POLICY MONITORING AND RESEARCH CENTRE

PMRC SI NO. 63 OF 2014 POLICY ANALYSIS

THE PUBLIC SERVICE (RETIREMENT AGE) REGULATIONS, 2014

Unlocking Zambia's Potential

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ABBREVIATIONS

CSO	Central Statics Office
ILO	International Labour Organisation
ISSA	Internatational Social Secruity Association
NPS	National Pension Scheme
NAPSA	National Pension Scheme Authority
PSPF	Public Service Pension Fund
PSPS	Public Service Pension Scheme
SADC	Southern African Development Community

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MESSAGE FROM PMRC

PMRC's vision is "Unlocking Zambia's potential". We recognize that it is only discussion and debate on social and economic policy issues critical to poverty reduction that ultimately leads to policy reform to support a robust and thriving economy.

We achieve our Vision by:

- Producing high quality, relevant and timely policy analysis, policy monitoring, and reform proposals
- Promoting and encouraging an informed public debate on critical social and economic policy issues.

PMRC SI NO. 63 OF 2014 POLICY ANALYSIS

INTRODUCTION

On 19th November 2014 Government issued Statutory Instrument No. 63 of 2014. The regulation is cited as The Public Service (Retirement Age) Regulations, 2014. The Statutory Instrument refers to the increment of the Statutory Retirement age from 55 years to 65 years for persons serving on pensionable terms in the Public Service.

WHAT IS A STATUTORY RETIREMENT AGE?

This generally refers to compulsory retirement, which requires people to leave the workplace at a certain age. In the case of Zambia this age is now 65 and applies to those in the public sector.

REGULATIONS

The Statutory Instrument consists of 6 Regulations that are outlined as follows.

1. Title
2. Interpretation
3. Application
4. Age of Retirement
5. Retirement Benefits
6. Revocation of SI No. 76 of 2006.

APPLICATION

Regulation 3 specifies the application; SI No. 63 of 2014 applies to the Public Service Pensions Act Cap 260 establishing the Public Service Pensions Fund (PSPF). The term “officer” refers to persons serving on pensionable terms and who have been confirmed in that appointment. The regulation further excludes members of the defence force, officers of or below the rank of Chief Inspector in the Police Force, or officers below the rank of Chief officer III in the Prison Service.

AGE OF RETIREMENT

Regulation 4 amends the retirement age from 55 years to 65 years. The regulation states that an officer shall retire on the Sixty Fifth (65th) anniversary of that officer’s date of birth. The regulation also allows an officer on giving 12 months’ notice and subject to approval to retire on or after attaining the age of 60 or after completing 35 years service, whichever is earlier.

HISTORY OF PUBLIC SERVICE PENSION FUND (PSPF)

The history of PSPF plays a key role in the application of the 2014 regulations. In 1996, the Zambian National Assembly enacted the Public Service Pensions Act (PSPA) to consolidate the law relating to pensions for persons employed in the public service. The Act established the Public Service Pension Fund (PSPF) to administer the Public Service Pension Scheme (PSPS) and set forth eligibility criteria and a formula for benefits.[1]

In 1996 the National Assembly also enacted legislation establishing the National Pension Scheme (NPS), a universal social insurance program. This was implemented on February 1st, 2000. As of that date PSPF was closed to new entrants, and all newly hired government workers were covered under National Pension Scheme Authority (NAPSA).

Thus this implies that SI No. 63 of 2014 only affects officers of the public service

1 FINANCING PUBLIC SERVICE PENSIONS IN ZAMBIA. Hendricks and Bonnerjee, 2002

that joined employment before 1st February 2000 under the Public Service Pensions Act (and PSPF). All officers that joined after this date were subject to the National Pension Scheme Act and belong to NAPSA. As such, they will still retire at the age of 55 years.

MOTIVATION FOR ENACTING SI 63

SI 63 of 2014 was introduced for a variety of reasons, as stipulated by the technical committee commissioned to advise the government. The following are some of the reasons given by the committee for recommending the introduction of the SI.

PSPF FINANCIAL DEFICIT

A significant motivation for the introduction of SI 63 is the current situation of PSPF and the financial challenges faced by the institution.

- **Actuarial Deficit:** The 2011 PSPF actuarial evaluation revealed an actuarial deficit of about ZMW21.49 billion. The Auditor Generals Report further reveals that the government overfunded PSPF by ZMW410 million in 2011 to assist the institution to meet its pension obligations for that period.[2]
- **Low contribution rates:** Contribution rates have not been adjusted in the last 44 years implying that the current contribution rates have not matched the adjustments in the economy.
- **Closure to new entrants:** Since February 2000 when NAPSA became operational the institution became closed to new entrants. As a result, membership has declined leading to the Fund experiencing reduced revenues and a widening financing gap. As of 2011 the ratio of pensioners to contributing members was 1: 1.86 but according to management the acceptable dependence ratio to sustain and meet pension obligations should be 1:5.

These challenges highlight the difficulties faced by the Fund in providing pension benefits to pensioners. The increment of the retirement age is a direct response to the immediate lack of funds.

LIFE EXPECTANCY AT RETIREMENT

Life expectancy is one of the most important factors in the debate about the retirement age. Life expectancy is simply defined as the average number of years that one is expected to live, however it is calculated at different ages, with the most common being life expectancy at birth. According to the World Bank,

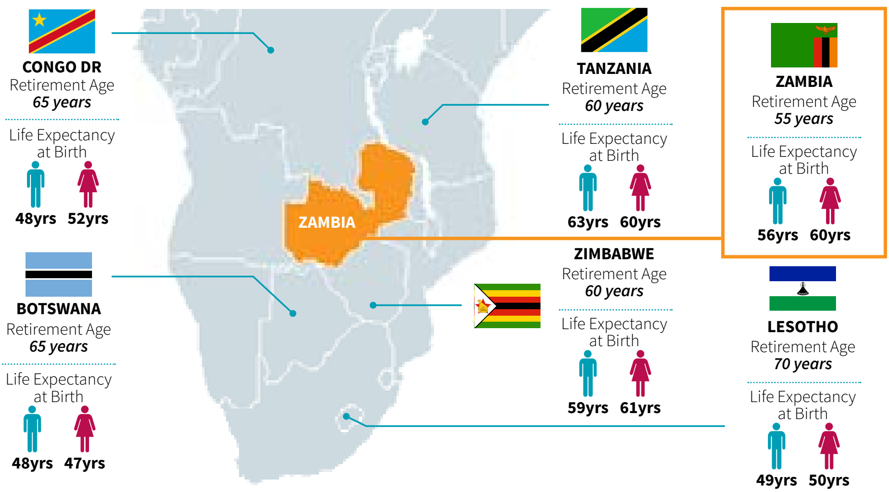
2 Report of the Auditor General on accounts of Parastatal Bodies, 2011

life expectancy at birth for Zambia was 57.02 years in 2012. This is an increase from 47.1 years in 2005 and 41.8 in 2000 following the recovery from the impact of HIV/AIDS in the 1990s.[3] Life expectancy is also calculated at retirement and according to the International Labour Organisation (ILO) Actuarial Report on Zambia, Zambians are living longer and spending more time in retirement. Life expectancy at the current retirement age of 55 is 23.6 years for females and 20 years males and expecting to increase to 26.4 and 22.3 by 2030 for women and men respectively (ILO, Actuarial Report 2012)[4]. Studies by the Central Statics Office (CSO) report life expectancy at retirement as slightly lower in the same period, at 17 years.[5] This life expectancy obviously only applies to the section of population reaching age 55. However, the committee has argued that with increasing life expectancy, both at birth and at retirement, the age of retirement needs to increase to enable retirement pension funds to cover these years.

REGIONAL COMPARISON

Another motivation for the introduction of SI 63 was the comparison of Zambia's retirement age to others in the region. Regional comparison shows that Zambia has a low retirement age despite similarities in socio-economic demographics. Figure 1 illustrates that Zambia has the lowest retirement age in the SADC region, and one of the lowest retirement age in Africa, together with Uganda, Senegal, Rwanda and Guinea.[6]

Illustration: Regional Comparison



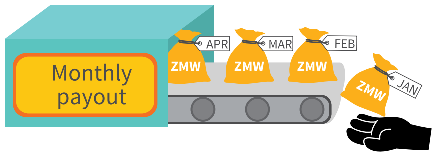
Source: ISSA, 2014

3 http://www.google.co.zm/publicdata/explore?ds=d5bncppjof8f9_&met_y=sp_dyn_le00_in&idim=country:ZMB:MOZ:TZA&hl=en&dl=en
4 ILO, Actuarial Report 2012, Key informant interview with Mr T. Chiyavula, 2014
5 A TECHNICAL PAPER ON THE RETIREMENT AGE IN ZAMBIA, T. Chiyavula, 2014
6 http://www.issa.int/africa/indicators

ENHANCED RETIREMENT BENEFITS

The Committee has argued that a pensioner's retirement benefits are calculated according to the length of service (number of years worked). An increased length of service provides individuals as well as households with a sustained source of income for an additional 10 years as well as a significantly larger retirement package at the time of retirement.

Illustration: significantly larger retirement package at the time of retirement



TACIT KNOWLEDGE AND EXPERIENCE

Retaining tacit knowledge and experience is a strong argument put forward by the Committee for the increase of retirement age. Tacit knowledge is personal knowledge embedded in individual experience and involves intangible factors, such as personal beliefs and perspective. This form of knowledge is hard to articulate with formal language because it contains subjective insights, intuitions and hunches.[7] This particular argument applies to those with specialised skills and sectors where there is a shortage of skilled manpower to replace those that are retiring. A good example is that of medical doctors, where experience and tacit knowledge are lost to retirement and brain drain.

PMRC ANALYSIS OF THE INTRODUCTION OF SI 63

POOR FINANCIAL MANAGEMENT OF PSPF

One of the primary reasons put forward for the introduction of SI No 63 is the need to resolve current financial challenges being faced by PSPF, including actuarial deficits and unsustainable pensioner to contributor ratios, highlighted above.

Furthermore, the Auditor Generals Report on Parastatals 2011 cites questionable investments by the institution to a total of ZMW 48.9 million in a loss making company[8]. The report indicates that PSPF continued to invest despite the fact that the company had continued to make losses. This investment was contrary to the mandate of PSPF to ensure that the Fund is financially healthy by investing the contributions made by members in viable projects that ensure a return on investment. Analysis undertaken by PMRC on the Auditor

7 Raising the Retirement Age in Zambia, C. Mukanga, 2013 http://www.zambian-economist.com/2011/11/raising-retirement-age-in-zambia.html

8 Report of the Auditor General on accounts of Parastatal Bodies, 2011

General Report revealed a total of ZMW 51.8 Million under query for PSPF, with additional issues including irregular payments and uncollected debts or funds[9].

The 10-year delay in the disbursements of retirement packages eases the fiscal pressure on both the government and PSPF. However it is not appropriate to disadvantage paying members as a result of poor company financial management. Furthermore, an increase in the retirement age is not the appropriate tool to correct this situation. This method only delays the retirement packages and the increased length of service increases the size of these packages.

Government should ensure prudent financial management of the Fund and should ensure that the contributions are invested appropriately to sustain the operation of the pensions fund. Alternative solutions need to be debated to resolve existing financial challenges.

LIFE EXPECTANCY AND THE PRINCIPLE OF RETIREMENT

Whilst arguments around life expectancy indicate an increase in life expectancy at birth and retirement, these figures are still low, especially when compared to developed countries, which record significantly higher life expectancies than retirement ages. Furthermore the reporting of life expectancy varies between institutions, with the ILO recording different figures to the CSO for life expectancy at retirement.

Although Zambia's retirement age is low, the regional comparison of retirement ages presented in Figure 1 does not reveal any significant correlation to the life expectancies of the countries. This shows that life expectancy is not the only determinant of the retirement age. Other socio-economic demographics need to be considered, including the prevalence of HIV/AIDS and how it has affected different age groups. An extensive study is required to understand the extent to which various factors affect the retirement age.

Whilst data shows that an individual can still continue to work beyond the age of 55, the concept of retirement must also be considered. This refers to the voluntary withdrawal of an individual from the labour force so as to rest and enjoy the retirement package. Increasing the retirement age effectively reduces the amount of years that an individual lives without working, implying that the individual might not fully enjoy their retirement package, which contradicts with the concept of retirement.

In discussing the principle of retirement, there is also need to clearly distinguish

9 PMRC Parastatals Policy Analysis, 2014

between a pensionable age and retirement age. The pensionable age is that age at which you are eligible to receive your pension fund, often with a lump sum payment, while the retirement age is a voluntary age at which an individual can withdraw from the labour force and still receive a sustenance allowance from the pension. In Zambia there is no clear distinction between the two. The distinction allows for individuals to withdraw from the labour force and thus they are not forced to carry on working while the pensionable age allows for the State and Pension Funds to prepare and plan for the disbursement of retirement benefits. An individual who retires before reaching the age will receive a sustenance allowance but will not receive a lump sum until the have attained the pensionable age.

TACIT KNOWLEDGE

Tacit knowledge and experience are important in the operation of any organisation, however this knowledge is vested in a few specialised individuals. Thus it is not rational to increase the retirement age so as to retain this experience. The current method used by the Government of offering contracts to specialised and skilled individuals beyond retirement in areas where their experience is needed and replacements are not available should be used as an alternative to overcome this challenge.

YOUTH EMPLOYMENT

One argument against the increase in retirement age has been the negative impact to youth employment creation. Youth unemployment is one Zambia's biggest challenges largely due to the young population. 57% of the labour force is below the age of 35 and 45.4 % of the total population below the age of 15 indicating ongoing high levels of youth.[10] The statutory retirement age largely applies to the formal sector, which in 2012 was estimated at 847,420; low considering that the population of working age is approximately 5,966,199. The argument is that an increase in the retirement age may effectively reduce opportunities for the youth, as job opportunities are not opening up.[11]

However, whilst it is true that youth employment is key to the development of any nation, the retirement age should not be used as tool for employment creation. Government should put in place measures to ensure that the youth are highly trained and capable of taking up places that are left vacant by those retiring. Government should also put in place measures to expand industries as well as encourage the use of labour intensive method of production so as enhance the demand for labour.

10 CSO Population Summary Report, 2012
11 CSO Labor Force Survey, 2012

LACK OF EQUITY

SI No 63 of 2014 does not apply to all sectors of the public service but only affects members of PSPF under the Public Service Pensions Act, bringing issues of equity into question. For example an individual who joined the public service in January 2000 will now retire at the age of 65 as he contributes to PSPF. However, an individual who joined a month later after 1st February 2000 will retire at 55 as by that date membership of PSPF had been closed and no such laws apply to NAPSA. Effectively, the two individuals who joined the public service within months of each other will retire 10 years apart.

It is important that labour policies cover every sector of the labour force and are not used to solve challenges in particular areas. The retirement age when amended should be a national policy and should apply to all sectors. Sectorial labour reforms have a potential of bringing about labour unrest as they maybe viewed by other sectors as unfair or biased towards limited sectors.

IMPLEMENTATION

Any changes to retirement age need to be implemented in phases and not with immediate effect to everyone. All individuals that are member of PSPF have currently served for at least 15 years, with some close to retirement age. All those that are over 50 years of age that were expecting to retire will now be forced to work for an additional 10 years. This leaves little time for planning for those that were expecting to retire. In Europe increases in retirement age enacted by most countries range from two to three years for men and from three to six years for women. Most of these are the result of political compromise, with governments having proposed larger increases initially, to be reduced through a process of negotiation with trade unions and, in some cases, with employers.[12] Furthermore these changes have been made over a period of time, with retirement ages increased for those in earlier years of employment, rather than across the board.

The implementation stage of any policy is key to its success. Only through open social dialogue can each country find the right mix of policy solutions for its own priorities, values, and resources.

12 Recent Trends in Pension Reform and Implementation in the EU Accession Countries, E. Fultz, 2003

RECOMMENDATIONS

1. PMRC recommends that SI 63 be revised so as to ensure fair and equitable pension payments to officers contributing to PSPF. Alterative options for easing financial difficulties in PSPF need to be explored to overcome immediate payment challenges.

2. PMRC urges Government to enhance financial and technical support to state pension funds to enhance financial management and to ensure that pension contributions are invested appropriately and yield returns that are able to sustain the operations of Pension Funds. This should include actions to ensure that government wings, parastatals and other government agents remit contributions owed to Pension Funds so as to reduce deficits and ease the operation of Pension Funds.

3. PMRC recommends that an extensive review of the various legislation relating to retirement age be undertaken, with the aim of generating a unified, evidence-based policy. This should be done so as to incorporate the scientific and socio-economic determinants of the retirement age. The review should recommend an optimal retirement age that should be set across the entire labour force. Implementation of a revised retirement age needs to be effected in a gradual, phased manner, with smaller changes implemented over a period of time according to specific age categories.

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