URBRA
UGANDA RETIREMENT BENEFITS REGULATORY AUTHORITY

MONTHLY SECTOR BULLETIN

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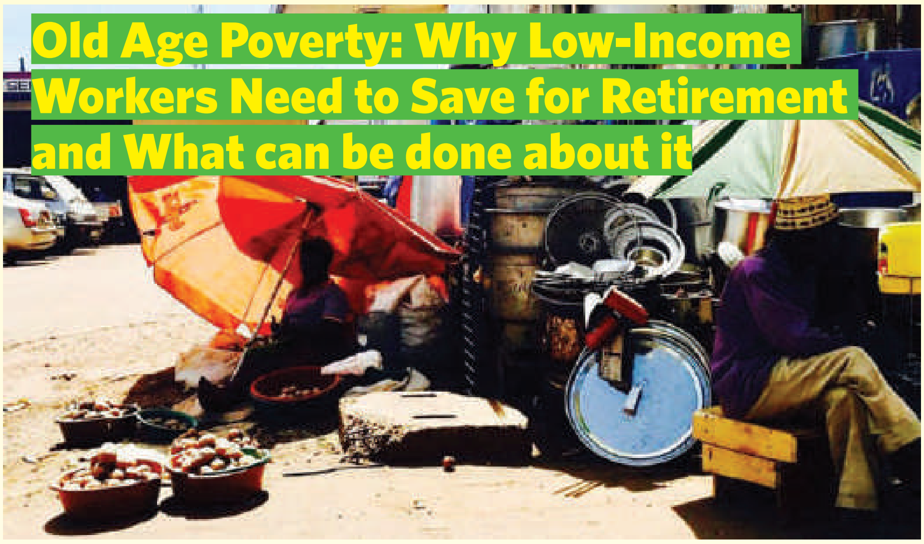
Old Age Poverty: Why Low-Income Workers Need to Save for Retirement and What can be done about it



Savings for retirement among low income workers is important if they are to have any decent and comfortable living conditions during retirement. Income level is an important determinant of the proportion of earning that a worker will allocate to savings because living expenses take up a large proportion of available resources, often leaving little or no cash to save.

For low-income households, a focus on economic survival may compromise the ability to plan for the future to such degree that makes saving for retirement a particularly low-priority concern. However, whatever the reason, every worker must save for retirement, and low-income earners are no exception. Precisely due to less stable employment and earnings, low-income workers have many good reasons to plan ahead financially for their own retirement solution.

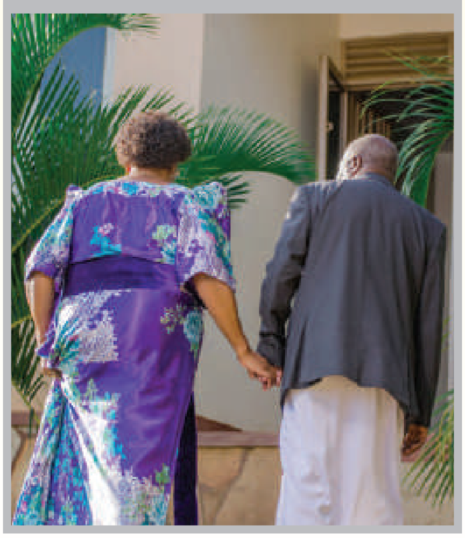
Low-income workers have less money to set aside for retirement, and have no access to steady employment as well as to retirement plans. While there are many motives for savings, the main motive for saving for retirement is to protect against old-age economic insecurity. Life expectancy at retirement in Uganda is currently at 17 years yet about 90% of Ugandans are without any old age social security or retirement benefit arrangements.

Old age poverty is hence a near certainty, and a greater risk for majority Ugandans. The majority of the country's population (77.5%) is less than 30 years old. This young and rapidly growing population is a massive growth potential for the retirement benefits industry and poses an opportunity for the citizens to accumulate savings to enhance their life upon retirement.

However, the most serious deficiency of the existing retirement benefit

WHAT'S INSIDE

...URBRA protecting your savings...



system is that it fails to cover the overwhelming majority of the population employed in the informal sector. With formal retirement saving arrangements limited to only 2.4 million (14% of the workforce), 86% of the workforce in the informal sector remains excluded from any social protection umbrella.

While some of the obstacles to savings are without question burdensome, they are not insurmountable. Every worker who reaches the age of senior citizenship must take some leave from active work through some form of retirement. The obstacles to savings are not destiny; they merely make exigent the necessity for persons of low means to prepare for retirement as early as possible.

Many low-income workers do not plan for retirement because they do not see the importance of planning for retirement, some in the hope that when retirement ultimately arrives, they will get by with support from relatives. More so, old age poverty is a greater risk for Ugandan women, who not only constitute a large percentage of the country's unpaid workforce. This constitutes a problem in retirement, since retirement benefits are often earnings-related.

The Participatory Poverty Assessment (PPAs) studies singled out Uganda's elderly as one of the groups' worst hit by poverty. Conditions of absolute poverty are associated with an absence of income security, reduced capacity to work arising from the ageing process (a status which few if any can be expected to escape), inter-generational poverty and a growing risk of serious illness.

With the increasing life expectance amidst breakdown in traditional support where adult children extend care to aging parents partly due to increased urbanization, many low income earners face the grim prospect of living in poverty for over 20 years when they're too old to work.

Considering that it is extremely difficult to save for retirement with meagre earnings. Helping low-income earners plan and save for retirement can decrease the number of individuals who reach retirement with little or no saving. One viable option could be the introduction of savings by default, rather than something one must take action to do each month.

An effective retirement saving device for the poor must consider cash flow needs, income seasonality, competing spending priorities, and alternative investment options. However, ensuring retirement security requires at its core, individual responsibility for planning, saving and investing.

A number of considerations will be critical since pension provisions for low income earners must be suitable to the socio-economic situation of different client groups. To help individuals save for retirement, the Uganda Retirement Benefits Authority is developing regulatory framework and operational features for micro-pensions to ensure that low income earners, have a simple pathway to save for retirement.

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INVESTMENTS IN PENSION ASSETS: RATIONALE FOR UGANDANS

Saving for retirement is an avenue by which Ugandans can build up future income and consumption. A scheme's role is to provide income during old age. An increase in personal savings on a national basis should provide a greater asset base that could be used to invest in the country's development. With increased coverage, funds saved could relieve pressure on over-stretched government budgets and support Uganda's development agenda if invested prudently.

The Retirement Benefits Sector in Uganda includes workers in the public service, mandatory schemes and voluntary schemes with an asset base of Ushs 11 trillion covering only an estimated 2.4 million of the 17 million labour force.

The sector is crucial to its citizens, not only because it will sustain Ugandans in retirement, but also because it can sustainably support economic growth and financial markets development. Unfortunately, coverage is still very low with only 1 out of 10 workers under some form of cover.

To facilitate growth of the sector, Government embarked reforms to reorganise the sector. Obviously, the health of the Retirement Benefits Sector is extremely important from the perspective of the people who rely on it for their retirement income.

Notwithstanding the primary objective, schemes assets fulfil an important role in the economy by channelling the contributions into domestic investments. In line with the economy-wide shift towards longer-term development, sector assets can mobilize domestic resources to finance productive investments.

The fact that there is a correlation between low asset-to-GDP ratio (10%) and return on investments (14%) in the sector[1] is not merely coincidental, but is suggestive of the future growth opportunities available in financing business expansion, growth of production and employment.

In addition, by holding a diversified portfolio of assets, the sector and thus domestic consumption become less vulnerable to domestic shocks. As Sector assets grow, they can help diversify the investor base and provide stable demand for fixed income securities, equities as well as for new financial instruments (eg high-yield bonds, mortgage-backed securities, foreign exchange and interest rate derivatives).

The process is potentially symbiotic, as this in turn supports pension fund growth by increasing the availability of longer-maturity asset classes for pension fund investments. Moreover, the long term nature of assets helps to increase longer term institutional investments, which limit fluctuations caused by short-term capital flows, increase resistance of capital markets against crisis and contribute financial stability by making these markets safer for investors.

As such, the financial system functions better with a reduced budget deficit and borrowing needs. Under the right conditions, the assets provide regular flow of new and long term funds into capital markets, which contribute to decline in interest rates. In effect, establishing proper incentives is essential for the sake of efficiency and for the future health of Uganda's economy.

[1] See Annual URBRA Performance Report 2017

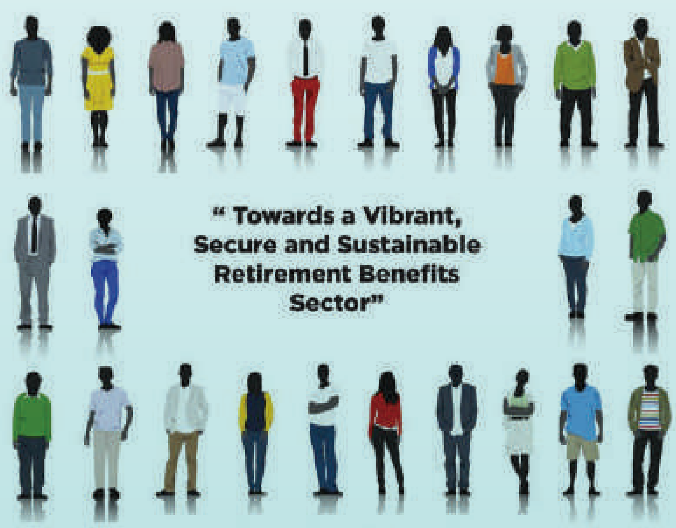
POLICY DEVELOPMENTS

A number of reform proposals have been made to develop the Sector. They include:

i) The Public Service Scheme (Amendment) Bill which seeks to address issues of affordability and long term sustainability of the scheme given its current operation as an Unfunded Defined Benefit Scheme. The proposed Public Service Pension Scheme (Amendment) Bill once passed will make the scheme contributory where government and public servants make contributions, enable accumulation of assets which will facilitate timely payment of benefits.

ii) The NSSF Act (Amendment) Bill which seeks to extend membership eligibility to both the formal and informal sectors, provide for introduction of new benefits, improve governance, among others.

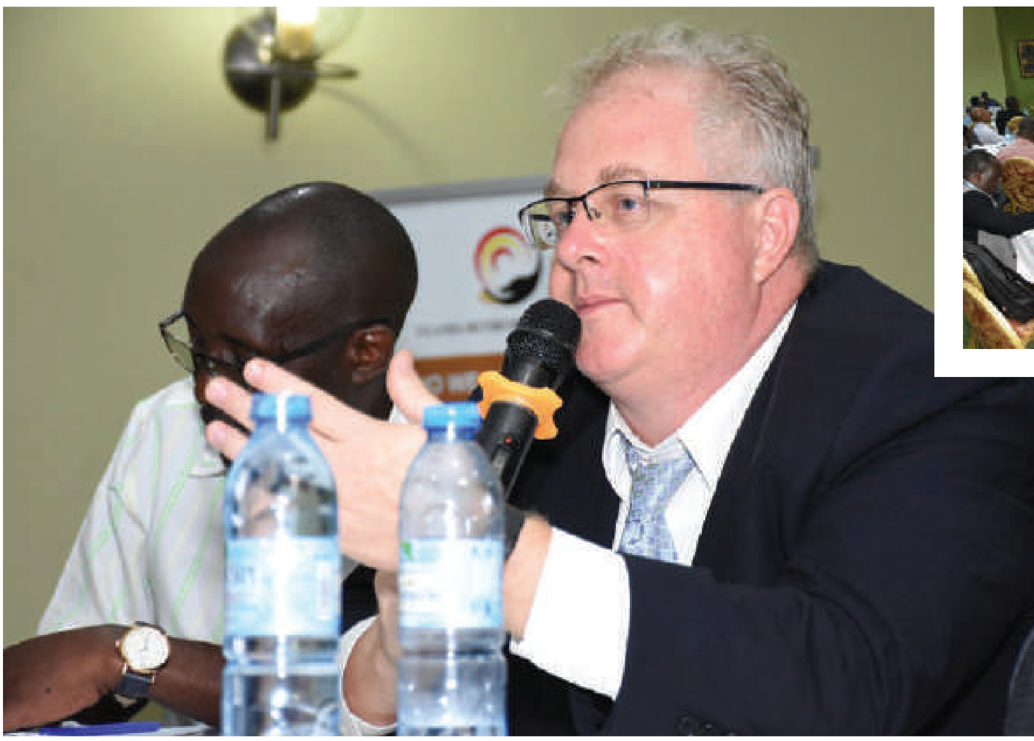
iii) Proposals for a scalable and sustainable strategy for extending coverage to the self-employed and the informal sector developed by the Authority. Among them is the establishment of a sound regulatory framework for micro pensions and introduction of appropriate products for different income groups.



URBRA CONDUCTS TRUSTEES' TRAINING ON INVESTMENT

In line with its plan of enhancing capacity for fiduciaries, the Authority conducted a "Trustees' Training on Capital Markets and Investment Opportunities in the Retirement Benefits Sector". The Training covered topical issues including a recap of the role of trustees in Investment Management and the Investment Decision Making Process, Investing in Capital Markets in Uganda, Traditional and Alternative Investment opportunities, and Measuring Risk and Return of an investment Portfolio.

"Personal development is a major time-saver. The better you become, the less time it takes you to achieve your goals." - *Brian Tracy*



CEO's Corner

Questions from Stakeholders

Why are you focusing so much on the informal sector yet this category consists of "hand to mouth" with no surplus to save persons?

Uganda's informal sector contributes over 50% of the Country's GDP. Categorizing the informal sector as a "hand to mouth" group of people is therefore not entirely true. Many self-employed workers are engaged in viable income generating activities. Additionally, considering that the informal sector is comprised of over 80% of the national workforce, its impact in the drive for increased Retirement Benefits Sector coverage cannot be ignored.

What are the avenues for individuals in the Private sector to start saving for retirement?

All eligible employers (employing at least 5 employees) are mandatorily supposed to subscribe to the National Social Security Fund (NSSF). The NSSF also operates a voluntary plan that covers former mandatory members, and employers with less than five (5) employees that voluntarily choose to subscribe.

Additionally, workers can elect to subscribe to supplementary voluntary occupational schemes (work-based schemes established by employers under irrevocable trusts), and/or Supplementary Voluntary Individual Schemes (voluntary non-employer schemes established to cover workers in the informal sector or self-employed persons who on a voluntary basis, elect to participate).

Do service provider fees and operating expenses vary with the type of Scheme? E.g are voluntary schemes charged the same fees as mandatory schemes?

Operating costs vary strongly between schemes, mainly due to scale effects as well as governance and administration. More specifically, unutilized economies of scale is the dominant factor explaining relatively high costs.

These cost differences illustrate the importance of selecting the right organisational form. Trustees have an important obligation to negotiate and prudently select service providers. After careful evaluation during the initial selection, they have the duty to monitor fees and expenses to determine whether they continue to be reasonable in light of the services provided.

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This Monthly Publication is meant to keep stakeholders informed about the work of the Authority, best practice in Scheme governance, administration and sector developments. It also provides a Platform for the Chief Executive Officer to respond to stakeholders' questions and concerns.