

NSSF

To be, or not to be?

An analysis of the clear case for NSSF's continued role in securing the social security of the workers of Uganda.



What is NSSF's purpose?

To provide adequate social security to all of the country's workers.

What is social security?

Primarily, one is socially secure if they have an adequate financial provision to cater for their livelihood when they retire or become disabled, or to cater for their survivors in the case that they die before reaching retirement age. (PENSION)

Secondarily, one is socially secure if one has an adequate financial arrangement covering their and their dependants' health at any one time during their lives. (MEDICAL INSURANCE)

Social security is about securing one's future now!

What NSSF is not!

NSSF is not:

- An investments manager; or*
- A Fund manager;*

and therefore its purpose is not to provide the highest possible return on its members funds at any risk level

Why does NSSF exist by the order of Government?

Because Governments, around the world, have the exclusive constitutional responsibility of providing adequate social security for all of their countries' workers.

Is having an NSSF a must for all countries?

Yes!!!

By the conventions of the International Labour Organisation (ILO), every country must have an NSSF, and in fact, with certain minimum social security provision standards.

Over and above the ILO standards, every country will have local legislation precipitating the formation and operation of a compulsory social security fund.

So what does NSSF really do?

NSSF ensures:

- all eligible workers contribute mandatory savings;*
- the workers savings are sensibly invested;*
- its members receive interest on their savings;*
- all member claims are processed and paid;*
- members are keep informed of their social security rights and standing.*

So one's contribution to NSSF is a saving not an investment?

Exactly. Contributions to NSSF are a member's savings for the future, not an investment.

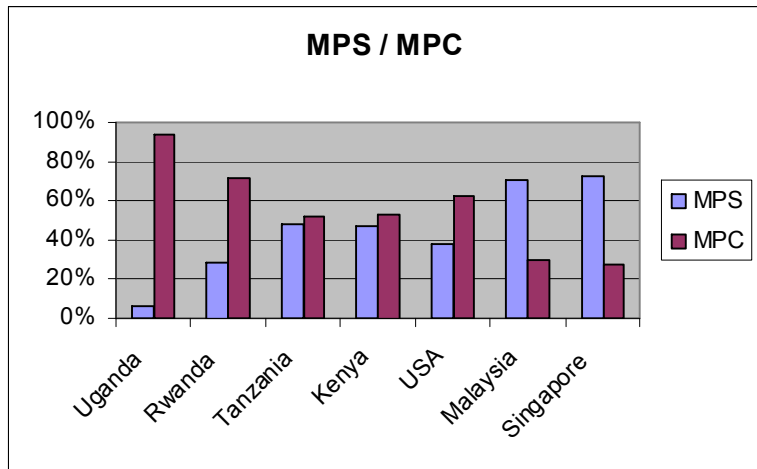
What is the difference between a saving and an investment?

A saving is cash money one puts aside, not necessarily because of the interest it will earn, but because the cash money saved will be essential for one's financial integrity, during future times that will most likely be uncertain.

On the other hand an investment is the purchase of asset for the sole purpose of earning a return on the use or performance or appreciation of that asset.

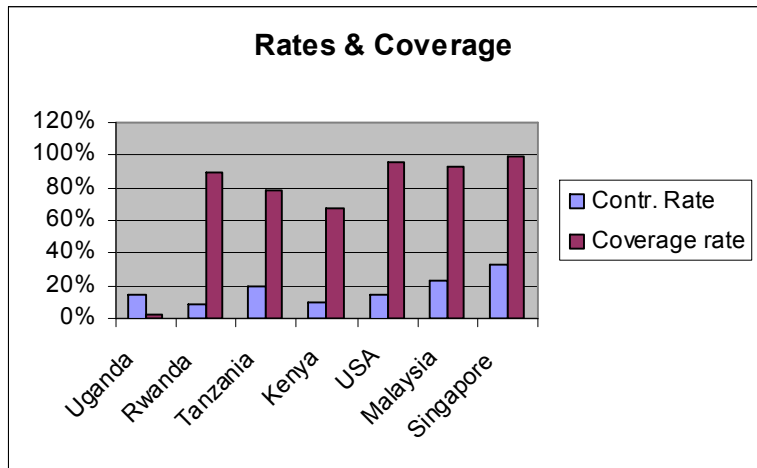
So why do we in Uganda find its so hard to understand social security?

There are several reasons, elucidated in the next slides of this presentation.



Ugandans' MPS is too low and their MPC is too high. Our National Savings Rate at 6% of GDP, is one of the lowest in the world!

Of this 6%, 5% is in NSSF, 0.7% is in mandatory staff savings schemes, and only 0.3% represents voluntary savings made by Ugandans. No voluntary savings have been made to NSSF!



With such a bad savings culture and resultant low savings level, we will never escape the foreign aid gauntlet! If Ugandans could save 50% of their income, then we would not need any donor support for our budget, just like the Kenyans! Further our national investment levels would increase by a factor of at least 10!

We, Ugandans, have agreed to live hand-to-mouth, on the pretext that we are poor. Our MPC is too high, we claim we are too poor to save, and we intentionally refuse to think about the future.

Only 2.3% of working Ugandans are covered by NSSF and 2.8% by the Government pension scheme.

Many Ugandans will ask:

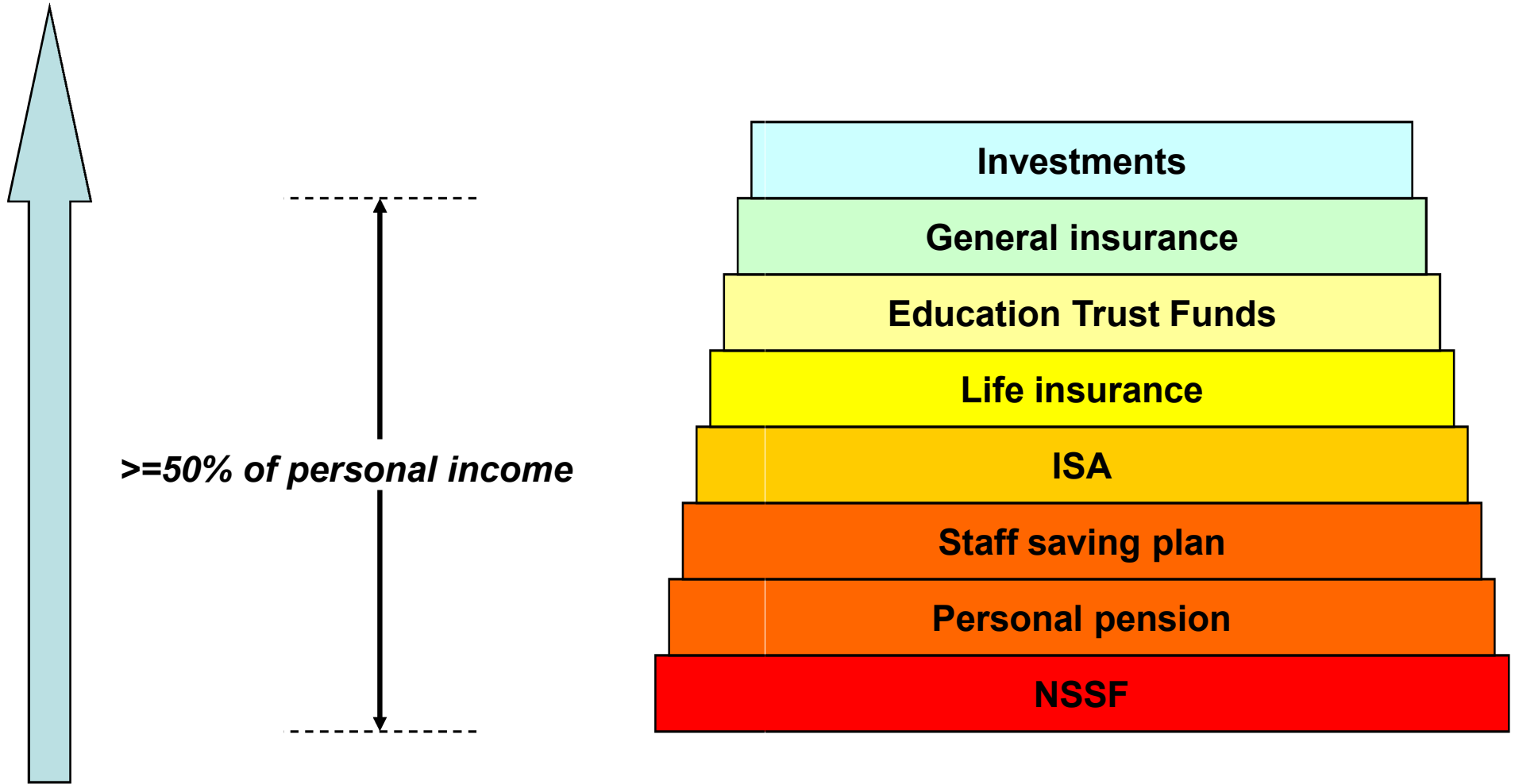
- **How can we save when the savings rates are so low and the inflation rates are so high?**
- **Isn't investing in houses, land and agriculture a saving?**
- **How can I save when I don't even earn enough for myself?**

Very good points, however, they don't hold as valid reasons not to save because:

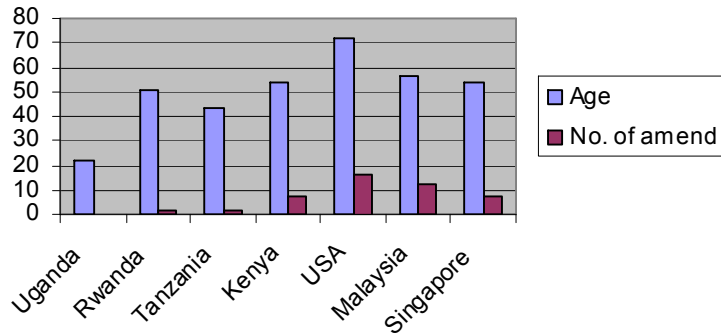
- **In the first place savings, definition should not be driven by the level of interest they earn.**
- *The Ugandan inflation rate is disproportionately high because of certain temporary economic disorders that will reverse in the medium term.*
- *One can always save in foreign currency to side-step the existing Uganda shilling saving obstacles.*
- *Investing in houses, land and agriculture is all good and well, but this is still not a saving and because this is the case one would be depriving the country of the investment economies of scale that could be enjoyed from the "pooling of funds" effect if such monies were saved instead of being individually invested. **Further, such personal investments are easily liquidated for consumption purposes when "the going gets rough".***
- **A saving is a personal sacrifice, but for a secure future. Levels of income are irrelevant!** *Further, many times we believe we are not getting enough, we actually are (consumption culture)!*

The crux of the matter is that we, as Ugandans, are not saving enough!!!

What then should Ugandans aim to do to be “Good Savings Citizens”



Fund Age/No. of amendments

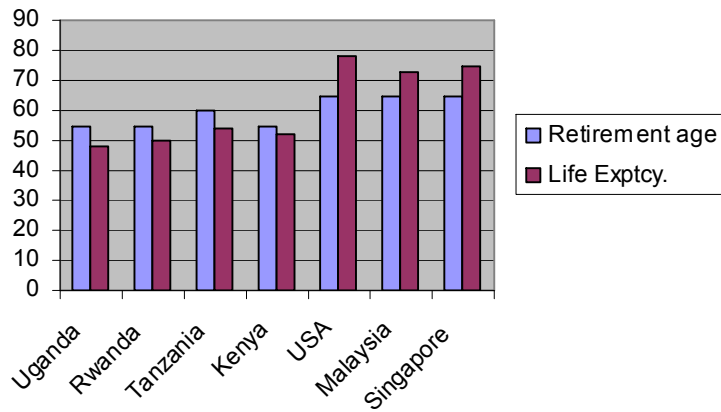


Should Uganda continue to have an NSSF?

Of course!!! USA's SSA is over 70 years old and still going strong. Our NSSF is one of the youngest and least developed in the world. We should better it via sensible law enhancement / amendments, just like other countries in the world.

Retirement Age

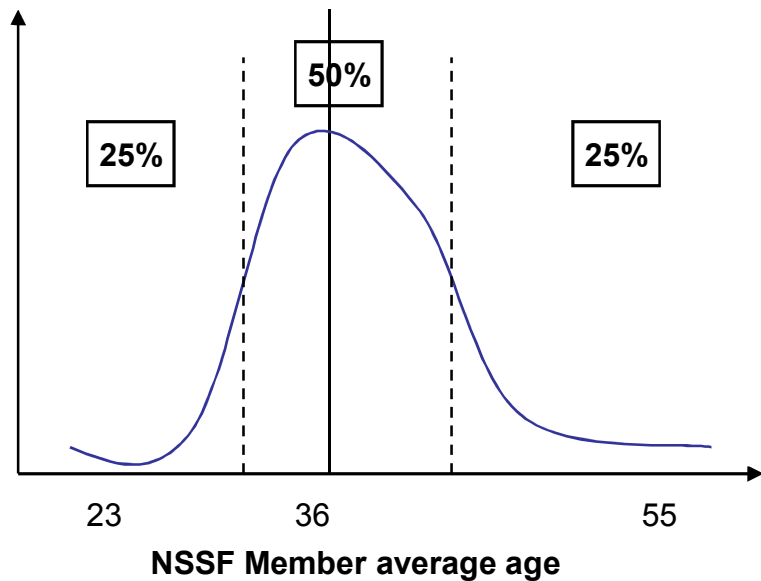
The majority of African countries still have a life expectancy below the official retirement age. However, this difference is not material per se (Rwanda 5 years, Uganda 7 years, Kenya 3 years, Tanzania 6 years) and is quickly reducing with time, reflecting the improvement in health care and the quality of life.



Should the Ugandan worker be allowed to access their savings at an age of 40 years?

No!! Any significant access to one's savings before their retirement age defeats the whole premises of social security. Further, such a change would cause the immediate financial closure of NSSF!

Withdrawal Age - The facts of the matter



- *The average age of NSSF's members is 36 years.*
- *75% of the fund's members have an average age of 36 years or above.*
- *only 25% of NSSF's members have an average age of less than 36 years.*
- *If the withdrawal age was ever reduced to 40 years then in 4 years NSSF would have to liquidate itself (cease to be), at a huge loss, as close to 80% of its members would be eligible for withdrawal. This would be abominable!!! Government, the World Bank and ILO would never allow this!!!*

NSSF Members Average Balance

*Fund balance
at 30 June 2007* ***UGX 828 billion***

No. of members 268,000.

Balance per member ***UGX 3 million***

Average saving period 13 years.

*Average saving per
Annum per member* ***UGX 238,000***

*Average saving per
month per member* ***UGX 19,833***

Some Ugandans claim cumulative savings up to when one is 40 years is enough

Assuming one begins working at 23 years of age, at 40 he/she will have saved (UGX 238,000 x 17) = UGX 4 million (approx. US\$ 2,286) with NSSF!!!!

How can UGX 4 million be enough for one's life savings???

Clearly reducing the withdrawal age is not sensible or viable.

	UG	RW	TZ	KE	US	MA	SIN
Age, Disa, Sur	NSSF	NSSF	NSSF	NSSF	SSA	EPF	CPF
Medicare	-	NSSF	NSSF	NHIF	SSA	EPF	CPF
Type	Lump Sum	Pension	Pension	Lump Sum	Pension	Pension	Pension
Regulator	Mo Fin	Mo Labor	Mo Labor	Mo Labor	GAO	MO Fin	Mo Labor
Pension reg	-			PA	SEC		

Global approach

No other country in the world, whether developing or developed, does not have a mandatory social security scheme.

Mandatory social security schemes around the world are regulated by a mother Ministry or special body, and not by the market Regulator for investment and fund managers.

A mandatory social scheme resides outside the general pensions market in which the investment and fund managers play.

Why is the US SSA not regulated by the SEC?? Or the Kenya NSSF by the Pensions Authority.

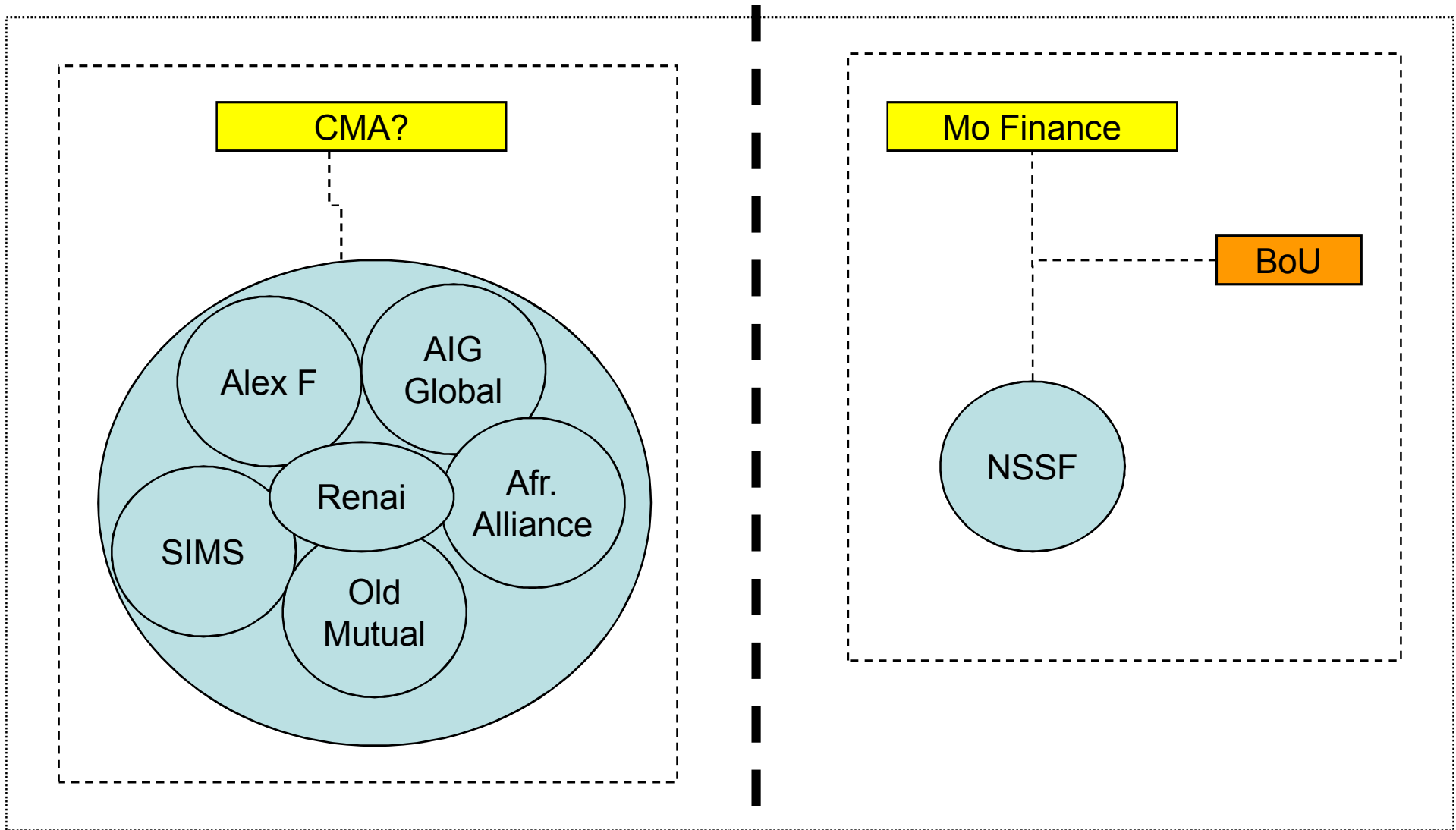
Liberalisation – Mass confusion !!!

Many Ugandans erroneously believe that the liberalisation of the pensions sector in Uganda means getting NSSF to compete for savings ie making contributions to NSSF voluntary as opposed to mandatory.

This is impossible, and will not happen! Especially given the voluntary national savings rate in the country is 0.3%!!!!

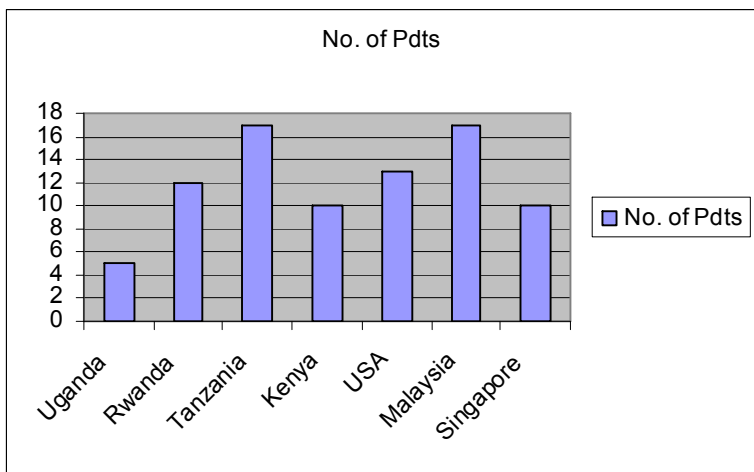
The investment and fund managers are obviously ecstatic about this thought as they wrongly believe that, on “liberalisation” all mandatory contributions to NSSF (averaging UGX 170 billion annually) will simply flow to them. What will actually happen, evidenced by our very low, almost none existent voluntary savings rate, and given the extremely high Ugandan MPC, this money would be consumed by the contributors.

Investment and fund managers should have no business in targeting the mandatory last line of financial defense cash flows, for their own selfish ends at the expense of workers’ social security!!!!



Liberalisation is in fact the formalisation of the regulation of the free market section of the pensions industry! It has nothing to do with NSSF – the mandatory social security scheme.

Notwithstanding, NSSF is in need of immediate turnaround and transformation, and a 5 year strategic plan to do so is in place, and being implemented from 1 July 2007.



Products

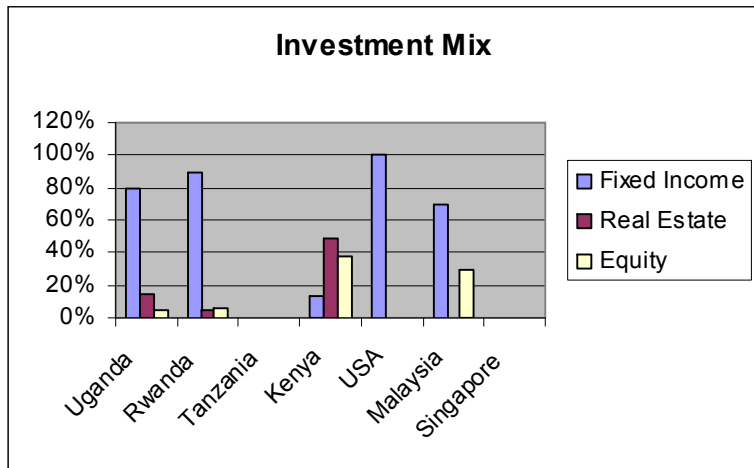
Clearly NSSF is providing too few products to its members. Other countries average 10 while NSSF has only 5 (that are quite restrictive). This base must be increased to accommodate Medical Insurance and a special AIDS product.

Around the world, in accordance with ILO standards the mandatory social security schemes provide Medical coverage. In a sample of developing and developed countries its only Kenya that has a medical scheme residing in the Ministry of Health, that has proved to be extremely problematic. NSSF is thoroughly opposed to the proposed NHIS scheme being pushed by our Ministry of Health.

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Pension scheme

Given Ugandans high MPC levels, to provide foolproof social security, pension / annuity payments as opposed to lump sum payments must be implemented. NSSF's conversion to a pension fund would make its social security provision more effective and relevant. Around the world the pension mode is the most applied and popular.



Interest rate to members

NSSF has almost consistently paid interest to members that it is lower than inflation, therefore destroying the value of their savings in real terms.

This has to stop. The main premises of NSSF's failure to provide a sensible return is its comparatively low income levels that are caused by an inappropriate investment mix.

*Mandatory social security schemes around the whole have managed this challenge by investing in blue chip equities, locally and internationally, and making **such investments make-up a significant proportion of their investment portfolio (ie 30% - 50%).***

Well diversified equity portfolios is the answer and a key part of NSSF's current strategic plan to ensure that the NSSF is able at least to pay an interest rate equal to inflation and protect the real value of its members savings.

RECAP

NSSF deals in social security that is about securing one's future today. NSSF precipitates mandatory savings.

Having an NSSF is globally mandatory.

NSSF is neither an investment or fund manager.

Ugandans' MPS is too low and their MPC is consequently too high. Uganda's National Savings Rate (6%) is among the lowest in the world.

Only 5% of Ugandas workforce is covered by a social security or pensions arrangement.

There is no excuse, not to save!

Ugandans must strive to be Good Savings Citizens!

Our NSSF is here to stay!

The withdrawal age should be maintained at 55.

There is nothing to liberalise, simply installing a regulator and framework for the free market area of the pensions industry.

Ugandans are saving at a meagre rate of UGX 19,833 per month.

NSSF in need of immediate turnaround, restructuring and transformation.

The breadth of NSSF's products needs to be widened.

NSSF should be converted to a pension fund.

NSSF's investment mix must be radically changed.

NSSF

Key Strategic Initiatives

A summary of NSSF's key actions and objectives as set out in their 5 year strategic plan



Key Strategic Actions and Effects – 5 years to 2012

	ACTION	IMPACT
1	Fixing the NSSF IT system.	<i>Improved efficiency and effectiveness.</i>
2	Implementing a BCP.	<i>Continuity of service delivery.</i>
3	Operations re-engineering.	<i>Improved efficiency and effectiveness.</i>
4	Needs Assessment.	<i>Economy and efficiency.</i>
5	Staff rationalisation.	<i>Quality assurance.</i>
6	New organisation structure.	<i>Effective management.</i>
7	Address staff issues.	<i>Higher productivity and morale.</i>
8	Resolve Alcon case.	<i>Protect members' value.</i>
9	Obtain W/holding tax exemption.	<i>Maximise members' value.</i>
10	Entrench new Culture and Values.	<i>Better Corporate Governance.</i>
11	Radically change investment mix.	<i>Higher returns and interest for members.</i>
12	Outsourcing	<i>Higher efficiency and effectiveness.</i>

Key Strategic Objectives – 5 years to 2012

	AREA	IMPACT
1	Profitability	<i>Gross margin of 65%</i>
2	Return on Investment	<i>Rol of 20%.</i>
3	Members' interest	<i>12% (increase of 1% annually).</i>
4	Competitive position A	<i>Fund balance of UGX 2,320 billion.</i>
5	Competitive position B	<i>50:20:30 Investment mix for Equities; Real estate and Fixed Inc.</i>
6	Technological Leadership	<i>Working IT system + 25 innovations.</i>
7	Productivity	<i>Maximum processing time of 21 days.</i>
8	Employee relations	<i>80% positive feedback.</i>
9	Employee development	<i>108 professional qualifications.</i>
10	Public responsibility	<i>80% positive feedback.</i>
11	Political correctness	<ul style="list-style-type: none"> • <i>Create 5,000 housing units;</i> • <i>Create 2,000 jobs;</i> • <i>Inject US\$ 60 million into mortgage market.</i>

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