**Pension Bill raises more questions than answers**

While reading the budget for 2014/2015 financial year, Uganda’s Minister of Finance Planning and Economic Development, Maria Kiwanuka, announced that Retirement Benefits Sector Liberalisation Bill currently in Parliament would be enacted into law with immediacy.

The Bill is aimed at providing a liberalisation of the retirement benefits sector, to provide for fair competition among licensed retirement benefit schemes for mandatory contributions, to provide for mandatory contribution and benefits, to provide for voluntary contributions and voluntary schemes, to regulate occupational retirement benefit schemes, to provide for licensing of umbrella occupational benefit schemes, to provide for the portability and transfer of accrued benefits, to provide for innovation of new retirement products and services – and most of all, to repeal the National Social Security Fund Act Cap 222.

In effect, the Bill seeks to put workers money on open market – with the usual seductive assumption that workers will have unfettered freedom of choice, and that the gains in a scheme where they get ‘higher return’ on their savings. Yet looking at global experiences, this argument is flawed and seeks to accentuate shadow markets. For example, fancy high return investments literally collapsed the US and European economies in 2009, requiring government bail outs. The US and EU tangible pension savers from systemic failures of their sophisticated securities markets that sought to make higher returns without creating value until the bubble burst. The biggest losers were pension funds that held the biggest investments on those markets.

Will the minister deliver on her promise in her budget speech for 2012/2013 financial year– five months from now? There are many unanswered questions in this contentious Bill. For example, does the Bill enshrine transparency through disclosure and access to information? Members can only enforce their retirement benefits, if they have access to timely and simplified information on scheme.

Information disclosure also enables members to make informed choices and to participate in scheme affairs that affect them. It is important for schemes to disclose information on investments, current investments, scheme expenses, tax implications, actuarial reports, assets owned by the plan, financial position, etc. on benefits and the formulae for computation of benefits. Unfortunately, beyond the requirement for plans to display the above on their books of accounts, the proposed law lacks sufficient provisions on access to material and relevant information. This law, if passed as is, will expose unsuspecting plan members to rogue investment policies and decisions which undermine the whole security of the NSSF Act. Parliament should pass the social security policy, from which meaningful reforms of the subsectors can then be made. Secondly, most countries have set a mandatory contribution that is held and invested by national schemes e.g. Malaysia, USA, Kenya, Tanzania, Singapore and South Africa. Pensions schemes provide, a basic safety net that is not exposed to the perils of market forces. The mandate of occupational schemes is not to seek higher returns, but to expand coverage to otherwise unreachable parts of the society. This helps countries meet the economic challenges of maintaining and improving coverage of NSSF. Ideally, the law should maintain mandatory contribution of 15%, through existing arrangements between employers and their staff as a human resources terminal benefits. They are not transferable to other schemes.

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**Secondly**, does this liberalisation Bill enhance the security of the pension sector? Security means that the promise made to the worker will be fulfilled when the worker is eligible to receive his/her benefits. It has two facets. Strong governance of the sector and Sustainability which refers to whether the sector will have funds to pay beneficiaries when due. NSSF is fully funded and can pay all member obligations. Why change this?

The problem is the Public Service Pension Sector which is in arrears. According to the World Bank study of 2011, the arrears are to the tune of $2.6b or 16% of Uganda’s GDP. The Bill in current form excludes Public Service Pension Sector. This indicates that the Bill is not keen to enhance security of Uganda’s pension sector.

**Third question:** does this liberalisation Bill enhance the coverage of the pension sector? The Bill lowers employee threshold from five to one employee. That will automatically bring in more people whether in a liberalised environment or non-liberalised environments. The new Bill yet this can be accomplished by amending the NSSF Act.

The experience of other economies that have liberalised their economies is more telling: Uruguay coverage fell from 45% to 40% - 12 years after reform, Bolivia coverage fell from 19% to 15% - five years after reform, Columbia coverage from 24% to 22% - five years after reform. In fact, six of the eight Latin American countries that tried liberalisation had either flat or reduced coverage. Liberalisation Bill, in its current form, is not needed to enhance coverage of the pension sector.

**Fourth question:** does this liberalisation Bill enhance the effectiveness of the pension sector? Effectiveness refers to the ability to reach members in terms of value, products, and service points. The Bill opens up new benefits that hitherto, had been excluded including health, education and homeownership.

However, these can be achieved by amending the NSSF Act. Furthermore, an argument is made that competition will force retirement funds to offer better services and products to members. While there is merit in this argument, we can all agree that Uganda Revenue Authority has improved its services over the years. So has Kampala Capital City Authority and same with Uganda Peoples Defense Forces. Have the foregoing institutions been liberalized to be efficient? What matters is leadership and proper governance. Members of Parliament should, therefore, pursue reforms that strengthen governance and efficiency of NSSF instead of seeking to exterminate it.

**Fifth question:** Does Liberalising the pension sector increase portability? The issue of portability is being discussed at the East African Community level. The challenge that level suggests that rather than go for harmonisation of laws, reciprocal arrangements are more practical. NSSF Kenya, NSSF Uganda and NSSF Tanzania Acts already have these provisions. We must all understand that occupational schemes are not retirement funds. These are private arrangements between employers and their staff as a human resources terminal benefits. They are not transferable to other schemes.

Today Washington still controls both institutions with the subordinate partnership of a handful of rich country allies, the same is true so China-G7-8, and 20. The US has become the recipient of IMF lending, the Europeans have of course been given the predominant voice on policies in this region. And even the IMF which was formed in 1945 and has a different (consensus) process, the founding rules were written by the rich countries and inscic, especially their corporations.

For decades, there have been efforts to give the majority of the world a voice at the IMF and World Bank, but progress has been glacial at best. The BRICS countries have more than 40% of the world’s population and China is now the world’s largest economy, but they have almost no voice at the Fund and the Bank. To say that an alternative has been long overdue is an understatement.

IMF’s harmful macroeconomic conditions have continued to this day: just look at Ukraine, where the economy is shrinking by five percent this year and the IMF is imposing austerity that will prolong and possibly deepen the recession.

An examination of IMF policies during the global recession of 2008-09 showed that 31 of 44 IMF agreements were subjected to pro-cyclical macroeconomic policies. The BRICS’ new CRA has the potential to break the pattern, not only of USETI dominance, but also the harmful conditions typically attached to balance of payments support. This was a major cause of the Mexican peso crisis in 1995 and hit other countries such as Brazil and Argentina. The IMF has imposed austerity that will prolong and probably still come out ahead, as most of their reserves will likely be losing money in the US Treasury bonds. There is no telling if this new fund will be any different, or how big or inclusive it will grow to be. But the potential for the world economy is very big.

**The writer is a human resource practitioner**