CONSIDERATION OF THE NATIONAL PENSION SCHEME (AMENDMENT) BILL, 2023

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This memorandum has been prepared in response to the request for comments on the National Pension Scheme (Amendment) Bill, 2023 from the Committee on National Economy, Trade and Labour Matters.

1 Introduction

The proposed amendment to the current National Pension Scheme Act is premised on two issues as follows;

i. To allow for members to access a pre-retirement benefit; and
ii. To allow for matters connected with, or incidental to, the foregoing.

2 Actualization of the pre-retirement lump sum benefit

The Bill proposes to make changes to Section 9 of the National Pension Scheme Act by the insertion of a new sub section immediately after subsection 1 as follow;

- 'The Authority may pay a one-off pre-retirement lump sum benefit to a member who has met the requirements specified under section 21A.'

This proposal effectively allows for the Scheme to make a once off pre-retirement benefit or allows for qualifying member to withdraw part of their retirement benefit.

2.1 Background

The introduction of a clause to actualize the partial withdraw of pension benefits is premised on the Government's commitment to meet the challenges faced by Zambian workers. These challenges include limited access to already expensive financing and depressed salaries which make it extremely difficult for workers to undertake long-term investments, such as purchasing homes. The commitments to undertake pension reforms were outlined in the President's Inaugural Address to the National Assembly, the UPND Manifesto (2021-2026) and the 2022 and 2023 Budget Speeches.

The proposed partial withdraw will apply to members NAPSA which as of 2022 had a total 818,661 active members and 18,650 retirees translating to a dependency ratio 1:43 (one retiree for every 43 active members). As 2023, NAPSA provided a life pension and lump sum. Under the life pension, a beneficiary receives a minimum monthly pension of K1,149 and maximum of K6,486 depending on the rate of contribution. A beneficiary is also entitled to a funeral grant of K11,490 per claim. For a member to qualify for a lumpsum, they must have made **less** than 180 contributions (15 years' worth of contributions) at the time of old age retirement, invalidity or death. This member is also entitled to a funeral grant is also paid upon death of a member.

3 Conditions for Eligibility

The Bill proposes to amend section 21 of the current Act by inserting it with a clause that prescribes the eligibility criteria as follows:

- a member is entitled to a pre-retirement lump sum benefit, where that member consents in writing to access a pre-retirement benefit, is below pensionable age and has —
  (a) made a minimum of sixty monthly contributions; or
  (b) attained the age of forty-five.

ZIPAR Comment
The conditions for qualification allow for young people who made contributions consistently for period of five years (sixty monthly contributions) or has attained the age of 45. Given the labour market entry age range of 20-25, this proposal ensures that young people below the age of 35 benefit from the pre-retirement lump sum. The eligibility condition is fair and we propose no further adjustments.

3.1 Benefit Package

The Bill further proposes a clause that states that this entitlement is a once off benefit. Related clauses also stipulates that once a member has received a pre-retirement lumpsum all other benefits are adjusted and reduce by 20 percent. Under section 21 clause 2 the proposed that the benefit be paid out as follows;

- The pre-retirement lump sum benefit payable under subsection (1) shall be twenty percent of the indexed monthly contributions and the accrued interest.

ZIPAR Comment
To better appreciate the value of the 20% payment we provide an illustrative example. At the current maximum contribution rate of K 2684.00 (employer and employee), a high-income earner who has made 60 monthly contributions at the same rate would have accrued a total K 161,040.00. This entails that such a member would only be eligible to receive pre-retirement lumpsum of **K 32,208.00.**

Salary	Employee Contribution	Employer Contribution	Total	60 Contributions	20% Benefit
High Earner	K1,342.00	K1,342.00	K2,684.00	K161,040.00	K32,208.00
K6,710.00	K335.5	K335.5	K671.00	K40,260.00	K8,052.00
K1,000.00	K50.00	K50.00	K100.00	K6,000.00	K1,200.00

The relatively low benefit package raises questions about adequacy given that the motivation behind this amendment was to provide members with access to capital that can be used to make investments that will smoothen consumption during retirement.

Further, given the design of the current pension regime and the fact that the obtaining a pre-retirement lumpsum reduces the retirement benefit, an important question that should be answered is given the current rate of contributions will members be able to withdraw amounts substantial enough for them to be able to invest or the amounts will only be sufficient for consumption? If the latter is the case, then the withdraw option will only increase old-age poverty and increase dependency.

4 Sustainability of the Scheme

We note that Government made several consultations prior to the presentation of the Bill before Parliament. However, during these consultations, it became evident that a comprehensive assessment on impact of a partial withdrawal had not been undertaken to assess the impact of the proposed outflows on the Scheme. Given that the Scheme was not originally designed make pre-retirement payments, it is critical that such assessment be undertaken.

Further, NAPSA having only been established less than 25 years ago is a relatively young Scheme compared to other pension schemes across the globe. The current dependency ratio 1:43 (one retiree for every 43 active members) compared to an industry average of 1:5 (one retiree for every 5 active members) further augments this point. The implication is that in the short term, NAPSA may be able to sustain the pre-retirement pay-outs, however, as the dependency ratio worsens the pay outs may have adverse financial implications on the scheme

5 Conclusion

The motivation behind the proposal to allow for partial withdrawal is driven by a genuine need to enable citizens to invest by increasing access to finance. While this is appreciated, the pension scheme is not the correct tool to address this challenge, pension schemes are designed to protect workers in old age by cushioning them from the loss of income after leaving employment.

Overall, emphasis must be placed on addressing challenges such as the weak economy, unsustainable debt levels, and weak institutions which collectively contribute to financial exclusion, low wages, and high unemployment, providing a fertile ground for intergenerational poverty.

Finally, reforms to the pension system must be focused on improving the level of protection offered during retirement. Further, the introduction of partial withdrawal of benefits does not address the fundamental challenges of the Zambian pension systems. Thus, there is a need to overhaul the entire pension system and deal with the deteriorating labour market position. This is in line with the Eighth National Development Plan which commits to reforming the pensions system with a view to;

a) increase coverage,
b) enhance its effectiveness as a social safety net and;
c) make it financially sustainable.

The 8NDP also commits to create a statutory pension and an occupational pension, especially for public sector employees.

6 Recommendations

ZIPAR is cognisant of the need to increase access to finance for the employed population so that they can make investments that would enhance protection during retirement.

Firstly, we urge the Government to undertake a comprehensive assessment as this proposal may have significant financial implications and have the potential to destabilize the sustainability of the pension system.

Secondly, we recommend that Government establish a Special Purpose Vehicle (SPV) that will be used to provide affordable credit to members of the National Pension Scheme. This allows workers to access affordable credit guaranteed by their contributions. This option also ensures that workers invest in present day and are not made worse off in the future as result of reduced pension benefits.

Finally, we recommend that the beneficiaries of the pre-retirement lumpsum benefit are provided with extensive financial literacy as the investment of these funds is essential to their old age protection. Further, Government must facilitate for readily available secure investments such as investments in government securities.