

RETIREMENT BENEFITS SECTOR PERFORMANCE

2015 Performance Highlights

Assets

UGX6.5TN 2015
UGX5.2TN 2014

Inflows

UGX1.7TN 2015
UGX1.5TN 2014

Contributions

UGX 829 BN 2015
UGX830BN 2014

Liabilities

UGX75BN 2015
UGX62BN 2014

Outflows

UGX448BN 2015
UGX414BN 2014

Benefits

UGX243BN 2015
UGX214BN 2014

Total Investment

UGX6.1TN 2015
UGX4.7TN 2014

Investment Income

UGX908BN 2015
UGX682BN 2014

Operating Expenses

UGX82BN 2015
UGX112BN 2014

Asset to GDP Ratio

8.1% 2015
7.2% 2014

Operating Expense Ratio Investment

12% 2015
20% 2014

Expense Ratio

1.3% 2015
2.2% 2014

- **Assets increased by 25%**
- **Return on assets 14%**
- **Return on investment 18.2%**
- **Real Rate of return 12.35%**
- **Share of investment income on total inflows 52%**
- **Share of contributions on total inflows 47%**
- **Liabilities increased by 20%**
- **Proportion of benefits paid on total outflows 54%**

1) ECONOMY

The main goal of the pension system is to provide adequate, affordable, sustainable and a robust retirement income. This can be achieved through directing accumulated savings into investments that can provide a decent return to members.

Pension assets work out to a meagre 8.1% of the country's GDP compared to pension assets in more developed economies like South Africa 57%, Australia 120%, Canada 97% of GDP respectively, as per Towers Watson research on global pension assets study, 2016.

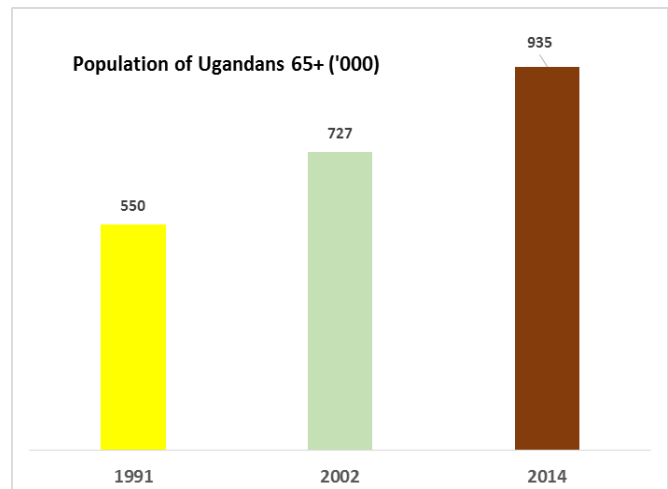
The reforms that are being implemented are therefore in part, aimed at expanding coverage to build a substantial asset base that can improve the welfare level of individuals during the retirement period. It is considered that development of private pension provision is important for Uganda, and the sector posits substantial contributions for sustainable economic growth and financial stability.

2) POPULATION AND OLD AGE SECURITY

A young population means massive growth potential for the pensions industry in Uganda. However, large numbers of young people continue to burden the economy as the consumption needs of economically non-productive members of the society reduce the overall capacity for saving and investment. Over the long-term, expected changes in fertility and mortality rates will reduce population growth rates and eventually increase the proportion of the elderly in the population.

According to the 2014 National Population and Housing Census, the number of older persons (65+) was 935,135 (increased by 29% in the last decade). The number of older persons is expected to increase in the coming decades due to continuous increase in life expectancy.

In the absence of retirement planning and saving, many older people will live in poverty or be forced to work well into their old age. In addition, a combination of reduced capacity for income generation, and a growing risk of illness are likely to increase the vulnerability of elders.



Pension particularly social or non-contributory pensions ought to be considered as a tool to reduce old age poverty. Furthermore, a national health insurance scheme is needed to alleviate the risk of households ditching further into poverty on account of medical costs.

3) COVERAGE

The current 11% coverage is low, in terms of the total number of Ugandans under some form of cover compared to the national labour force. Only public sector, and a small proportion of formal private sector workers are covered. This implies that a large share of households will retire without any pension. To address the coverage problem, the Uganda Retirement Benefits Regulatory Authority (URBRA) is developing programmes to extend formal sector coverage, and is encouraging the informal sector to establish retirement saving arrangements.

4) INFLOWS

Total inflows increased from UGX 1.5 trillion in 2014 to UGX 1.7 trillion in 2015. They consist of employers' and members' contributions, income from rents, interest, capital gains and dividends.

i) Contributions

Member and employer contributions amounted to UGX 829 billion (66% by employers' and 34% members'), accounting for 47% of total inflows.

On average an employee contributed 4.3% of basic salary compared to 6.2% contributed by employers. Considering that earning differentials determine savings, Ugandans with a low density of contributions are not saving enough. They will therefore have low accumulated assets at retirement age, and are therefore likely to have low retirement incomes.

ii) Investment Income

Income from investments i.e dividends, interest rates and rent as well as adjustment to fair value increased by 33% from 682 billion in 2014 to UGX 908 billion in 2015. Investment income was primarily influenced by interest income which increased from UGX 522 billion in 2014 to UGX 614 billion in 2015 due to changes in the yield curve on government debt instruments (changes in interest rates of some maturities). Unrealised fair value movements accounted for UGX 223 billion, dividends UGX 42 billion, cash flows generated by direct investments in properties (rental income) UGX 10.5 billion, capital gains amounted to UGX 7.5 billion, guaranteed funds UGX 331 million and other income UGX 10 billion.

Retirement income is directly linked to investment performance, resulting in members being exposed to the uncertainties of investment markets to determine the level of benefits they will ultimately receive. Return on investment recorded by schemes was 18.2% and the real rate of return was 12.35%.

5) OUTFLOWS

i) Expenses

The industry operating expense ratio was 12% in 2015 compared to 20% in 2014. The operating costs of pension funds consist of administrative costs and investment costs. The reduction in the operating expense ratio is attributed to the Authority's emphasis on continued governance improvements which resulted into clear separation of roles in schemes, financial reporting and disclosure, transparency of scheme operating costs and utilisation of economies of scale by small and medium-sized schemes through joining umbrella schemes.

ii) Benefits Paid

Benefit paid increased by 13.5% from UGX 214 billion in 2014 to UGX 243 billion in 2015. They included lump sums paid on retirement, survivor's benefits, disability and any other benefits paid to members.

6) PENSION ASSETS

Total assets increased by 25% from UGX 5.2 trillion in 2014 to UGX 6.5 trillion in 2015. Schemes maintained comparatively more assets with a return of 14%. Total members funds and reserves increased from UGX 5.1 trillion in 2014 to UGX 6.4 trillion 2015, reflecting relatively favourable market conditions for scheme investments during the year and a drop in the expense ratio from 2.2% in 2014 to 1.3% in 2015.

Portfolio performance is measured by comparing the rates of return and risks associated with the specific investments. From the regulatory and supervisory perspective, portfolio design and performance measurement must be explicitly derived from consideration of the particular nature of the pension scheme. The Authority is, on this premise building capacity for risk-based supervision, and requires pension schemes to disclose relevant financial information, to permit measurement of scheme level risks in a comprehensive manner.

7) ASSET ALLOCATION

The year 2015 saw no major changes in investment strategy. The structure of assets remained broadly unchanged. Government securities accounted for the major portion of assets 69.3%, equities made up 18%, private equity 1.2% corporate bonds 2.5%, fixed deposits 5.9%. Investment property 2.2%, cash & demand deposits, offshore investments, and guaranteed funds and other investments accounted for 1.19%.

Public debt securities continue to have the largest share over the years. High demand for public debt securities indicates that the large portion of the funds accumulated in the system is loaned to the public sector. This reduces public sector borrowing costs, however private sector financing could be achieved through increasing the amount of funds transferred from the system to equities and corporate bonds.

The table below gives a summary of investments by value in different asset categories and shows the investment pattern in percentages.

INVESTMENTS	2015	% Share	2014	% Share
Government Bonds & treasury Bills	4,202,220	69.27	3,011,360	63.33
Corporate Bonds	152,236	2.51	155,878	3.28
Term Fixed Deposits	354,561	5.84	736,621	15.49
Investment property	136,143	2.24	193,711	4.07
Quoted Equities	1,073,965	17.70	525,928	11.06
Private Equity	74,893	1.23	71,495	1.50
Offshore Investments	785	0.01	694	0.01
Guaranteed Funds	20,685	0.34	12,818	0.27
Others Investments ****	51,239	0.84	46,586	0.98
TOTAL	6,066,727	100	4,755,090	100

** Offshore, guaranteed funds and other investments include loans to members and associated firms are not permissible under the URBRA Act and Investment Regulations.

As evidenced by income from investments, different asset portfolio components reacted differently to changing economic and, political developments. It is clear that risk levels are subject to constant change as the value of investment in each class rises or falls. Trustees must therefore review their portfolios to avoid exposing their members to undue risk.

8) LIABILITIES

Liabilities increased from UGX 62 billion to UGX 75 billion. Year to year changes were caused by tax obligations, benefits payable, accrued expenses and provisions.

9) LICENSED ENTITIES AND SERVICE PROVIDERS

LICENSED ENTITIES			
Schemes	Total	Service Providers	Total
Occupational Schemes	58	Administrators	11
Umbrella Schemes (Total Number of Participating Employers 65)	7	Fund Managers	5
Number of Trustees	380	Custodians	4
Corporate Trustees	4		

FOR MORE INFORMATION

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