URBRA
UGANDA RETIREMENT BENEFITS REGULATORY AUTHORITY

How to ensure adequacy and preservation of retirement benefits

A story is told of a man who withdrew his savings from NSSF as soon as he clocked 55. He had accumulated a hefty sum in savings, following a long and illustrious career in an international NGO. Once his package hit the bank account, he sought investment ideas from "trusted" friends. The most appealing idea, in his judgement, was to invest in "black dollars" which, through some process of "cleaning", would magically multiply and bring him supernormal profits in a matter of days. He invested his lifelong savings there. The result was a deeply depressed and sometimes schizophrenic man, well over fifty and not quite employable. He returned to his village in a rural district, where he spent a truly miserable retirement barely keeping his head above water.

ABOVE: Mr Sande Protazio from IRA addresses he meeting.

LEFT: Mr. Aloysius Makata from the Parliamentary Pensions scheme makes a contribution during the meeting

BELOW LEFT: Mr Martin Owiny a corporate trustee with Jomo, hands an award to the URBRA CEO. The award was given by Johannesburg School of Finance.

BELOW RIGHT: Mr Emmanuel Mwaka, CEO of ICEA Life Assurance Company makes a presentation.

Uganda is awash with such cases of poor investment choices and squandering of retirement benefits. Currently, about 90% of retirement benefits are accessed as lumpsum, and often squandered in a short period upon receipt. Moreover, owing to improvement in medical care and living conditions, there's an increase in life expectancy and many people live for at least 17 years after retirement. The big question therefore, is how people can preserve their retirement benefits for the longest time possible, and ensure that the benefits are adequate to guarantee sufficient lifetime income during retirement.

That was the key topic of discussion on March 4th 2020, when the Uganda Retirement Benefits Regulatory Authority (URBRA) hosted a stakeholders' breakfast meeting at Imperial Royale Hotel in Kampala, under the theme: Care for your Future: Think Preservation and Adequacy of Benefits". The meeting attracted about 100 sector stakeholders.

Opening the meeting, the URBRA Chief Executive Officer, Mr. Martin Nsubuga observed that while there are several initiatives and product innovations in the retirement benefits sector, there are unending calls for easy access to retirement savings. Some trade unions are calling for a reduction in the contributions towards retirement savings. For those in formal employment, employers are contributing to their savings through NSSF. However, people are not taking any personal initiative to save with other licensed schemes, and now they want to withdraw even what they have saved with NSSF.

"Can we consider leaving these funds in the system rather than hanker for early withdrawal? How can we ensure adequacy of savings? How about our current investments – can they sustain us in retirement? Can we get payment options other than lumpsum payments which are squandered in the first year of withdrawal? Can we secure a poverty-free future?" Mr. Nsubuga asked quizzically. The ensuing discussion raised a number of issues that speak to preservation and adequacy of retirement benefits.

In his presentation, Dr. Fred Muhumuza a policy and research analyst, called for deep consultation and reflection on what motivates people to hanker for their money and address their key concerns. "People have fears and concerns. People are observing trends in the economy and the risks therein. Let's speak to the risks in the economy and convince people that pensions and insurance are part of the solution," he recommended.

Investment choices matter more

Preservation and adequacy of retirement funds are affected by investment. Talking about Prudent investment of member's savings and benefits by Mr. Mubbale Mugalya, Chairperson Fund Managers' Association of Uganda observed that the issue is not capital but how people deal with it. He explained that in investment there are two groups – those who are chasing cash flows and those who want to build wealth. "If you want to create wealth, then check your living expenses. If your assets generate cash beyond your living expenses, then you can talk of wealth," Mubbale said, adding that pension should primarily be looked at from a cash flow perspective rather than a wealth creation perspective. "If someone is retiring, they need to be sure of a source of funds for their living expenses. However, all that goes back to the investment choices they make while still in employment."

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Those in formal employment have labour capital, giving their employers eight hours every day in exchange for monthly payment. Many a time, when the labour capital is converted into cash, people waste it. "If you work and get paid consider your income as capital and invest it. That will ensure sustainability and adequacy and a good retirement. Your labour may reduce over time, but your assets should see you through retirement," Mubbale said. Hence, people will access their retirement savings, but if they don't know what to use if for, it will be wasted. People should invest wisely in ventures that are risk-free and sure to bring a good return.

Good governance is crucial

To ensure good investment choices, pension and retirement benefits schemes engage professionals to manage their funds, which casts light on the issue of governance. The Dean Faculty of Commerce at Makerere University Business School, Dr Isaac Nkote, observed that most of the pension funds are collected from member-based schemes, where governance is paramount. The board of trustees must ensure that the funds are managed in accordance with high standards of corporate governance. The trustees should engage custodians, administrators, and fund managers who match the job.

Dr Nkote said that one of the governance issues often cited, is the high cost associated with the management of schemes and it is important to examine the driving factors of this trend. "Are they charging some hidden fees? Is it connivance? Are service providers selected competitively?" he wondered.

Equally important is the matter of remuneration of trustees who invest time and energy, in the face of diminishing voluntarism. "If they are not remunerated how can they be expected to do a good job? Some boards of trustees have even instituted sitting allowances and are calling frequent meetings, just to line people's pockets," Dr Nkote said. In the absence of a clear legal or policy provision, URBRA should issue guidelines, otherwise the trustees won't have any motivation to perform their oversight functions efficiently.

Governance is also affected by capacity gaps, especially in respect to investment. Sector actors should consider ways of enhancing the capacity of trustees and service providers. For example, there should be a standard evaluation of service providers and the reports should be submitted to URBRA. "We will not grow until some things are formal and compulsory," Dr Nkote advised.

The URBRA CEO, assured participants that by July 2020, there would be a framework requiring each scheme to have a minimum number of trained trustees on their board. The new guidelines will address the composition of the board of trustees and evaluate the contribution of the individual members.

Insurance can preserve retirement benefits

Preservation and adequacy can also be considered from the insurance point of view. Adequacy of retirement benefits is the responsibility of prospective retirees. "Adequacy of your retirement benefits is in your control, during your working life when you are still accumulating capital and investing. But you need to protect and preserve your capital and investments. That is where insurance comes in," said Mr. Emmanuel Mwaka, Chief Executive Officer, ICEA.

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Most retirees have lived from paycheck to paycheck. When they receive a lumpsum gratuity, they easily fall prey to schemers and shenanigans because they've never handled that much money. Mr. Mwaka warned about many schemes that come up in form of retirement kitties but end up in losses – for example black dollars and crypto currency schemes. "For you to preserve anything it needs to survive all risks. This is what the insurance companies cover," he said. A key product that insurance companies provide is annuity, whereby a retiree agrees with the insurer on a payment plan. This could be an alternative to lumpsum payments.

Key recommendations to URBRA

- If the sector is ready to embrace the annuity option then all schemes should be engaged through their respective Boards of Trustees. Fruitful engagement combined with the Regulator's support will facilitate amendment of the scheme Trust Deeds and rules to accommodate the annuity option.
- URBRA should partner with existing institutions to offer pension management training and subsequently introduce mandatory training and certification of trustees.
- URBRA should introduce a regulatory framework that permits portability or transfer of retirement benefits from one scheme to another, and across the East African Region.
- URBRA should give guidance on the way schemes announce returns to members. Different schemes give different interests to members, and these attract a lot of publicity which puts boards of trustees in tight situations. It is advisable to give a long-term projection of the returns that members should expect - a five-year projection would be ideal.
- As people are encouraged to make voluntary contributions to licensed schemes, their source of funds should be declared to avoid money laundering.

Conclusion

It is may not be possible to exhaustively discuss issues of preservation and adequacy of benefits, but actors should not lose sight of the vision of a comfortable retirement. As the meeting moderator Protazio Sande capped it, "poverty is bad but it is worse in old age."

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