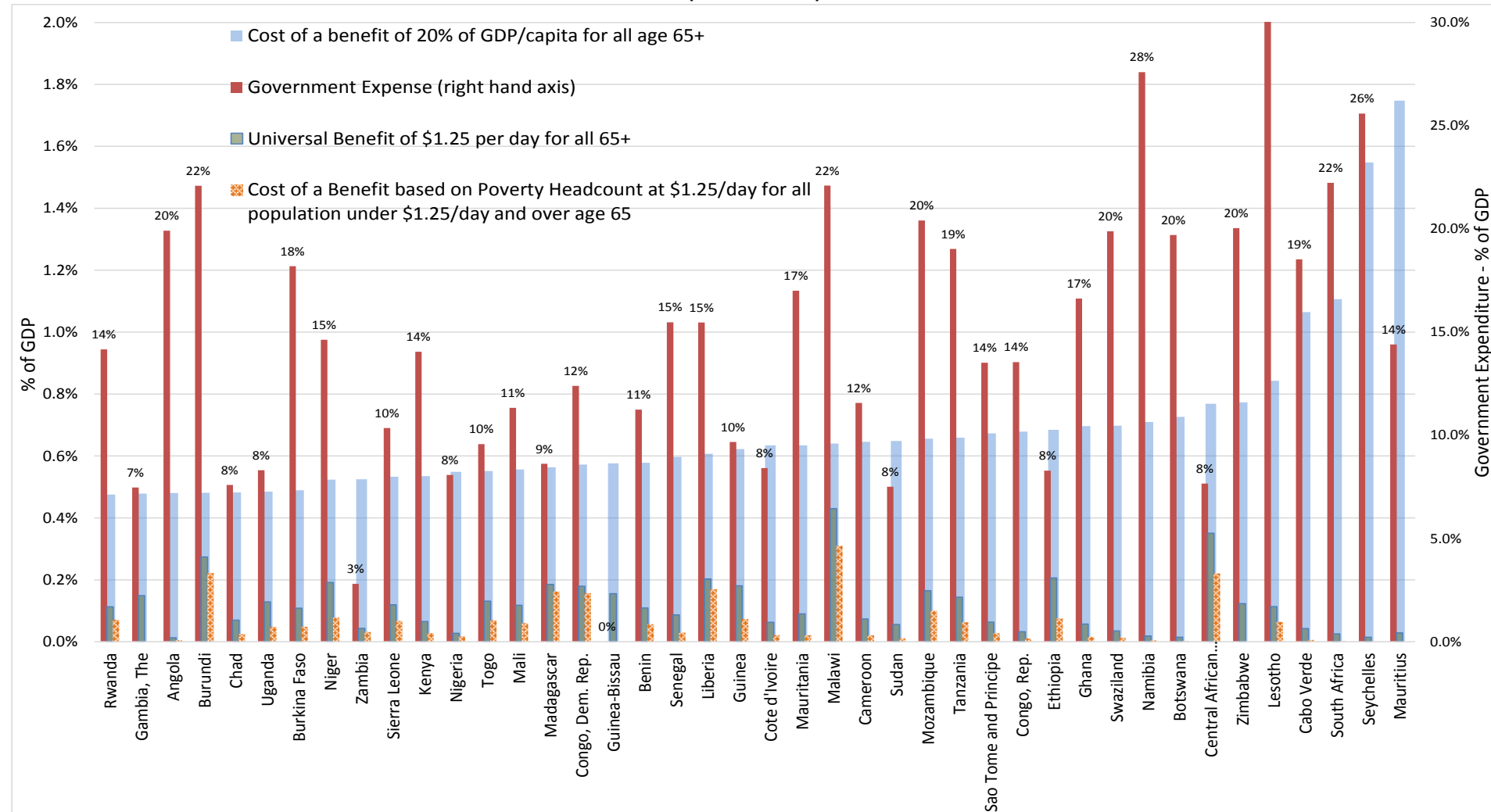


Source: Oleksiy Sluchynsky, *Defining, Measuring and Benchmarking Administrative Expenditures of Public Pension Programs*. Draft mimeo, 2012.

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.

What are the costs of various social pension benefits?

Cost Estimates for Elderly Assistance Schemes (% of GDP)



Sources: World Development Indicators, accessed 3/2015. Note: demographic data is from 2013; GDP data, government expense data, poverty gap data from 2008-2013 as applicable.

What contributes to potentially growing fiscal costs?

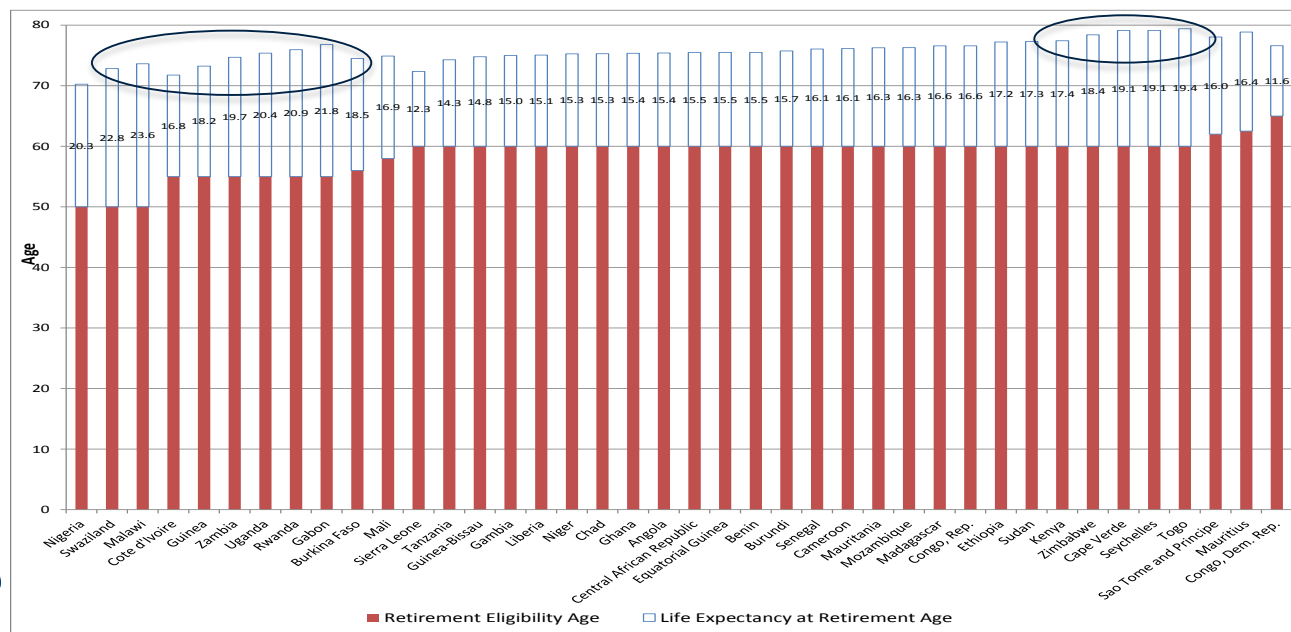
- **National schemes** – maturing
- Early stage in demographic transition, but possibly more advanced in covered workforce
- Contr. rates & benefit formulas inconsistent w/long-run balances
- Administrative costs
- **Civil servant schemes** - Growth in system dependency ratios & some with inconsistent parameters.
- Transition costs for civil servant schemes adopting funding.
- **Social pension** costs increase w/growth in elderly populations & scheme expansion

Reform Principles

Reform Principles – contributory schemes

- **Explore new design options** – voluntary, liquid, & possibly with special subsidies for the poor to save.
- **Parametric reforms** - choices between years of work life, contribution rates and replacement rates - actuarial projections to guide reform options.

- Retirement age
- Contribution rate
- Accrual rate
- Wage base def.
- Vesting
- Minimum pension
- Indexation

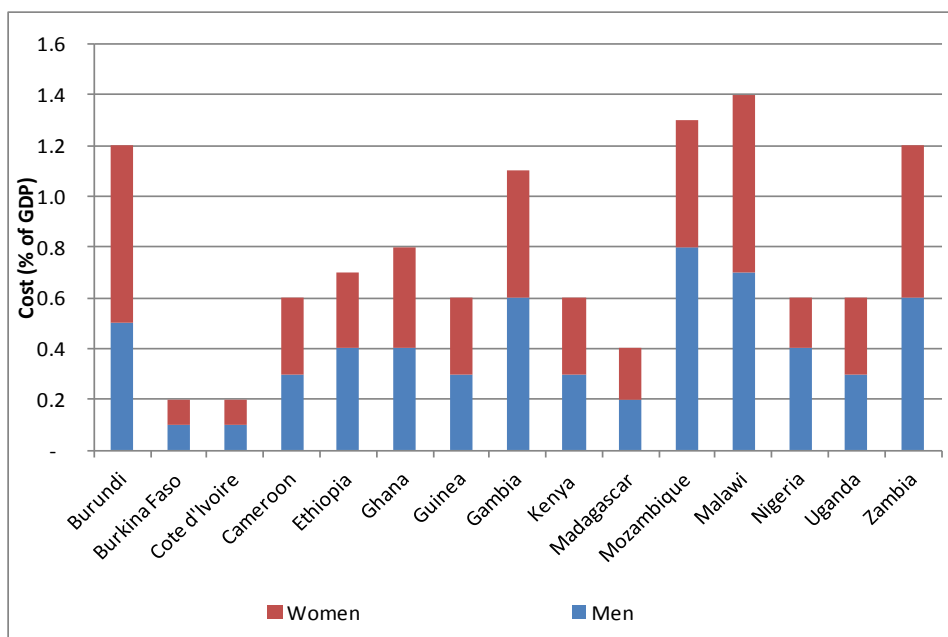


- **Harmonize & merge**
- **civil service & national schemes** (w/occupational top-up as necessary).
- **Strengthen regulation & supervision of occupational & individual schemes** (esp. for self-employed, unemployed, informal workers).

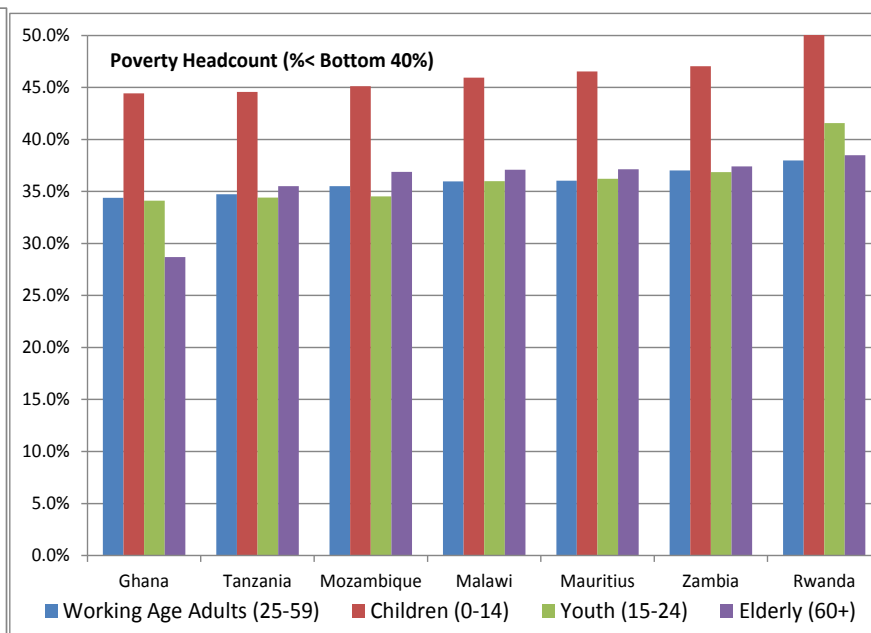
Reform Principles – non-contributory schemes

- Universal support for the elderly – exclusion errors need to be weighed against fiscal costs.
- Cost-benefit analysis of targeting the elderly can be weighed against targeting poor households
- Matching contributions could be linked to worker savings & elderly assistance benefits.
- Infrastructure needed for public transfers - identification, targeting, record-keeping, disbursement.

Cost of social pensions to eliminate poverty gap amongst the elderly



Poverty headcount by age group



Questions for Discussion

Closing the coverage gap

- Should a core focus of social security be oriented towards increasing the coverage of elderly poverty protection?
- What contributory designs and non-contributory support offer the strongest potential for scalability?

Focusing on the poorest

- Should cash transfers target the poorest, including elderly in poor households?
- Alternatively, should universal support for the elderly be offered to avoid exclusion errors and labor market effects (or cases with a legacy schemes)?

Aligning pensions to needs and enabling conditions

- Should payroll-based PAYG DB schemes in SSA depart from the scaled-premium approach adopting lower benefit levels where needed consistent with affordable long-term contributions and sustainable balances?
- Where in the region might the risks of pre-funding outweigh the benefits due to insufficient enabling conditions (incl. fiscal capacity to support transition costs, regulatory & institutional infrastructure)?
- What are some of the tradeoffs involved in coordinating or merging civil service and national schemes?