

RETIREMENT BENEFITS IN TANZANIA THE QUEST FOR ADEQUACY

by
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Abstract

Despite the narrow scope of coverage of social security schemes in Tanzania (so far being pure occupationalist in nature), they also suffer from an additional weakness that they are inadequate in terms of the level of benefits payable, to the extent that pensioners in Tanzania lead a very difficult life. This paper tries to explore the various causes of the inadequacy of pensions payable from retirement benefits schemes in Tanzania, and suggests the possible measures to redress the situation.

INTRODUCTION

In the last three decades, the post colonial Tanzania has witnessed a vast upsurge of retirement benefit schemes, mainly those in the form of pensions and provident funds, as formal forms of social security programmes. These schemes cover mainly workers. Talking of social security in Tanzania therefore is more or less talking about retirement pensions and compulsory savings plans in the form of provident funds, the schemes being occupationalist in nature.

Several reasons can be attributed to this development. The main one perhaps, is an attempt by the State to try to combat hardships which arise during old-age when income from employment is lost. This reason is in fact not peculiar to Tanzania alone but, has been the reason of

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developing such schemes in other countries too. In America, for example, as Schulz has pointed out, to a large extent pension benefit levels in the past and increases in these levels have been stimulated not so much with the purposeful intent of taping a greater part of the nation's raising-national product for old people, but rather as a secondary result of attempts to deal with severe and potentially explosive hardship problems facing many old people (Schulz 1974).

It can also be recalled that during the pre-independence period, retirement provisions for the old were extended to only few workers, mainly those serving in the civil service. This therefore is another reason for establishment and development of such schemes. It was the intention of the government to extend retirement provisions to the rest of the workers (and perhaps the entire population), who were equally making considerable contribution in the building of a new nation.

This paper tries to make a brief study of benefits offered by various social security schemes in Tanzania. More specifically it deals with the question of adequacy of benefits: that is, whether they have achieved the main aim of their establishment; of providing income during old-age when income from employment is lost. The first part of the paper provides an overview of benefit formulae, followed by an analysis of benefit levels. It finally tries to suggest various measures with the view to improving the levels of benefits.

2. BENEFIT FORMULAE

For the purpose of this paper, we will deal with only three schemes viz: Government Pension Schemes, the Parastatal Pension Scheme, and the National Provident Fund. This is because these are major schemes in terms of persons covered.

The schemes cover about 906,500 persons both in the public and private sectors, the figure representing only about 3.5% of the total population of Tanzania.¹

2.1 Government Pension Schemes

These include the Civil Service Pension, the Teachers Commission (formerly UTS), the Defence Forces Pension, and the Political Leaders Pension.² All these schemes are non contributory being financed entirely by the government. Benefits under all these schemes are based on final salary, years of pensionable service, and pension factor. The salary used is the basic salary drawn by a member immediately before retirement. The pension factor applicable to all these schemes is currently equal to 1/540th per month or 1/45th per annum. The pension factor was reviewed upward under the July 1989 amendments,³ from the former rate of 1/720th p.m. or 1/60th p.a. Under these schemes, Pension (P) at retirement, is determined by the formula

$$P = 1/540 \times AS \times MPS, \quad \text{_____} \quad (i)$$

Where AS = Salary immediately before retirement

MPS = months of pensionable service.

Where a member exercises the option to commute part of the pension, a commuted pension gratuity is payable, and thereafter a member receives a reduced pension. The commuted pension gratuity (G) is calculated by a formula

$$G = 15 \times 1/2 \times 1/540 \times AS \times MPS \quad \text{_____} \quad (ii)$$

The reduced pension (RP) payable afterward is given by a formula:

$$RP = 1/2 \times 1/540 \times AS \times MPS \quad \text{_____} \quad (iii)$$

2.2 Parastatal Pension Scheme

Retirement benefits in the Parastatal pension scheme are also provided on the basis of three factors: final salary, years of pensionable service, and a pension factor. The current pension factor is 1/600th per month or 1/50th per annum. This factor has been increased from the previous figure of 1/960th p.m or 1/80th p.a before the 1989 amendments. Under this scheme pension (P) at retirement is determined by the formula

$$P = 1/600 \times AS \times MPS \text{ _____ (i)}$$

Where AS - Salary immediately before retirement,
and

MPS = months of pensionable service

Here also, where a member exercises the option to commute part of the pension entitlement, a commuted pension gratuity is payable, and thereafter a member receives a reduced pension for the remainder of his/her life. The formula for commuted pension gratuity (G) is:

$$G = 12.5 \times 1/4 \times 1/600 \times AS \times MPS \text{ _____ (ii)}$$

The formula for reduced pension (RP) is:

$$RP = 3/4 \times 1/600 \times AS \times MPS \text{ _____ (iii)}$$

2.3 National Provident Fund

As it is well known, the National Provident Fund is a mere national compulsory savings scheme established by law, to provide lumpsum cash benefits to members or beneficiaries on account of specified contingencies, mainly old-age and survivorship. Benefits therefore depend on what one has contributed into the fund, from which interest is added. The current rate of

contribution is 10% of the employees salary by a member, and his/her employer contributes 10% of the same, making a total contribution of 20% of salary per annum. These are statutory contributions which are compulsory by law.⁴ To some extent also, the duration of contribution period will influence the level of benefits payable. The shorter the contribution period, the lower will be the benefits, even if the amount of contribution is big on account of high salary of a member.

3. LEVELS OF BENEFITS

As already pointed out, pensions at retirement are based on a final remuneration of a member, the amount payable being a proportion of it. With the exception of the pensions for the political leaders, there is no provision for minimum pension under the other schemes. However, there is a maximum pension allowed to be payable. Under these schemes the maximum that can be payable by way of pension is two-thirds (2/3) of a member's final salary.

Based on the pension factors above, it can be seen that, in case of government pension schemes, the maximum duration of pensionable service which can earn an employee the maximum pension of two-thirds is thirty (30) years. In case of the Parastatal pension scheme, the maximum duration for earning a maximum pension of two-thirds is a bit longer since the pension factor is lower than that applied in government pension schemes. Under the parastatal pension scheme the duration of pensionable service needed by one to earn a maximum pension is thirty three and a third (33 1/3) years. Under the National Provident Fund, as already noted there is no special formula for computing benefits. Instead the maximum amount payable depends on what has contributed plus interest.

It is not the intention of this paper to give a

quantitative workings of quantum of benefits payable. This is because such an attempt would serve very limited use since pensions vary with salaries. It suffices to say that there is a maximum pension of two thirds allowable for the purpose of this study.

4. ADEQUACY OF BENEFITS

The assessment of adequacy of pension is not a straight forward task. The Beveridge plan in Britain, for example, proposed for a pension payable on the basis of the level of subsistence. But, it is clear that for most people, an adequate pension has little to do with subsistence and more to do with expectation of the social groups to which they have progressed before retirement, and therefore it is factual that adequacy is the matter of relativity to income (Benjamin 1987).

There are therefore several ways of measuring adequacy of pensions. One way is to measure adequacy in terms of the extent to which the pension contributes in reducing poverty. However this method is made difficult by lack of definitive criteria for measuring poverty (Bryson 1977).

In America it is common to judge the adequacy of income by relating it to some minimum level of living as embodied in legislated welfare support, poverty index, or family -budget cost estimates; these being labelled as "absolute" measures, although they are subject to manipulation upwards or downwards (Schulz 1974).

Despite all these variations in the criteria for measuring adequacy, the more and perhaps the widely agreed criteria is to compare pensions with net average earnings of the workers currently in work (Bolderson 1988). We will adopt the latter criteria for the purpose of our discussion.

The analysis of levels of pension in the Tanzania's schemes may, in the first glance, give an impression that since most of the schemes are based on final earnings, they therefore provide benefits which are in line with standard of living at a particular point in time, since salaries are being reviewed from time to time in accordance with the increase in cost of living. To some extent this view may seem correct since what the pensioner gets is near to his pre-retirement standard of living. Indeed in Britain, for example, over 90% of the occupational schemes now look forward to a final salary pension since this method takes care of inflation (K. Kuir Mckelvey 1985). However it should be remembered that this is true only to the extent that final salary schemes cater for inflation while the member is in service only. Once pension is in payment then the real value of money deteriorates gradually, unless the pensions are adjusted against inflation.

Adjustment of pensions during retirement for price changes (or some other criteria), is necessary if the living standards achieved at the time of retirement is not to deteriorate during the ensuing years. As Schulz has pointed out, a more debatable issue is whether pensions that are generally adequate at the time of retirement should be improved as a result of economic growth (Schulz 1974). This issue was fully addressed by the Special Committee on Ageing Task Force of the US Senate, which observed that the gap between the retired group and the working group was likely to widen in a period of a national economic growth if no measures were taken by the State. (Schulz 1985).

5. NEED FOR ADJUSTMENT OF PENSIONS

In Tanzania, there is no provision for adjustment of pension in the course of payment. Despite the fact that most of the scheme benefits are based on final salary, the pension payable can be said

to be generally low and therefore inadequate. Even if a member qualifies for a maximum pension of two-thirds, this pension may in practice be adequate only in the initial years of its receipt. Furthermore, although the Income Act has now exempted from taxation of receipts by way of pension or gratuity from a government or a parastatal organisations,⁵ still this has not improved the situation to pensioners of these schemes, due to lack of provision for adjustment of pensions in the course of payment. This is because the real value of pensions eventually become eroded by inflation. The situation becomes even more serious in times of poor economic growth of a country like those experienced by Tanzania in the last decade or so, where the rates of inflation have been rising very fast to very high levels as compared to increases in salaries.

Although the limitation of pension to two-thirds is also common in other countries, but it must be remembered that those countries do provide for adjustment of pensions. Furthermore in Tanzania there is no compulsion for an employer to make provision for his former employees in old-age, and therefore the statutory social security pensions schemes and provident funds are the only reliable schemes to provide income at retirement.

The table below shows how fast the national consumer price index has been changing.

National Consumer price index (General)

Year	1977	1978	1979	1980	1981	1982	1983	1984
Index	100 base	106	120.3	156.7	196.9	252.9	322.6	439.2

1985	1986	1987	1988	1989	1990	1991	1992	1993
585. 4	775.2	1007.2	1321. 6	1663. 2	1990. 8	2434. 8	2972 .2	3669 .7

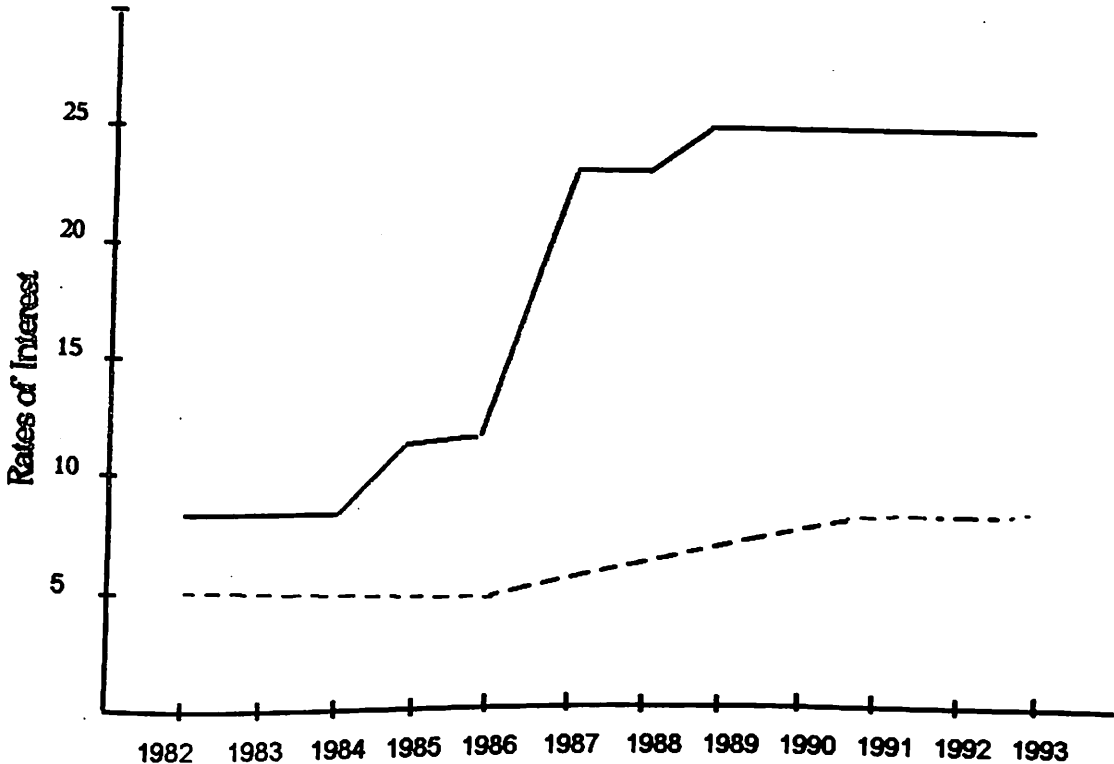
Source: Economic and operations Report March 1994:
Bank of Tanzania

It is clear therefore that pensioners of today are suffering as a result of not only low pension, but also as a result of the rate at which the money value of their pensions deteriorate, as compared to rapid changes in the consumer price indices.

As far as beneficiaries of the national provident fund (NPF) are concerned, they are also faced with the same problem, even though benefits are payable in lumpsum immediately at retirement. Since benefits are based on what is outstanding in a members individual account plus interest, the study of the interest rate payable to members has a lot to be desired. The real value of these benefits is also affected by the high rates of inflation which far exceeds the rates of interest payable to members in their accounts. Since 1971 the interest rates payable at different periods todate, had not kept up with increases in price levels. As a result the real value of benefits has deteriorated so much.

The diagram below compares the rates of interest payable on Bank deposits and that payable to NPF members in their individual accounts in the past decade.

Interest rate Structure



KEY: x_____x Rates of interest payable on bank deposits
x-----x Rates of interest payable to NPF members.

It can be seen from the diagram that although the comparison is made between interest rates payable on bank deposits and those payable to NPF members, there is a wide gap between the two. The rate of interest payable on bank deposits is normally adjusted from time to time by taking into consideration the rate of inflation, and therefore it is a rough estimate of the rate of

inflation (Views mine).

In this study conducted in 1981, for example, Bosset showed that, for the period 1971/72 to 1978/79, the real interest rates on members accounts calculated as a difference between the nominal interest and inflation amounted to an average of minus 9.5% per annum (Bosset 1987 p. 146).

Now that the National Provident Fund is to be transformed to a social insurance scheme in the near future, the new scheme will only be meaningful and beneficial to members if the issues addressed in the existing pension schemes will be taken care of. Without the adjustment of pensions the same problems will be faced by members.

It is the opinion of the author that although it is difficult to increase pensions in the course of payment in funded schemes like those of Tanzania today, (since no provision is made for this in the contribution schedule), the same can be achieved through additional or supplementary contributions over and above those required to secure the ultimate final pension. Otherwise the State has the duty to make a subsidy, if at all it has concern on the welfare of the retired.

5. CONCLUSION

This paper has tried to deal with the question of retirement pension in Tanzania's schemes. Specifically it has dealt in details with the question of adequacy of benefits. It has been observed that although attempts have been made by the government to improve the benefit formulae in the recent years, benefits are still far from adequate as there is no provision for adjustment of pensions in the course of payment to take care of inflation. As a result the money value of pensions received by pensioners has deteriorated so much in the current years because the rate of inflation have risen faster than increases in

salaries, the fact that pensions are based on salaries in Tanzania.

The proposed transformation of the National Provident Fund will only be meaningful if the authorities should tackle this problems from the outset, by making provision for increases in pensions in the course of payment.

FOOTNOTES

1. Of the covered employees, 400,000 are members of the NPF, 169,000 are members of the Parastatal Pension Scheme, and 336,000 are members of the Government pension Schemes - (See Mustapha Mkulo - The Impact of Structural adjustment programmes in Eastern and Southern African countries - ISSA 1993).
2. For the purpose of this study, the Specified State Leaders retirements Benefits Scheme is ignored since it covers the President of the United Republic, the Vice President, and the Prime Minister only. Despite, the scheme provides even more generous benefits than the other government pension schemes.
3. See the pension Laws (Miscellaneous Amendments) Act 1969.
4. Under the present regulations, an employer and the member(s) may reach an agreement to pay additional contributions over and above those required by law. In addition a member of NPF may also decide to pay for himself voluntary contributions:- See Guide to Employers on Registration, contributions and Payments of Benefits - NPF (1963) issue.
5. See Finance Act 1992 - amending section 3(2) (c) of the Income Tax Act 1973.

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