URBRA

UGANDA RETIREMENT BENEFITS REGULATORY AUTHORITY

ANNUAL PENSION INDUSTRY REPORT, 2014

VISION:

A vibrant, secure and sustainable retirement benefits system.

MISSION:

To regulate, supervise and promote the development of a stable and effective retirement benefits sector.

CORE VALUES:

Professionalism; Integrity; Innovativeness; Transparency.

FUNCTIONS OF THE AUTHORITY

The functions of the Authority as provided for in section 5 of the URBRA Act, 2011 are as follows:

- Regulate and supervise the establishment, management and operation of retirement benefits schemes in Uganda in both the public and private sectors;
- License retirement benefits schemes in Uganda;
- License custodians, trustees, administrators and fund managers of retirement benefits schemes;
- Approve an actuary or auditor of any retirement benefit scheme;
- Protect the interests of members and beneficiaries of retirement benefits schemes including the promotion of transparency and accountability;
- Improve understanding and promote the development of the retirement benefits sector;
- Promote stability and integrity of the financial sector through ensuring the security of retirement benefits schemes;
- Ensure sustainability of the retirement benefits sector with a view of promoting long term capital development;
- Advise the Minister on all matters relating to the development and operation of the retirement benefits sector;
- Implement Government policy relating to retirement benefits schemes;
- Promote public awareness of the retirement benefits sector; and any other function conferred upon it under this Act.

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“Total assets under management amounted to UGX 5.1 trillion while UGX 62 billion was recorded as liabilities.

Total inflows equaled 28% of total assets (UGX 1.4 trillion), mainly generated from contributions (UGX 735 billion), investment income (UGX 545 billion) as well as appreciation of asset values (UGX 65billion)”

CHIEF EXECUTIVE OFFICER

The Authority is pleased to release the 2014 pension industry performance report. It contains information drawn from audited accounts submitted by schemes/funds that have their financial year-ends on 31st June & 31st December 2014 respectively.

Therefore data has been reviewed for reasonability and benchmarking. The results of our analysis are only valid based on the data available through the development of this report.

Total assets under management amounted to UGX 5.1 trillion while UGX 62 billion was recorded as liabilities. Total inflows equaled 28% of total assets (UGX 1.4 trillion), mainly generated from contributions (UGX 735 billion,), investment income (UGX 545 billion) as well as appreciation of asset values (UGX 65 billion). The return on scheme assets was 11%. The asset base and risk preference adopted determined the income generated.

The share of operational expenses on income and assets was 13.4% and 1.4% respectively. Operating costs varied strongly mainly due to governance and scale effects. The cost differences illustrate the importance of enhancing efficiency and selecting the right organizational form.

Going forward, a year on year performance will be provided. Improvements are therefore expected in reports submitted to the Authority to support supervisory assessments.

DAVID NYAKUNDI BONYI
Chief Executive Officer

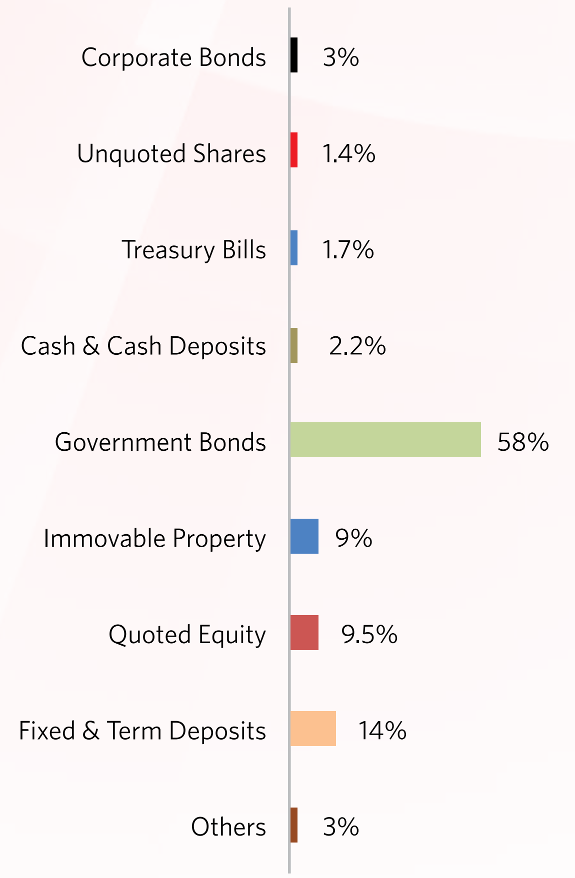
INDUSTRY HIGHLIGHTS

For the year ended 31 December 2014

"Assets under management 2014: Total UGX 5.1 Trillion

MEMBERS FUNDS 2014	UGX (billion)
Total Assets	5,110
Total Liabilities	62
Net Assets	5,047

Asset Allocation 2014:
Total UGX 5.1 Trillion



INCOME	UGX (billion)
Contributions received	734.96
Investment Income	546.74
Capital Gains/Loss	64.82
Other Incomes	45.04
TOTAL IN FLOWS	**1,391.56**

OUT FLOWS	UGX (billion)
Benefits Paid	207.13
Fund Manager Expenses/ Investments Fees	1.63
Administration Expenses	77.4
Tax Expense	78
TOTAL OUT FLOWS	364.46
EXCESS/DEFICIT	**1,027**

THE WORK OF THE AUTHORITY AND SECTOR REFORMS

For the year ended 31 December 2014

...the Authority conducted on-site inspection of NSSF. The exercise involved an appraisal of the Fund's specific risk profile, corporate governance, investment management, and financial condition amongst others. NSSF was found to be stable but issues of concern to the Authority, in particular compliance with the URBRA Act were identified for corrective action...

1) The Work of the Authority

In line with its mandate, the Authority:

- licensed players in the pension industry;
- monitored the administration of licensed Schemes in order to ensure that the objectives set out in the URBRA Act and Regulations are attained;
- developed regulations to implement the Uganda Retirement Benefits Regulatory Authority (URBRA) Act 2011;
- worked within the current legislation concentrating resources on identifying non-compliance that may pose risks to member's benefits;
- took appropriate supervisory action aimed at promoting high operational standards and prudent behaviour by regulated entities.
- improved the understanding of key regulatory issues amongst stakeholders;
- contributed to the development and validation of new and existing legislation.

2) Regulatory Reforms in the Retirement Benefits Sector

- **Review the Existing Legal Framework:** The Authority has developed drafts of proposed regulations. Partners/ stakeholders were consulted and the feedback collected will be used to make adjustments if necessary.
- **Public Service Pension Reform:** Government decentralised the budgeting and payment of pension and gratuity that was formerly budgeted for under the Ministry of Public Service to the respective Ministries, Departments and Agencies (MDAs) where Staff retire/retired. Validation and clearance of salary and pension arrears is underway.

  The Authority is in full support of the proposed reforms geared towards transforming the Public Service Pension Scheme from a non-contributory, non-funded scheme to a contributory funded scheme.
- **Liberalization of the Pension Sector:** The Retirement Benefits Sector Liberalization Bill, 2011 is currently before Parliament. Amendments to the Bill – to bring it in-line with international best practice and to allow for a transitional arrangement for National Social Security Fund (NSSF) were prepared and submitted to Parliament.

3) Supervision of Retirement Benefits Schemes and Service Providers

The Authority conducted due diligence on licensed voluntary retirement benefits schemes, identified inherent risks and provided advice on pertinent remedial action.

In addition, the Authority conducted on-site inspection of NSSF. The exercise involved an appraisal of the Fund's specific risk profile, corporate governance, investment management, and financial condition amongst others. NSSF was found to be stable but issues of concern to the Authority, in particular compliance with the URBRA Act were identified for corrective action.

It is important to highlight that the Authority expects to see high standards in the following areas:

- reporting in respect to audited accounts and returns;
- investment of pension assets;

The work of the Authority and Sector Reforms continued...

- calculation of benefit entitlements;
- adequate funding of schemes;
- administration and record keeping;
- disclosure of information to members.

Below are some of the corrective actions which should be considered by all Retirement Benefit Schemes.

- put in place adequate internal controls and procedures and ensure that they are documented and evidenced;
- ensure that membership records are sufficient;
- prepare and issue a full trustee annual report;
- prepare and issue annual membership statements as per the Financial Reporting and Disclosure Regulations of 2016;
- ensure that they are up to date with changes in legislation.

EXISTING PLAYERS AND COVERAGE

For the year ended 31 December 2014

Players regulated by the Authority include retirement benefit schemes, trustees, custodians, fund managers and administrators. In 2014 the following players were licensed.

SCHEMES	TOTAL
Licensed Schemes	55
No. of DB schemes	1
No. of DC schemes	54
No. of Individual Trustees	367

SERVICE PROVIDERS	TOTAL
Administrators	11
Fund Managers	7
Custodians	4
Corporate Trustees	4

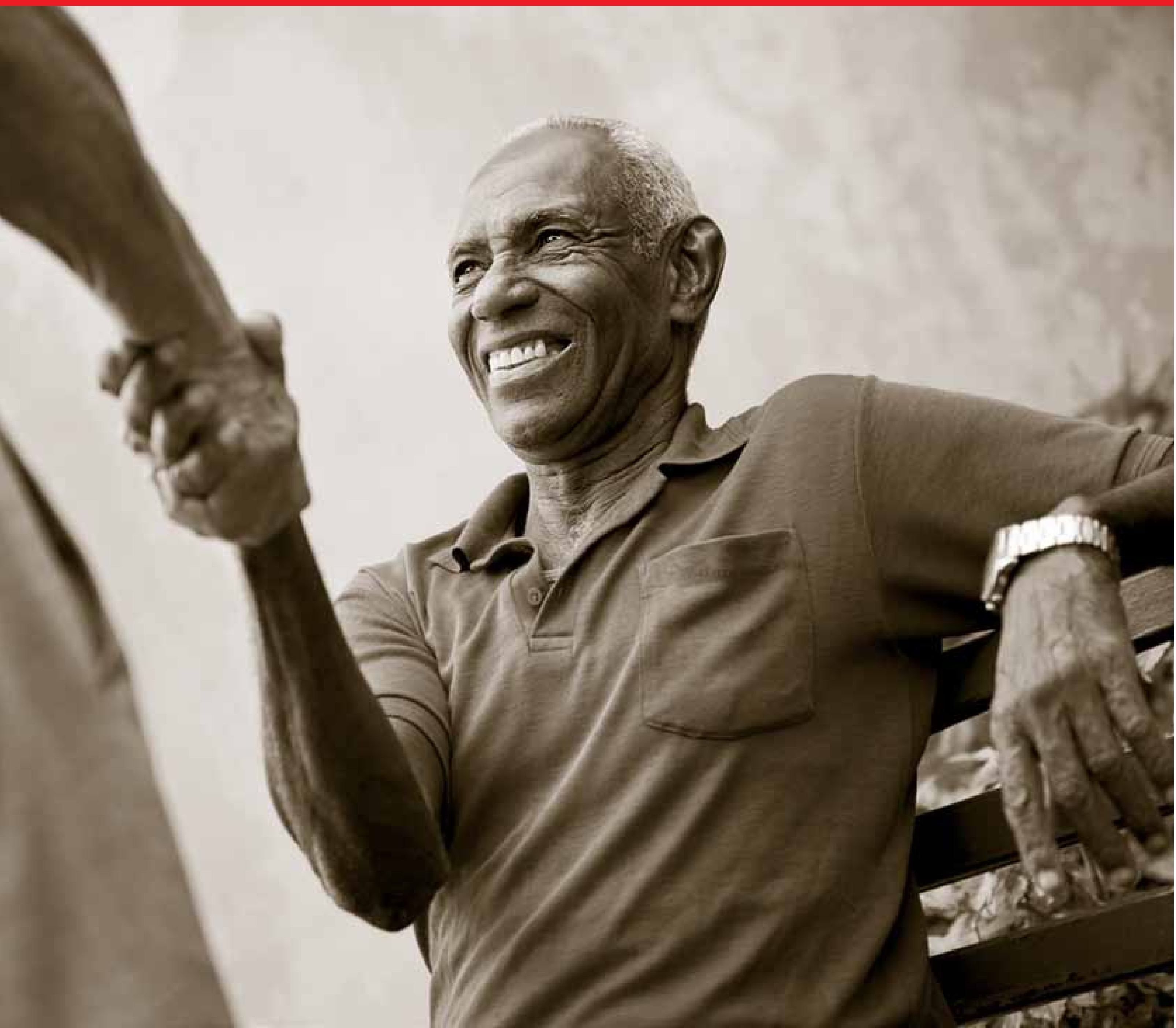
An estimated 1.9 million Ugandans are under some form of cover, representing 14.2% share of the national labour force employed (13.9 million people). The table below shows membership data.

COVERAGE	
National Social Security Fund	1,500,000
Public Service Pension Scheme	450,000
Parliamentary Pension Scheme	756
Occupational Retirement Benefit Schemes	17,597
Total	**1,968,353**

RETIREMENT BENEFITS SECTOR PERFORMANCE

For the year ended 31 December 2014

...Total income in 2014 was UGX 1.4 trillion (28% of total assets) mainly generated from contributions made by employers and employees (UGX 735 billion, 53% of total income) and investment income including appreciation of asset values (UGX 612 billion, 44% of total income)....



2. Income and Expenditure

INCOME	TOTAL UGX (billion)
Contributions received	735
Investment Income	612
Other Incomes	45.04
TOTAL IN FLOWS	**1,392**

Total income in 2014 was UGX 1.4 trillion (28% of total assets) mainly generated from contributions made by employers and employees (UGX 735 billion, 53% of total income) and investment income including appreciation of asset values (UGX 612 billion, 44% of total income).

OUT FLOWS	TOTAL UGX (billion)
Benefits Paid	207.1
Fund Manager Expenses/ investments fees	1.6
Administration Expenses	77.4

Funds with more assets earned higher gross real rates of return. It is important to note however that optimization of yield must take into account inter-alia the degree of risk acceptable to investment.

Benefits paid amounted to UGX 207.1 billion, administrative expenses UGX 77.4 billion and investment management expenses UGX 1.6 billion).

The share of operational expenses on income and assets were 13.4% and 1.4% respectively. Operating costs varied strongly mainly due to governance and scale effects. The cost differences illustrate the importance enhancing efficiency and selecting the right organizational form. Considering that most retirement funds do not have the necessary size to achieve sufficient economies of scale, consolidation backed by a higher level of disclosure is encouraged.

*The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realized on sales of investment during the year.

*Expenses included management fees, administrative fees, operating costs, and all other asset-based costs incurred.

For small schemes, the ratio was higher as funds were drawn from a restricted asset base. Considering that most retirement funds do not have the necessary size to achieve sufficient economies of scale, consolidation backed by a higher level of disclosure is encouraged.

In addition, understanding and evaluating plan fees and expenses associated with investments and services are an important part of a fiduciary's responsibility. The cost differences illustrate the importance of selecting the right organizational form.

Investment management expenses must also be reported and reviewed separately from the investment result i.e. cost-effectiveness of investment operations. Not to mention that management expenses also vary based on the investment product.

C. Asset Allocation

Total assets under management amounted to UGX 5.1 trillion while UGX 62 billion was recorded as liabilities. Out of the total assets under management, the National Social Security Fund (NSSF) held UGX 4.4 trillion.

Bonds are a popular asset class due to their attractive return-risk characteristics, good liquidity, and relatively long durations. Direct holdings of government debt securities comprised 57.8 percent of total investments, fixed and term deposits 14.4 percent and immovable property 9 percent.

Basing on the low volume of benefits paid out (15% of total inflows), a high share of liquid instruments is not needed unless there are high layoffs from employment, large number of people retiring or transfers from one scheme to another.

Larger holdings in real estate, private equity and infrastructure could therefore improve long-term performance of pension funds and at the same time, contribute to a reduction in maturity mismatches and exposure to interest risk.

The aggregate value of holdings in stocks and shares within the investment portfolio amounted to UGX 547 billion, representing approximately 11

Retirement Benefits Sector Performance continued...

percent (9.5% quoted equity and 1.4% unquoted equity) of assets under management. In effect, pension funds own around 2% of total stock market capitalization. The weight of equities in the industry asset portfolio is expected build up to permissible limits (quoted equities 70% & private equity 15%) if backed by deliberate policy interventions to increase supply (number of listed firms) and demand (sensitizing investors/savers) of capital.

	Categories of Assets Classes by Limit	2014 Share (%)	Maximum (%)
		Market Value of Total Assets	
1	Cash and demand deposits in institutions licensed under the Financial Institutional Act 2003 or other similar institutions licensed in the East African Community.	2.2	5
2	Fixed deposits, time deposits and certificates of deposits in institutions licensed under the Financial Institutions Act 2003 or other similar institutions licensed in the East African Community.	14	30
3	Commercial paper, corporate bonds, mortgage bonds and asset backed securities and collective investment schemes approved by the Capital Markets Authority.	3.7	30
4	Government securities in the East African Community	57.8	80
5	Shares of companies quoted in a stock exchange in East Africa and collective Investment Schemes approved by the Capital Markets Authority.	9.5	70
6	Immovable property in Uganda; real estate investment trusts and property unit trust approved by the Capital Markets Authority.	9	30
7	Private equity in the East African Community	1.4	15
8	Any other assets classes approved by the Authority	0	5
9	Other assets classes *	2	-

*Others include guaranteed funds and offshore investments which are not approved under the Uganda Retirement Benefits Regulatory Authority (Investments of Scheme Funds) Regulations, 2014

* The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realized on sales of investment during the year.

*** Include guaranteed funds and offshore investments which are not approved under the Uganda Retirement Benefits Regulatory Authority (Investments of Scheme Funds) Regulations, 2014.

D. Financial Viability of Schemes

The rationale for investment guidelines is to ensure safety of selected investments, adequate yield and liquidity for meeting obligations when due, and diversification of the assets of the portfolio.

Investment funds include fixed and non fixed-income investments. The former could suffer from capital erosion in the long term due to inflation while the variability of returns from non fixed income investments may present capital gains or losses.

Considering that the pension industry in Uganda has a relatively high concentration of investments in government debt securities, trustees must define strategic investment portfolios and undertake active portfolio management that will generate sufficient returns.

The Authority has on its part provided guidance on portfolio and individual investment monitoring and analysis. In addition, an independent actuarial valuation of each fund must be carried out every three years to review assets, liabilities and to determine the rate of contributions that employers and employees must make.

E. Assets and Liabilities

Typically, the assets held have publicly accessible pricing data, and are subject to market value fluctuations. However, liabilities are rarely traded and are particular to the individual pension scheme. Assets are measured at market value, whereas the discount rate for valuing liabilities is based on the actuaries' assessment of long-run returns on the assets in the pension fund.

It is therefore important to note that the pension liability's fundamental and economic exposures are not explicitly integrated. Selecting portfolios from an asset-only perspective implicitly assumes that the liability has no risk at all—at least none that is market-related. However, pension liabilities, representing the present value of deferred wages, by their very nature are driven by economics and have many market-related exposures. Not integrating these exposures can result in inefficient investment policies when measured versus liabilities, as they may be exposed to excessive and unrewarded risk relative to liabilities.

The table below shows the list of all pension funds ranked by asset value.

No.	SCHEME	TOTAL ASSETS	TOTAL LIABILITIES	NET ASSETS
		UGX (billion)		
1	National Social Security Fund	4,404.197	36.500	4,367.696
2	Bank of Uganda Retirement Benefits Scheme	264.679	8.051	256.627
3	Makerere University Retirement Benefits Scheme	66.450	0.726	65.723
4	URA Staff Retirement Benefit Scheme	58.226	1.004	57.222
5	Centenary Bank Staff Defined Contribution Scheme	43.386	2.150	41.236
6	Stanbic Bank Uganda Limited Staff Pension Fund	37.633	1.539	36.094
7	Standard Chartered Bank Uganda Pension Trust Fund	29.252	1.865	27.387
8	Barclays of Uganda Limited Staff Pension Fund	25.981	3.443	22.538
9	MTN Uganda Contributory Provident Fund	25.875	1.924	23.952
10	NARO Retirement Benefits Scheme	22.172	0.088	22.084
11	NSSF Staff Provident Fund	17.693	0.056	17.638
12	Alexander Forbes Retirement Fund	16.019	0.614	15.405
13	Tullow Uganda staff Retirement Benefits Scheme	11.196	0.205	10.991
14	Kinyara Sugar Works Limited Staff Provident Fund	9.615	0.589	9.025
15	Uganda Breweries Limited Retirement Benefits Scheme 2005	9.218	0.426	8.792
16	Nile Breweries Staff Provident Fund	9.122	0.299	8.823
17	DFCU Limited Staff Provident Fund	7.674	0.230	7.444
18	BAT Uganda LTD Staff Provident Scheme	6.505	0.652	5.853
19	Crown Beverages Limited Staff Retirement Benefits Scheme	5.578	0.256	5.321
20	Watoto Ministries Provident Fund	5.208	0.416	4.792

Retirement Benefits Sector Performance continued...

No.	SCHEME	TOTAL ASSETS	TOTAL LIABILITIES	NET ASSETS
21	Bank of Africa Staff Provident Fund	4.281	0.561	3.719
22	Uganda Communications Commission Staff Provident Fund	4.069	0.018	4.051
23	Equity Bank Limited Staff Retirement Benefits Scheme	2.778	0.052	2.726
24	Vivo Energy Uganda Staff Provident Fund	2.723	0.021	2.702
25	Orient Bank Staff Defined Contribution Scheme	2.664	0.069	2.595
26	Makerere University Business School Retirement Benefits Scheme	2.298	0.023	2.275
27	PACE Staff Retirement Benefits Scheme	2.081	0.044	2.037
28	AON Uganda Limited Staff Retirement Benefits Scheme	2.012	0.332	1.680
29	ICEA Umbrella Retirement Benefits Scheme	1.783	0.035	1.748
30	AIG Staff Retirement Benefits Scheme	1.338	0.026	1.312
31	TOYOTA Uganda Limited Staff Retirement Benefit Scheme	1.313	0.027	1.286
32	Monitor Publications Staff Provident Fund	1.184	0.045	1.140
33	PRIDE Micro Finance Retirement Benefits Scheme	1.081	0.087	0.994
34	Royal Danish Embassy Retirement Benefits Scheme	1.003	0.024	0.978
35	AAR Uganda Staff Retirement Benefits Scheme	0.934	0.015	0.919
36	Pentecostal Assemblies of God Staff Retirement Benefit Scheme	0.635	0.013	0.622
37	SWICO Staff Retirement Benefits Scheme	0.530	0.010	0.520
38	Uganda Electricity Generation Company Limited Staff Retirement Benefit Scheme	0.495	0.005	0.490
39	HEIFER Projects International Uganda Retirement Benefits Scheme	0.449	0.013	0.436
40	KILIMO Trust Staff Retirement Benefits Scheme	0.334	0.006	0.328
41	PCP Uganda Staff Retirement Benefits Scheme	0.101	0.002	0.100
42	Delta Petroleum U) Ltd Staff Retirement Benefits Scheme	0.098	0.003	0.095
43	Parliamentary Pension Scheme	-	-	-
44	National Housing and Construction Company Ltd Staff provident Fund	-	-	-
45	Housing Finance Bank Staff Retirement Benefits Scheme	-	-	-
46	Liberty Life Umbrella Retirement Benefits Scheme	-	-	-
47	CHAI Uganda Staff provident Fund	-	-	-
48	Opportunity Bank Staff	-	-	-
49	Liaison Personal Retirement Plan	-	-	-
50	Post bank Uganda Provident Fund	-	-	-
51	Uganda Clays Staff Provident Fund	-	-	-

No.	SCHEME	TOTAL ASSETS	TOTAL LIABILITIES	NET ASSETS
52	ECO Bank Staff Retirement Benefit Scheme	-	-	-
53	Stanlib Uganda Umbrella Scheme	-	-	-
54	Bank of Uganda Defined Contribution Scheme	-	-	-
55	UAP Umbrella Retirement Benefits Scheme	-	-	-

LIST OF SCHEMES AND SERVICE PROVIDERS

For the year ended 31 December 2014

...Corporate trustees, Administrators, Fund Managers, Custodians.

CORPORATE TRUSTEES

1)	KCB Bank Limited
2)	National Insurance Corporation Limited
3)	Crane Bank Limited
4)	Vivo Energy Uganda Limited

ADMINISTRATORS

1	Alexander Forbes Financial Services Uganda Ltd	2nd Floor Studio House, 5 Bandali Rise, P. O. Box 73302,Bugolobi, Kampala
2	AON Uganda Limited	Plot 11/13 Lower Kololo Terrace, P.O. Box 3123, Kampala
3	Liberty Life Assurance Uganda Limited	Investment House, 2nd Floor, Plot 1 Dundas Road, P.O. Box 22938, Kololo, Kampala
4	Padrepio Insurance Brokers Limited	Plot 12A Turffnell Drive, Kamwokya, P.O. Box 7446, Kampala
5	Sanlam Life Insurance Uganda Limited	Plot 3 Nakasero Hill Road, P.O. Box 25495, Kampala
6	National Insurance Corporation Limited	Plot 3 Pilkington Road, P.O. Box 7134,Kampala
7	Liaison Financial Services Limited	Liaison House, Plot 44 Lumumba Avenue, P. O. Box 22607,Kampala,
8	The Jubilee Insurance Company of Uganda Limited	Jubilee Insurance Centre, Parliament Avenue, P.O Box 10234, Kampala
9	UAP Life Assurance Uganda Limited	UAP Nakawa Business Park, 1st Tower, 6th Floor, Plot 3-5, Old Port Bell Road, P.O. Box 1610, Kampala
10	Octagon Uganda Limited	5th Floor, Padre Pio House, Plot 32, Lumumba Avenue, P.O. Box 2255, Kampala
11	Insurance Company of East Africa Limited	Rwenzori Courts, Nakasero Road, P.O. Box 33953, Kampala

List of Schemes and Service Providers continued...

FUND MANAGERS		
1	PineBridge Investments East Africa Limited	Workers House, 7th Floor, Pilkington Road, P.O. Box 9831, Kampala
2	Genesis Kenya Investment Management Limited	P.O. Box 75200, Plot 4 Parliament Avenue, Eco Bank Plaza, Kampala
3	African Alliance Uganda Limited	1st Floor Workers House, Pilkington Road, P.O. Box 70828, Kampala
4	ICEA Asset Management Limited	Rwenzori Courts, Nakasero Road, P.O. Box 33953 Kampala
5	StanLib Uganda Limited	4th Floor Crested Towers, 17 Hannington Road, P.O. Box 7131, Kampala
6	UAP Financial Services Limited,	P.O. Box 1610, Kampala
7	Britam Asset Managers Uganda Limited	Plot 21, Course View Towers Yusuf Lule Road Kampala

CUSTODIANS		
1	Housing Finance Bank	Investment House, Plot 4 Wampewo Avenue- Kololo, P. O. Box 1539, Kampala
2	Stanbic Bank Uganda	Plot 17 Hannington Road, 2nd Floor Crested Towers, P.O. Box 7131, Kampala
3	Standard Chartered Bank Uganda Ltd	5 Speke Road, P.O. Box 7111, Kampala
4	KCB Bank Uganda Limited	Commercial Plaza, Plot 7 Kampala road, P.O. Box 7399, Kampala
5	Bank of Africa Uganda	Plot 45, Jinja Road P. O. Box 2750 , Kampala

NOTES

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