URBRA

UGANDA RETIREMENT BENEFITS REGULATORY AUTHORITY

ANNUAL PENSION INDUSTRY REPORT

2015

At the Uganda Retirement Benefits Regulatory Authority (URBRA), we supervise, regulate the establishment, management and operation of retirement benefits schemes and protect the interests of members and beneficiaries.

Inside this report

OVERVIEW

2015 Performance Highlights

"Overall, the Pension Sector Registered a Solid Performance in 2015."

Assets	Inflows	Contributions
UGX6.5TN 2015	UGX1.7TN 2015	UGX 829 BN 2015
UGX5.2TN 2014	UGX1.5TN 2014	UGX830BN 2014

Liabilities	Outflows	Benefits
UGX75BN 2015	UGX448BN 2015	UGX243BN 2015
UGX62BN 2014	UGX414BN 2014	UGX214BN 2014

Total Investment	Investment Income	Operating Expenses
UGX6.1TN 2015	UGX908BN 2015	UGX82BN 2015
UGX4.7TN 2014	UGX682BN 2014	UGX112BN 2014

Asset to GDP Ratio	Operating Expense Ratio	Expense Ratio
8.1% 2015	12% 2015	1.3% 2015
7.2% 2014	20% 2014	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%

VISION, MISSION AND CORE VALUES

The Authority has the overall mandate of supervising, regulating the establishment, management and operation of retirement benefits schemes and protecting the interests of members and beneficiaries.

Our Vision is to develop a vibrant, secure and sustainable Retirement Benefits S ystem.

Our Mission is to regulate, supervise and promote the development of a stable and effective Retirement Benefits Sector.

Our Values are Professionalism; Integrity; Innovativeness; Transparency.

OVERVIEW

CHAIRMAN'S STATEMENT

Andrew Derek Kasirye
Chairman, Board of Directors

Looking back on our progress over the last year, I take great pride in the achievements of the Authority and feel confident about its future. We have made strides in making the risks of saving without oversight more explicit. Our intention is to make retirement funding arrangements cost efficient, prudently managed, transparent and fair. However, saving for retirement remains a challenge. Apart from the usual barriers to saving and investment such as access, complexity and information asymmetries, there are behavioural and cultural factors which deter people from saving or investing, even when they are aware of the benefits of doing so.

While old age income security is extremely important, we are yet to articulate strategies which set out retirement savings goals and means of achieving them. The Authority is therefore keen to develop incentives for asset building supported by financial education. In addition, liberalization of the pension sector as set out in the Retirement Benefits Sector Liberalization Bill 2011 is critical to addressing some of the growth barriers of the retirement benefits sector.

We believe that appropriate regulation and supervision can help reassure savers that their money is safe. The Board has continued to strengthen the Authority's institutional framework and enhanced the capacity of management to offer quality service to the industry. As an Authority, we shall work with the industry to improve scheme governance, enhance trustee knowledge and prudent conduct of business. This will ensure; protection of members' interests, accountability and disclosure of material information to build confidence in the system.

"Our heightened engagement and Government's drive for reform is meant to give members greater certainty and flexibility in their retirement planning."

Our heightened engagement and Government's drive for reform is meant to give members greater certainty and flexibility in their retirement planning. From the outset, we have sought to work closely with all stakeholders, seeking support in the implementation of sector reforms.

I therefore take this opportunity to thank the entire Board for keeping the Authority firmly on course for continued success. I also thank management and staff for their extraordinary efforts and dedication in delivering our mission to regulate, supervise and promote the development of a stable and effective Retirement Benefits Sector.

Andrew Derek Kasirye
Chairman, Board of Directors.

OVERVIEW

CHIEF EXECUTIVE OFFICER'S STATEMENT

David B. Nyakundi
Chief Executive Officer

"..the Authority is putting emphasis on proactive supervision focusing on fund governance, internal controls and risk management."

In order to provide essential input into our ongoing supervisory and policy work, and also to assess industry performance, the Authority collects data relevant for facilitating transparency and research on the evolution of the pension sector and its prospects in the medium term.

During 2015, assets grew at a rate of 25% from UGX 5.2 trillion to UGX 6.5 trillion. The ratio of pension assets to GDP increased from 7.2% at the end of 2014 to 8.1 % at the end of 2015. 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 and other investments accounted for 1%.

Allocations to bonds continue to dominate investments as schemes employ conservative investment strategies. The return on assets was 14% while the return on investments, inclusive of the adjustment to fair value was 18.2%. The changes in asset values occurred from increase in inflows, market fluctuations, and these changes were reflected in the disposition of net assets that amounted to UGX 6.4 trillion.

On the other hand, the industry operating expense ratio was 12% in 2015 compared to 20% in 2014 while the expense ratio reduced from 2.2% in 2014 to 1.3% in 2015. Trustees and fund managers must ensure that costs and investment risks are optimally managed so that the ultimate beneficiaries get adequate retirement income. Towards this aim, they ought to examine unutilised economies of scale that could be employed in the management of small and medium-sized pension funds.

On its part, the Authority is putting emphasis on proactive supervision focusing on fund governance, internal controls and risk management considering that many schemes are still in their infancy. I have no doubt that the Authority will successfully transform the pension sector and make a positive and lasting difference to the lives of millions of people across Uganda.

David B. Nyakundi
Chief Executive Officer

CORPORATE OBJECTIVES

The Authority's strategic framework illustrates the different elements and actions required to deliver a vibrant, secure and sustainable retirement benefits system.

The Work of the Authority

- Permanent oversight of the pension sector.
- Safeguard members interests by ensuring good governance, risk management and effective internal controls in Retirement Benefit Schemes.
- Generate adequate regulatory framework.
- Promote and improve understanding of the pension sector.
- Inform the general public of their rights and obligations.
- Policy Advice.

Strategic Plan 2015 -2020

The Authority developed corporate strategic goals and objectives for the period between 2015/16-2019/2020 which when achieved, will enable the Authority to more effectively pursue its mandate as outlined in the URBRA Act.

Our Strategy

1. Improve Regulation and Supervision of the Sector.
2. Improve Understanding and Promote Development of the Sector.
3. Strengthening Institutional Capacity and Development.

Strategic Actions

Regulation and Supervision	Sector Development	Capacity Building
▪ Enhance the regulatory framework ▪ Strengthen supervision of the sector	▪ Enhance knowledge and awareness of the sector ▪ Expand coverage of the Retirement Benefits Sector ▪ Undertake sector wide research	▪ Enhance the human resource capacity to deliver quality services ▪ Attain financial sustainability ▪ Enhance the Board and management's capacity to deliver on their mandate ▪ Develop and implement Robust and efficient management systems

ECONOMY AND DEMOGRAPHY

"..As long term investors, pension funds provide a long-term maturity structure for their liabilities thereby reducing the cost and accession of public and private borrowing opportunities..."

1) Economy

The main goal of the pension system is to direct people's accumulated savings into investment, and to maintain individuals' welfare level during the retirement period by providing supplementary income with these savings.

Economic Indicators	2015	2014
GDP at Market Prices (UGX Trillion)	80	72.1
GDP Growth Rate (Real Growth) (%)	5	4.8
Inflation Rate (Headline) (%)	5.2	5.5
The UGX/US$ Exchange Rate (Annual)	3,241	2,612
Pension Industry Assets (UGX Trillion)	6.5	5.2
Ratio of Assets to GDP (%)	8.1	7.2

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

The reforms that are being implemented are 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 systems is important for Uganda and the system posits substantial contributions for sustainable economic growth and financial stability.

As long term investors, pension funds provide a long-term maturity structure for their liabilities thereby reducing the cost and accession of public and private borrowing opportunities. In effect, they have the potential to generate regular flow of funds into capital markets which in turn limit fluctuations caused by short-term capital flows.

2) Population and Old Age Security

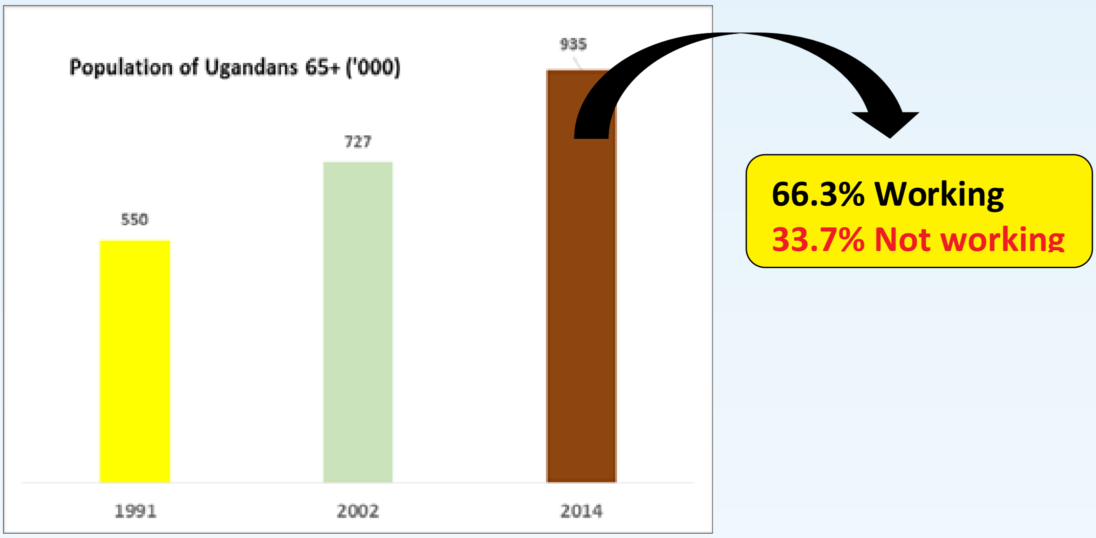
A young population means massive growth potential for the local pensions industry. However, large numbers of young people continue to burden the economy as the consumption needs of economically non-productive members of the society reduce the overall capacity for saving and investment.

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.

Demographic Characteristics	
Total population	34,634,650 (Census, 2014)
Labor force	17,232,200 (Census, 2014)
Labor force employed	15,612,373
Distribution of Population by Age Group	
0-14	16,573,400 (47.9%)
15-64	17,232,200 (49.2%)
65+	935,135 (2.7%)
Age dependency Ratio	103%
Life Expectancy at Birth	63.3 years
Life Expectancy at Retirement	17 Years

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 accelerate in the coming decades due to continuous increase in life expectancy.



A combination of reduced capacity for income generation and a growing risk of illness are likely to increase the vulnerability of elders.

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.

As such, 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.

PENSION SECTOR OUTLOOK

PENSION SECTOR OUTLOOK

The pension system in Uganda includes the public service pension scheme, National Social Security Fund (NSSF) and voluntary occupational pension schemes.

Table: Pension Outlook in Uganda

	Public Service Pension Scheme	NSSF[1985]/ Mandatory Schemes	Supplementary Private Schemes
LEGAL FRAMEWORK	Pensions Act [Cap 286]	NSSF Act [Cap 222] Parliamentary Scheme Other Approved Schemes	URBRA Act 2011 / Trust Law
COVERAGE	Civil servants; Local Authorities workers; police; prison officers; judiciary; doctors; teachers etc.	Formal sector workers – employers with more than 5 employees	Formal employees in companies /institutions with pension plans
FUNDING STATUS	Unfunded	Funded	Funded
BENEFIT FINANCING	Tax revenues	Individual Account Accumulations (employer 10% Employee 5%)	Scheme funds - Contributory as per plan rules/ enabling Act
DESIGN	DB	DC	DB or DC depending on plan rules/Act
BENEFIT	Annuities and gratuities	Lump Sums -Provident Fund	Annuities and Lump Sums depending on plan rules

URBRA 2014

1) Public Service Pension Scheme

Civil servants in Uganda are covered by a non-contributory public service pension scheme, run by the public service pension fund. The scheme is financed directly from the government budget and civil servants can retire at the early age of 45, where vesting periods are after 10 years of service. The benefit accrual rate is 2.4% per year. The reference wage for pension calculations (last salary and benefits) are indexed to wages.

"URBRA supports policy developments through strategic research, evidence reviews and expert advise. Sector reforms in terms of system designs and benefits payments are on-going "

Employment in the civil service is composed of persons employed in the traditional civil service, teaching service (primary and secondary), police, prisons, and staff in local governments. 2015 estimates indicated that there are 307,000 active civil servants and 66,168 pensioners.

Systemic reforms in the public service pension scheme are ongoing. The key principles which underpin the reform are governance and accountability. While this is a step in the right direction, a shift from unfunded defined benefit scheme to a defined contribution scheme will require capacity building in the public service ministry and time to finance the transition.

2) National Social Security Fund

Uganda operates a mandatory provident fund covering employees aged 16-54 in firms with more than 5 workers. Voluntary participation is also possible for employers with less than 5 employees. The scheme is funded with 5% contributions from employees and 10% from employers (no maximum or minimum earning levels apply for contribution purposes).

Benefits are paid from age 55 in lump sum equal to total contributions plus accrued interest (which is determined based on the rate of return of the National Social Security Fund investments). In recent years the Government of Uganda has expressed strong interest in improving governance and administrative aspects of the scheme.

3) Occupational Voluntary Schemes

Occupational voluntary pension schemes rely on financing through the contributions whose rates differ from one pension plan to another. They are established by employers for the purpose of providing additional retirement benefits to their employees in the context of an occupational activity based on an agreement or contract, between the:

- Employer and employees; or
- Employers and employees of the same industry (i.e. Industry Specific Schemes).
- Other arrangements (pooling).

4) Social Protection Grants

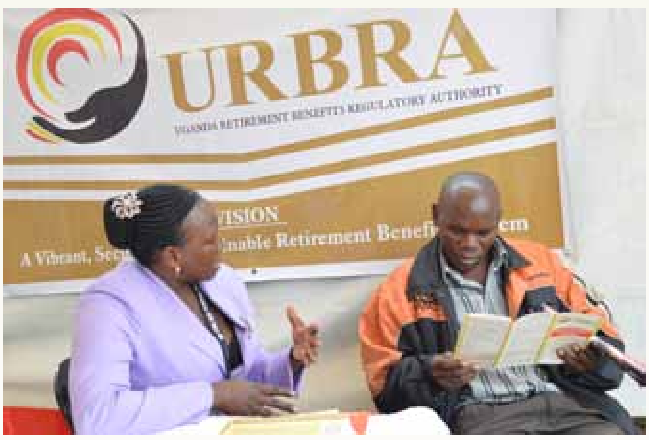
In 2010, Government started the Expanding Social Protection Programme (ESP) including the Senior Citizens Grant (SCG) in 15 pilot districts in which older citizens were thought to be more vulnerable.

At the end of 2015, the grant (Senior Citizens Grant) covered at least 123,153 of the most vulnerable non-pension beneficiaries aged 65 and above. The beneficiaries received a monthly pay of 25,000 shillings. The programme recorded positive effects including better nutrition, access to healthcare, improved savings, investments and productivity. Government has expanded the social protection grants to cover the elderly in 40 more districts in addition to the present 15 districts.

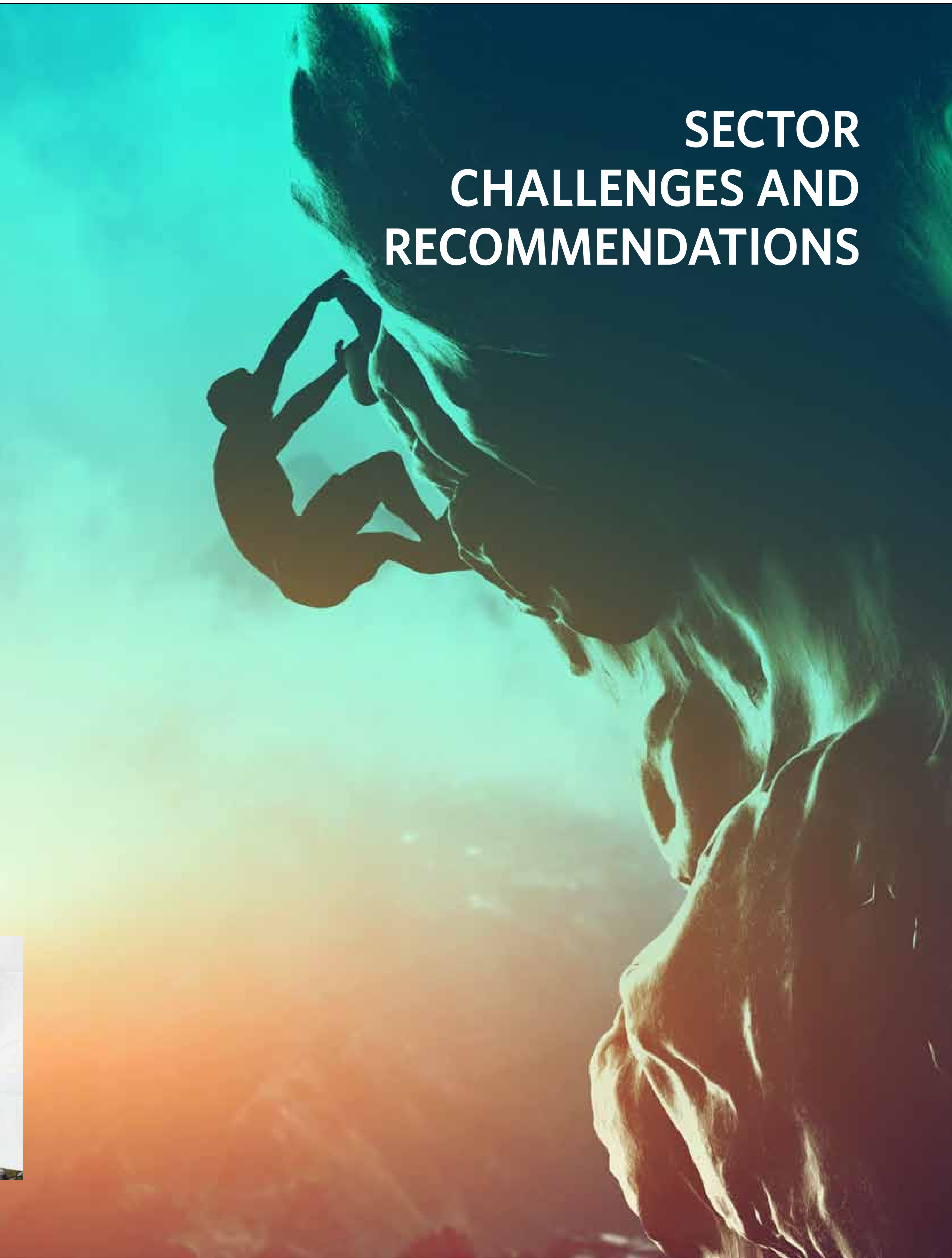
5) Coverage

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. During the period under review, only public sector, and a small proportion of formal private sector workers are covered, limiting the participation of workers from the informal sector. This implies that a large share of households will end up at retirement without any pension. To address the coverage problem, the Authority is developing programmes to extend formal sector coverage, and to bring the informal sector into retirement saving arrangements.

Industry Coverage Statistics	
NSSF as at June,2015	▪ Total Number of registered members = 1,573,354 ▪ Active members = 597,203 ▪ Activity rate ≈ 38% of 1,573,354 registered ▪ Number of Employers = 10,911
Public Service Pension Scheme	≈ 373,168 (307,000 active civil servants and 66,168 pensioners) as at May, 2016
Occupational schemes	24,174 as at December, 2015 Number of Employers = 123
Senior Citizens Grant (SCG)	123,153 as at December, 2015 (transfers of UGX25,000/= every month)
Total number under some form of cover	1,970,696
Coverage ratio	11% of the total labor force



SECTOR CHALLENGES AND RECOMMENDATIONS



SECTOR CHALLENGES AND RECOMMENDATIONS

1) Challenges

i) Public Service Pension Scheme

The current Public Service Pension Scheme is faced with number of challenges which, among others include;

- The scheme's long term financial (fiscal) sustainability is greatly impaired partly due to the several parametric changes;
- Unpaid pension arrears due to persistent budget constraints. The stock of pension arrears has greatly increased to unsustainable levels and is still accruing
- Governance problems characterised by poor financial management, including poor record keeping resulting into lack of trust and confidence in the pension system.

ii) National Social Security Fund

- Governance and administrative challenges
- Failure of employers to register their employees with the Fund.
- Failure of employers to make contributions despite making deductions from their employees.
- Pension savings are often taken as lump sums with the risk that people outlive their resources.
- Low activity rate of 38% threatens adequacy of pensions, especially due to shorter contribution periods and lower average earnings.

iii) Voluntary Occupational Schemes different font-check font

- The small size of funds creates challenges in term of costs, access to asset classes and risk management, leaving schemes and their members in a sub-optimal position.
- In addition, smaller schemes are managed on a part-time or voluntary basis, which lead to a host of risks related to governance, investment expertise and succession planning. However, it is important to note that while risk management is critical for small schemes, the added costs and complexity of such systems can be difficult to justify. A pooling framework could therefore facilitate cost effectiveness, better investment and risk management.

...Sound pension scheme governance can significantly improve performance. However, it demands a clear statement of beliefs, oversight of investment decisions, awareness of the broad market environment, reporting that is aligned to the overall retirement objective as well as an explicit agreement on appropriate levels of delegation...

- Withdrawal of savings before retirement is very common which defeats the purpose of saving for retirement.
- No cost of living adjustment index to benefit payments. Price inflation creates a huge unpredictability for adequacy of retirement savings.
- Design details are not consistent with international best practices in key areas such as:
  - benefit and contribution formulas.
  - actuarial studies (these are not transparent and not undertaken periodically with a view to adjust benefits and contributions)
  - cost structures
  - administration and compliance;
  - portability and vesting; and
  - investment policies and management.

2) Recommendations

The Government, private sector and individuals have a shared responsibility to ensure that the retirement burden does not become a huge fiscal draw for the economy in the future. There is an urgent need to;

- deepen and broaden the pension system in Uganda. The reforms could enable long term savings for retirement and provide a decent hedge for post-retirement income.
- monitor and enforce compliance with mandatory contributions and enlarge the scope of cover to the entire formal sector.
- expand coverage to the informal sector.
- review plan characteristics (design and benefits payment) to guarantee a stream of income for life (pension). This could be done through a number of levers such as tax on such withdrawals or explicit limits for pay-outs before retirement.
- long term inflation hedging of savings.

SECTOR DEVELOPMENT INTIATIVES

Uganda's ability to construct a market and regulatory environment supportive of its pension system will greatly influence the chances of success. Ultimately, the outcome should be a well-functioning retirement system. What we need is commitment to the reform objectives from all stakeholders.

SECTOR DEVELOPMENTS	
Public Service Pension Scheme	Government has now: ▪ decentralized the budgeting and payment of pension and gratuity which used to be budgeted for under the Ministry of Public Service, to the respective Ministries, Departments and Agencies where the Government staff retire from. ▪ prioritized clearance of all domestic arrears including salary, pension, and gratuity arrears.
Collaboration with Stakeholders on Policy and Sector Development Initiatives	The Authority provided advice on sector development interventions through consultative meetings with key stakeholders. <u>Ministry of Gender, Labour and Social Development</u> ▪ National Social Protection Policy. ▪ Programme Plan of Interventions for the National Social Protection Policy (Fiscal years 2015/16-2019/20. ▪ Development of the Social Protection Gender, Equity and Social Inclusion Strategy. <u>National Planning Authority</u> Implementation of the Second National Development Plan (NDP II) 2015/16-2019/20. <u>Financial Sector Regulators</u> Financial Sector Regulators CEO's Committee and a Technical Committee from the respective Regulatory Authorities were established to enhance co-ordination and co-operation.
DEVELOPMENT PARTNERS	
World Bank	The Authority received a Technical Assistance Grant from the Financial Sector Reform and Strengthening (FIRST) Initiative. Technical Assistance will be implemented by the World Bank covering the following areas: ▪ Developing comprehensive oversight for private pensions. ▪ Regulatory support and coverage systemic reforms. ▪ Expansion of pension coverage.

INTERNATIONAL, REGIONAL AND LOCAL BODIES	
International Organisation of Pension Supervisors (IOPS)	Uganda is a member of IOPS. The Authority collaborates with IOPS to embed best practice in pension supervisory matters and regulatory issues through policy dialogue and research.
East African Community (EAC)	<u>Legal and Regulatory Harmonisation</u> The EAC partner states are working together to facilitate and promote cross border pension activities. <u>Establishment of the Single Pensions Regional Market</u> The EAC assessed the establishment of a single regional market and the benefits of scale associated with regionalization, to make a broader range of financial products across the participating countries, deepen the investment opportunities for assets of the pension schemes, and make pension services available to all. The assessment was to guide the pension supervisory authorities in reviewing the governing rules, regulations and supervisory structures in each Partner State for effective functioning of a single regional financial services market.
East African Pension Supervisors Association (EAPSA)	Following the completion of the assessment, the East African Pension Supervisors Association (EAPSA) was established by the EAC Partner States' pension sector supervisors. EAPSA is meant to establish a comprehensive system of cooperation among the East African Partner States. It is expected that EAPSA will increase efficiency and facilitate cross border channels of communication relating to pension supervision which is essential for boosting intra-regional development in this sub-sector.
Association of Uganda Retirements Benefits and Pension Schemes	The Association was established to represent members' interests at all levels through active engagement with the Authority and other relevant stakeholders.

REGULATION AND SUPERVISION

REGULATION AND SUPERVISION

The primary aim of regulation and supervision is to protect the long-term stability and security of members' funds. During the period under review, the Authority oversaw adherence to the Uganda Retirement Benefits Regulatory Authority Act (URBRA Act), 2011 and established Regulations.

1. Regulation

i) Consultation on the draft Financial Reporting and Disclosure Regulations

Emphasis was also placed on developing new regulations to support the implementation of the URBRA Act. The Authority held consultative meetings with key stakeholders on the draft Financial Reporting and Disclosure Regulations. The Regulations require schemes to:

- adopt comprehensive income and expenditure reporting standards;
- disclose bottom-line performance, both gross and net fees;
- expansion of reporting to include longer-term performance results.

ii) Guidelines and Codes of Practice

Guidelines and codes of practice were also developed to support implementation of the Act and established Regulations in the following areas:

- rights and obligations of trustees.
- fit and proper testing for trustees.
- auditing of schemes (in collaboration with the Institute of Certified Public Accountants).

iii) Protection of Member's Benefits

In the execution of its function of protecting member's benefits as prescribed in section 5(1)(e) of the Act, the Authority observed that some schemes were holding back member's benefits contrary to section 70 of the Act. The import of section 70 is to protect a member's benefits from any encumbrance which will defeat the fundamental purpose of the scheme.

Under Trust law, once an employer sets up a scheme for the employees, the scheme is a separate legal entity which exists separate from the sponsor /employer who set it up. A scheme is created for the benefit of designated beneficiaries and it is the responsibility of the trustees to hold whatever contributions made into the scheme in trust, on behalf of the members or beneficiaries.

To facilitate growth of the sector, Government embarked on a three pronged agenda to reform the retirement benefits sector which include, liberalization of the sector, pre-funding the public service pension scheme and establishing a regulator for the sector.

The contributions made to a scheme for or on behalf of the employee immediately vest in an employee upon remittance to the scheme or where there is a vesting scale, as specified by the specific vesting scale contained in the trust deed and scheme rules. The Authority has developed guidelines to streamline vesting of benefits in members in accordance Regulation 15 (2) (i) of the URBRA (Licensing of Retirement Benefit Schemes) Regulations of 2012 SI No.72 of 2012.

2. Supervision

The Authority conducted the following activities:

- Licensing of schemes and service providers;
- Risk profiling (within schemes and across schemes) to identify and monitor key operating risks;
- Analysis of financial and non-financial information that schemes are obligated to submit in order to identify key operating risks, update risk profiles and assess performance of schemes.
- Monitoring of investments including asset-valuation and compliance with Investment Regulations by type of instrument, risk-rating level, issuer, etc.
- Provision of information and guidance to trustees, scheme administrators and members, on their responsibilities and rights under the Act, and encouraging the provision of training for trustees;
- Examination of material aspects of the fund manager's operations including:
  - organisational structure, functioning, and technical conditions of operations,
  - communication with clients,
  - functioning of the internal control system,
  - execution of investment orders,
  - Record keeping (financial instruments etc).

i) Off-site Analysis

Financial and non-financial information that schemes are obliged to submit was analysed. Quarterly analysis of schemes' reports was undertaken and risk profiles were developed in order to identify key operating risks. More specifically, offsite activities supported examination of:

- Collection of contributions and transfers between funds;
- Compliance with Investment Regulations by type of instrument, risk-rating level, issuer, etc.
- Investment performance

- Asset-valuation procedures, particularly for instruments with no market price.
- Other statutory returns.

Overall, offsite results indicated that passive investment is a dominant approach. To ensure viability, schemes must recognize that the ultimate aim to preservation and growth of members funds. They should therefore;

- adopt an overall liability based benchmark (e.g. outperform the liability discount rate by a given %)
- focus on managing funding level risk rather than just asset risk.
- diversify their assets where possible. However, to be successful, diversification strategies should be "dynamic", responding to changes in the economic environment.
- invest in assets with time based premiums such as illiquidity premium (i.e. receiving a premium for locking up capital for a period of time).
- avoid focusing on short term performance excessively. Excessive short-termism destroys value by the cost of excessive trading and by draining a scheme's governance budget.

ii) Onsite Inspections

Offsite analysis guided onsite inspection activities. The activities were considerably intensified, both in terms of the number, scope and quality of inspections carried out. The inspections revealed the following:

- Evidence of controls and documented procedures in relation to ongoing maintenance of core function records were inadequate in some instances. Other than the process for recording data on initial scheme setup, it was noted that some administrators do not have an annual renewal or record maintenance process for the update and reconciliation of scheme membership data.
- Delays in submission of financial and non-financial information that schemes are obligated to submit.
- Disclosure shortcomings remain the most common finding despite previous pronouncements by the Authority in this regard.
- Failure of employers to make contributions despite making deductions from their employees.

iii) Corrective Measures

The Authority provided scheme specific corrective actions and took appropriate action to enforce compliance.

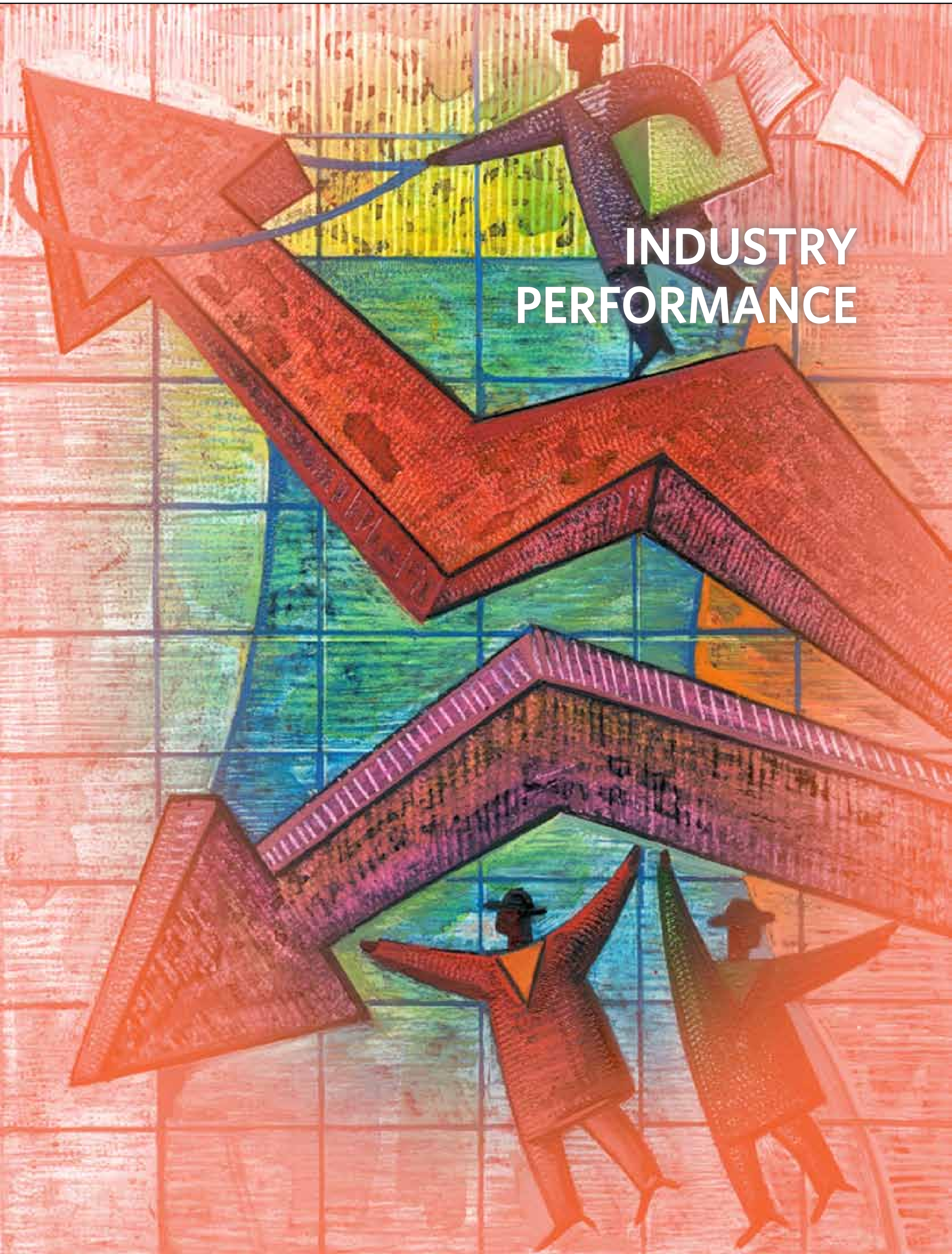
iv) Risk-Based Supervision

A Risk-Based Supervision Framework setting out an implementation strategy for risk based monitoring was developed. The framework provides approaches for;

- enhancing the existing risk-based monitoring processes by integrating the monitoring and review of funding and investment risks;
- establishing risk-based processes for monitoring administration, governance and plan sponsor risks;
- enhancing stakeholders' understanding of risk-based approach through ongoing engagement, including education and communication; and
- establishing quality control and maintenance processes that include oversight and update of the risk-based methodology and application.

v) Communication and Awareness

In 2015, the Authority embarked on an awareness campaign employing a mix of communications initiatives including information brochures, targeted radio programmes, workshops, seminars and public advisories. The primary objective of the campaign was to heighten pension awareness on the mandate of the Authority.



INDUSTRY PERFORMANCE

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1) 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

Membership numbers were affected by persons joining or leaving the Schemes as part of normal staff turnover and membership movements resulting from factors such as economic circumstances.

The total number of active members of occupational pension schemes was 621,377 in 2015. This implies that many Ugandans are not saving for retirement. Member and employer contributions amounted to UGX 829 billion (66% by employers' and 34% members'), accounting for 47% of total inflows.

In addition, an employee in an occupational defined contribution scheme contributed, on average, 4.3% of salary while the average contribution rate of employers in occupational defined contribution schemes was 6.2%.

Considering that earning differentials determine total contributions, 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

Retirement incomes are linked to the performance of these assets, resulting into reliance on investment markets to determine the level of benefits they will ultimately receive. Income from investments, inclusive of cash income i.e dividends, interest rates and rent as well as adjustment to fair value increased by 21% from 684 billion in 2014 to UGX 907 billion in 2015.

While members are exposed to the uncertainties of investment markets to determine the level of benefits they will ultimately receive. Pension funds, by their very nature, have to work with a long time horizon and their performance should be evaluated on this basis. Pension funds also have very small liquidity needs in relation to their total assets under management. This means that they do not need to sell assets at current low prices to meet benefit payments and other expenditures as they can rely on the regular flow of contributions and investment income, even if the latter is reduced.

Return on investment obtained by schemes was 18.2% while real rate of return 12.35%. Investment income was primarily influenced 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 amounted accounted for UGX 223 billion, dividends UGX 42 billion, cash flows generated by direct investments in properties (rental income) UGX 10.5 billion, realised capital gains amounted to UGX 7.5 billion, guaranteed funds UGX 331 million and other income UGX 10 billion.

The investment of assets is primarily in the interest of savers, so investment decisions must be based on the nature of their liabilities and the risk-return profile of their assets. The manner in which the assets are managed, valued and invested is therefore essential in maintaining the social contract implied in pension systems.

INVESTMENT INCOME	2015	2014	Change (%)
	UGX (Million)		
Corporate Paper	20,539	16,790	22
Fixed Deposits	96,641	113,765	(15)
Treasury Bills	15,242	9,018	69
Government Bonds	469,895	369,556	27
other interest incomes	3,943	3,255	21
Interest Income on Loans	8,255	8,807	(6)
Rental Income from Properties	10,478	11,750	(11)
Dividends	41,845	17,702	136
Income from Offshore Investments	1.3	0.7	78
interest on guaranteed Funds	331	212	56
Income from associates	5,654	-	-
Other Income*	4,416	4,926	(10)
realised fair value movements in investments (sold)	7,494	10,505	(29)
Unrealised fair value movements in investments	223,263	118,223	89
TOTAL	**907,999**	**684,511**	**33**

2) 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 have influenced the selection of the right organization form, transparency of scheme operating costs and utilisation of economies of scale by small and medium-sized schemes.

ii) Benefits Paid

The other main components of pension fund outflows includes lump sums paid on retirement, death benefits, disability and any other benefits paid to members increased by 13.5% from UGX 214 billion in 2014 to UGX 243 billion in 2015.

3) PENSION ASSETS

Pension funds maintained comparatively more assets because they are built up over a long time. Total assets increased by 25% from UGX 5.2 trillion in 2014 to UGX 6.5 trillion in 2015. Return on assets (ROA) was 14% which increased total members funds and reserves from UGX 5.1 trillion in 2014 to UGX 6.4 trillion 2015, reflecting relatively favourable market conditions for investors 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 their rates of return and risk. Schemes are exposed to different aspects of risk- key amongst these risks is default risk from employers and employees, market risk, operational risks, liquidity risks etc. In effect, several key issues of asset management are relevant to implementing optimal portfolios.

Pension scheme risk management is therefore important since risk tends to reduce the returns on investment over the long run, creates uncertainty about the value of pension assets when pension liabilities become due and raises questions that impact on the governance. 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.

4) 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 and other investments accounted for 1%.

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 transferred to the public sector. While this reduces public sector borrowing costs, increasing the amount of funds, transferred from system to the capital markets, is also important in order to deepen and develop these markets

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**

**Other investments include loans to members and associated firms

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.

5) LIABILITIES

On the other hand, tax obligations, benefits payable, accrued expenses and provisions affected growth in liabilities. Year to year changes added UGX13 billion to aggregate pension liabilities in 2015.

LICENSED SCHEMES AND SERVICE PROVIDERS

APPENDIX 1: ASSETS BY SCHEME IN 2015

	TOTAL ASSETS BY SCHEME	2015	2014	Change
No	SCHEME	ASSETS (UGX(Million)		(%)
1.	NSSF Mandatory Scheme	5,569,863	4,402,946	27
2.	Bank of Uganda Defined Benefits Scheme	301,140	264,679	14
3.	Parliamentary Pension Scheme	102,157	68,246	50
4.	Makerere University Retirement Benefit Scheme	70,143	66,450	6
5.	Uganda Revenue Authority	74,371	58,226	28
6.	Centenary Bank Staff Defined Contributory Scheme.	52,709	43,386	21
7.	Stanbic Bank Uganda Staff Pension Fund	42,381	37,644	13
8.	Standard Chartered Bank Uganda Limited Pension Fund	31,386	29,252	7
9.	Barclays Bank Uganda Staff Pension Fund	30,422	25,981	17
10.	MTN Uganda Staff Contributory Provident Fund.	24,805	25,875	(4)
11.	NARO Retirement Benefits Scheme	25,719	22,172	16
12.	NSSF-Staff Provident Fund	19,977	17,693	13
13.	Alexander Forbes Umbrella Retirement Fund	22,080	16,019	38
14.	Tullow Uganda Staff Retirement Benefits Scheme.	11,123	11,196	(1)
15.	Kinyara Sugar Works Limited Staff Provident Fund	10,863	9,615	13
16.	Uganda Breweries Limited Retirement Benefits Scheme	11,964	9,218	30
17.	Nile Breweries Staff provident Fund	12,351	9,122	35
18.	DFCU Limited Staff Provident Fund	9,184	7,674	20
19.	BAT Uganda Limited Staff provident Fund.	2,747	6,505	(58)
20.	Crown Beverages Limited Staff RB Scheme	6,965	5,578	25
21.	Watoto Church Retirement Benefit scheme	5,870	5,208	13
22.	Bank of Africa Staff Provident Fund	5,210	4,278	22
23.	UCC Staff Provident Fund	6,544	4,069	61
24.	(UCEPS)	-	3,004	
25.	Equity Bank (U) Limited Retirement Benefits Scheme.	3,170	2,774	14
26.	Vivo energy Uganda Limited Staff Provident Fund.	3,766	2,723	38
27.	Orient Bank Staff Defined Contributory Scheme	3,377	2,664	27
28.	PACE Staff Retirement Benefits Scheme	2,411	2,081	16
29.	Makerere University Business School Staff Retirement Benefits Scheme.	2,910	2,298	27
30.	AON Uganda Limited Staff Retirement Benefits Scheme	2,412	2,012	20
31.	ICEA Umbrella Retirement Benefits Scheme.	3,318	1,783	86
32.	ECO Bank Staff Provident Fund	2,402	1,560	54
33.	AIG Uganda Staff Retirement Benefits Scheme	1,618	1,339	21
34.	Toyota Uganda Limited Staff Provident Fund Scheme	949	1,313	(28)
35.	Monitor Publications Limited Staff Retirement Benefits Scheme	1,325	1,184	12
36.	Stanlib Uganda Umbrella Fund	3,142	1,136	177
37.	Pride Microfinance Retirement Benefits Scheme.	1,800	1,076	67
38.	Royal Danish Embassy Local Staff Retirement Benefits Scheme	1,368	1,003	36

39.	AAR Health Services Limited Staff Retirement Benefits Scheme.	971	934	4
40.	Post Bank Uganda Limited Staff Provident Fund	1,831	814	125
41.	SWICO Limited Staff Provident Fund	729	530	38
42.	Heifer Project International Uganda Provident Fund	605	449	35
43.	Kilimo Trust Staff Provident Fund	534	334	60
44.	PCP Uganda Limited Staff Provident Fund	144	102	41
45.	Jubilee Life Umbrella Scheme	6,587	-	-
46.	Bank of Uganda Define Contribution Scheme	2,958	-	-
47.	UAP Umbrella Retirement Benefits Scheme	2,645	-	-
48.	Delta Petroleum (U) Ltd Staff Retirement Benefits Scheme	-	-	-
49.	Housing Finance Bank Retirement Benefits Scheme	-	-	-
50.	Liason Personal Retirement Plan Scheme	-	-	-
51.	National Housing And Construction Company Ltd Staff Provident Fund	-	-	-
52.	Opportunity Bank Staff Retirement Benefit Scheme	-	-	-
53.	Uganda Clays Staff Retirement Benefit Scheme	-	-	-
54.	Uganda Electricity Generation Company	-	-	-
55.	UNEB Staff Retirement Benefit Scheme	unfunded DB	unfunded DB	-
56	ECO Bank	-	-	-
57	CHAI Uganda Staff Provident Fund	-	-	-
58	Liberty Life Umbrella Retirement Benefits Scheme	-	-	-
	TOTAL	**6,500,946**	**5,182,148**	**25**

APPENDIX II: LICENSED ENTITLES

	LICENSED ENTITIES	Total	Service Providers	Total
1				
2	Occupational Schemes	58	Administrators	11
3	Umbrella Schemes	7	Fund Managers	5
4	Total Number of Participating Employers	65	Custodians	4
5	Number of Individual Trustees	380	Corporate Trustees	4

	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 Rd, 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

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

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

URBRA
UGANDA RETIREMENT BENEFITS REGULATORY AUTHORITY

FOR MORE INFORMATION

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