

THE MUHANNA FOUNDATION

Survey Report:

Governance & Decision Making in Reforming Social Security Schemes in East & Central African Countries

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About the Muhanna Foundation:

The Muhanna Foundation, created in 1994, is a non-profit organization established in Switzerland and based in Beirut, Lebanon. It was initially dedicated to the promotion of actuarial education in actuarially underdeveloped countries in general, and since year 2000, the Foundation has expanded its activities to the promotion of continuing education for professionals involved in *social security, pensions, insurance industry, supervision and municipalities*, in under-developed countries in general and in the Arab World & East Africa in particular and has grown into a multidimensional active player in those fields. In this context, the Foundation became an active member &/or supporter of the International Social Security Association (ISSA), International Actuarial Association (IAA), the General Arab Insurance Federation (GAIF) and East & Central Social Security Association (ECASSA) and the UN Habitat. Moreover, as an NGO, the Foundation is a member of the United Nation Department of Public Information (UNDPI).

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1. Actuarial Science
2. Social Insurance
3. Healthcare
4. Municipal Education

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Finally, in 2006, the Foundation's mission and objectives were modified to further contribute to the education and research areas at large, annually publishing studies that can serve as starting points for broader policy discussions. Hence this report is part of this commitment to the public good.

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Forward

Social protection systems are not only about providing retirement income, healthcare, workman compensation or unemployment benefits; they also allow the population to feel protected by the state. It is crucial that such benefits either remain stable or improve but NEVER deteriorate. This is the crux of the matter. Many countries face financially unstable social protection systems. Regular news of schemes in financial difficulties will cause the covered population to lose faith in the whole system of social protection and eventually governments.

Social protection systems all over the world, that are partially funded, pool risks and resources across the covered population and are based on the principle of social solidarity. They are normally financed by contributions from workers and employers and may have a subsidy from the State.

The need for reforms is usually captured either through periodical actuarial valuations or labor market pressures. The longer it takes to respond to those needs, the more difficult the reform becomes and causes intergenerational inequality.

It is true that partially funded social protection system requires the contribution rate to be increased from time to time. But certainly, this is not the only measures the scheme should look at. There are many other parametric reforms that could be looked at such as retirement age, accrual rate, pensionable salary, minimum benefits, eligibility periods and so on. Each of such parameters could be attached within the governance of the scheme to a different authority level or better yet, be incorporated by an automatic adjustment mechanism. A reform as simple as replacing the word “surplus” by the phrase “excess before changes in reserves” to reflect the difference between income and expenditure would keep politicians away from pressuring the scheme to provide more benefits for covered population or even for participating in unyielding investments.

Hence, the process of reform and the speed of reform is of paramount importance to ensure its success. This is reflected by the interaction of the executive overseeing the social protection scheme and the legislatures. However, the process is slowed down through lack of awareness among the electorate and the different pressure groups.

The study is not meant to depict best practice but rather as a scan of the current landscape in the hopes that future reforms do not tackle the financial sustainability of the scheme but rather its governance as well.

Ibrahim Muhanna
Chairman
Board of Trustees

Acknowledgements

Special thanks to the officers of ECASSA for the assistance provided in collecting the survey replies for this report and giving us the opportunity to present it to their annual conference in Rwanda in 2018. We would like to thank all social security schemes (listed below) who responded to our survey and the officers who spent the time to supply us with the necessary information. Without their support, we would not have received the 18 responses out of the 23 funds that we reached out to, yielding a 78% response rate - an encouragingly high response rate by typical survey standards.

The table below lists the funds in the order that they responded to the survey. The earliest response was received on May 23rd 2018, the last response was submitted on October 26th 2018, and the last modification/correction to past responses was received on November 6th 2018.

Country	#	Name of Scheme
Tanzania	1	Workers Compensation Fund
Kenya	2	Kenya Ports Authority - KPA
Zimbabwe	3	National Social Security Authority
Kenya	4	Kenya Ports Authority Retirement Benefit Scheme 2012
Tanzania	5	Public Service Pensions Fund - PSPF
Swaziland	6	Swaziland National Provident Fund
Kenya	7	CPF Financial Services
Zanzibar	8	Zanzibar Social Security Fund - ZSSF
Kenya	9	LAPF Pensions Fund
Burundi	10	Mutuelle de la Fonction Publique - MFP
Kenya	11	National Hospital Insurance Fund - NHIF
Kenya	12	Local Authorities Provident Fund - LAPFUND
Tanzania	13	National Health Insurance Fund - NHIF
Burundi	14	Institut National de Securite Sociale - INSS
Rwanda	15	Rwanda Social Security Board - RSSB
Zambia	16	National Pension Scheme Authority - NAPSA
Zambia	17	Workers Compensation Fund Control Board
Uganda	18	National Social Security Fund - NSSF

Special thanks to Mr. Michael Muhanna and Ms. Tassia Tsikkinis for the invaluable work and effort in preparing this report and to the rest of the actuarial team at i.e. Muhanna & co. for their support. We would also like to thank the administrative team of the Muhanna Foundation for supporting them with all the necessary logistics.



1. Introduction

This survey is prepared by the Muhanna Foundation and circulated by the East and Central African Social Security Association (ECASSA). The aim of this initiative is to collect general information about the Board of Trustees and the powers and authorities in the process of reforming Social Security Schemes.

Over the last years, we noticed that the Board of Trustees of Social Security Schemes is hand tight in making decisions and implementing parametric reforms. As a result, the process which is required to ensure the financial viability of the schemes is delayed and this causes further financial strains. We are therefore carrying out this survey in order to collect the relevant information and not necessary derive a best practice process but rather used as a benchmarking tool. All data will be used in a regional study on this topic, published by ECASSA and the Muhanna Foundation and will be presented at the 11th ECASSA Social Protection Policy Makers Conference in Kigali (21-22 November 2018).

The information gathered in this survey is treated confidentially and will be used for scientific research purposes only. The responses provided will not be linked to individual names or addresses. Publications based on the Survey for Governance and Decision Making in Reforming Social Security Schemes will never contain information allowing the identification of individual respondents.

The survey report is split into the following five sections:

1. Introduction: background, objectives and survey report structure
2. General Information: general information on the survey responses
3. Board of Trustees: size, frequency of meetings, appointment procedures
4. Minimum Level of Authority in Reforming: who approves reforms and what is the minimum level of authority required to approve parametric amendments
5. Concluding Remarks

2. General Information

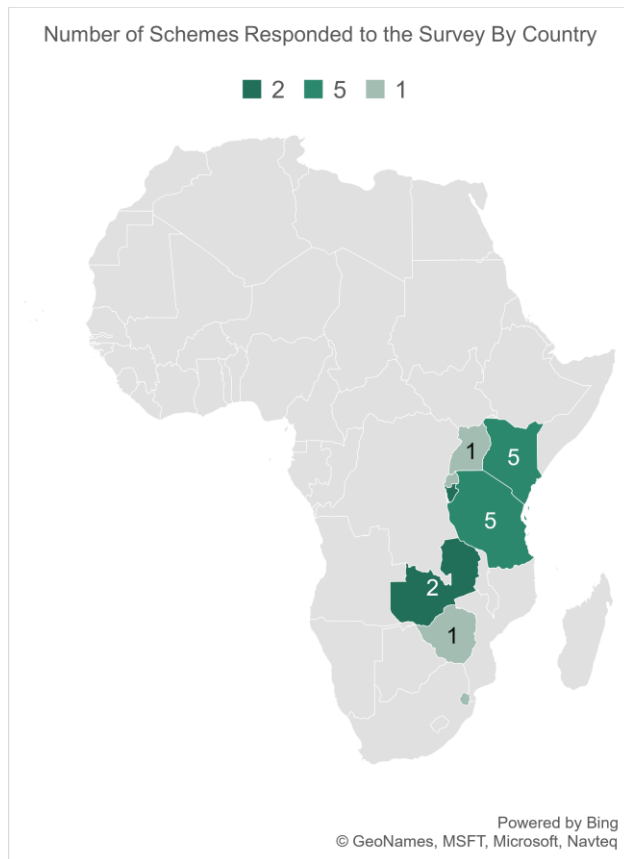
The survey was distributed to 23 social security schemes in countries in the regions of the East and Central Africa. The survey was completed by 18 social security schemes. The analysis presented in this report includes the replies of 16 social security schemes and 2 occupational pension funds.

COUNTRY	#	MEMBERS OF ECASSA
Burundi	1	Institut National de Securite Sociale - INSS
	2	Office National Des Pensions Et Risques Professionals - ONPR
	3	Mutuelle de la Fonction Publique – MFP
Kenya	4	Local Authorities Provident Fund - LAPFUND
	5	CPF Financial Services
	6	National Hospital Insurance Fund - NHIF
	7	National Social Security Fund - NSSF
Rwanda	8	Kenya Ports Authority - KPA
	9	Rwanda Social Security Board - RSSB
Tanzania	10	National Health Insurance Fund - NHIF
	11	National Social Security Fund - NSSF
	12	Workers Compensation Fund
	13	GEPF Retirement Benefits Fund
	14	PPF Pensions Fund
	15	Public Service Pensions Fund - PSPF
	16	LAPF Pensions Fund
Uganda	17	Zanzibar Social Security Fund - ZSSF
	18	National Social Security Fund - NSSF
Zambia	19	Workers Compensation Fund Control Board
	20	National Pension Scheme Authority - NAPSA
	21	Public Service Pensions Fund Board
Zimbabwe	22	National Social Security Authority

Swaziland	23	Swaziland National Provident Fund
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Note that although the fund from Swaziland is not a member of ECASSA, their staff was informed of our survey through the regional ISSA office and chose to take part in the survey.

FIGURE 1: SOCIAL SECURITY SCHEMES BY COUNTRY



Country	# of Schemes Responded / Total Schemes Approached in Country	Response Rate per Country
Burundi	2 / 3	67%
Kenya	5 / 5	100%
Rwanda	1 / 1	100%
Swaziland	1 / 1	100%
Tanzania	5 / 8	63%
Uganda	1 / 1	100%
Zambia	2 / 3	67%
Zimbabwe	1 / 1	100%
Total	18 / 23	78%

The sub-sections of this chapter describe the general characteristics of the 18 schemes/funds that submitted their answers including:

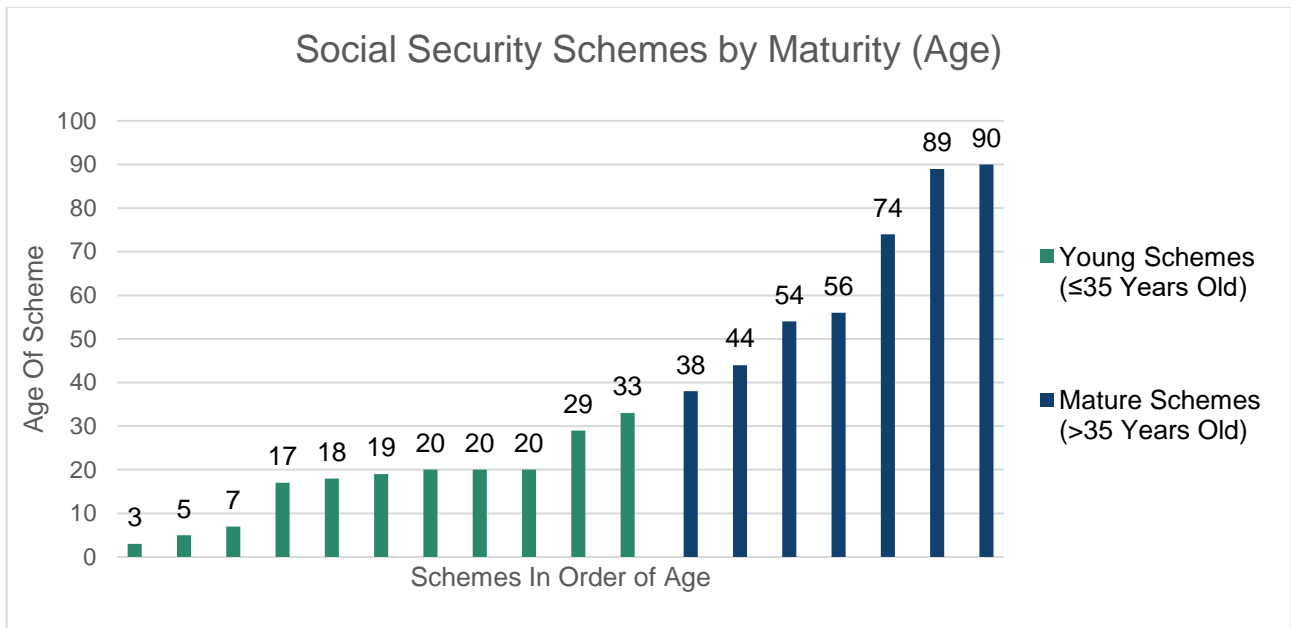
- Location of the scheme/fund,
- Year the fund was established,
- Type of Scheme
- Number of Contributors

2.1 Social Security Schemes by State of Maturity

Social Security Schemes from eight different countries responded to the survey. The number of schemes in each country is shown in the table below.

Based on the survey response to the year of establishment, we have categorized the schemes as per their state of maturity. We categorized young schemes as being less than or equal to 35 years old and mature schemes as being more than 35 years old. The distribution by scheme age is presented in the graph below.

FIGURE 2: SOCIAL SECURITY SCHEMES BY STATE OF MATURITY

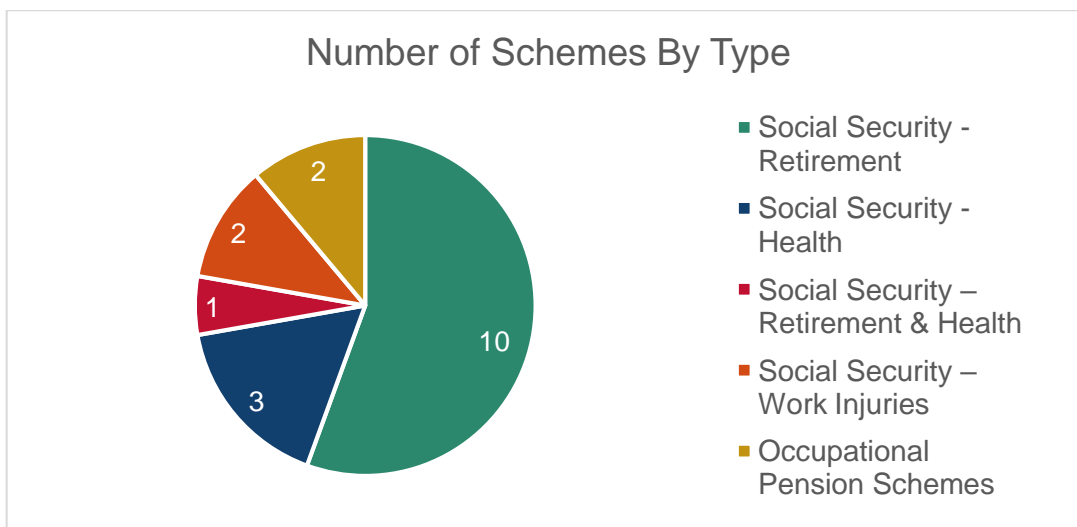


The survey includes responses from 11 schemes which are in a young state of maturity. In particular, their age ranges between 3 to 35 years. On the other hand, there are 7 mature schemes which are aged between 38 and 90 years old.

2.2 Social Security Schemes by Type

The Social Security Schemes which responded to the survey provide different kind of coverage/insurance. The table below categorizes the schemes between social security and occupational. A differentiation is provided between social security schemes which provide retirement coverage, health coverage and insurance against the risk of work injuries.

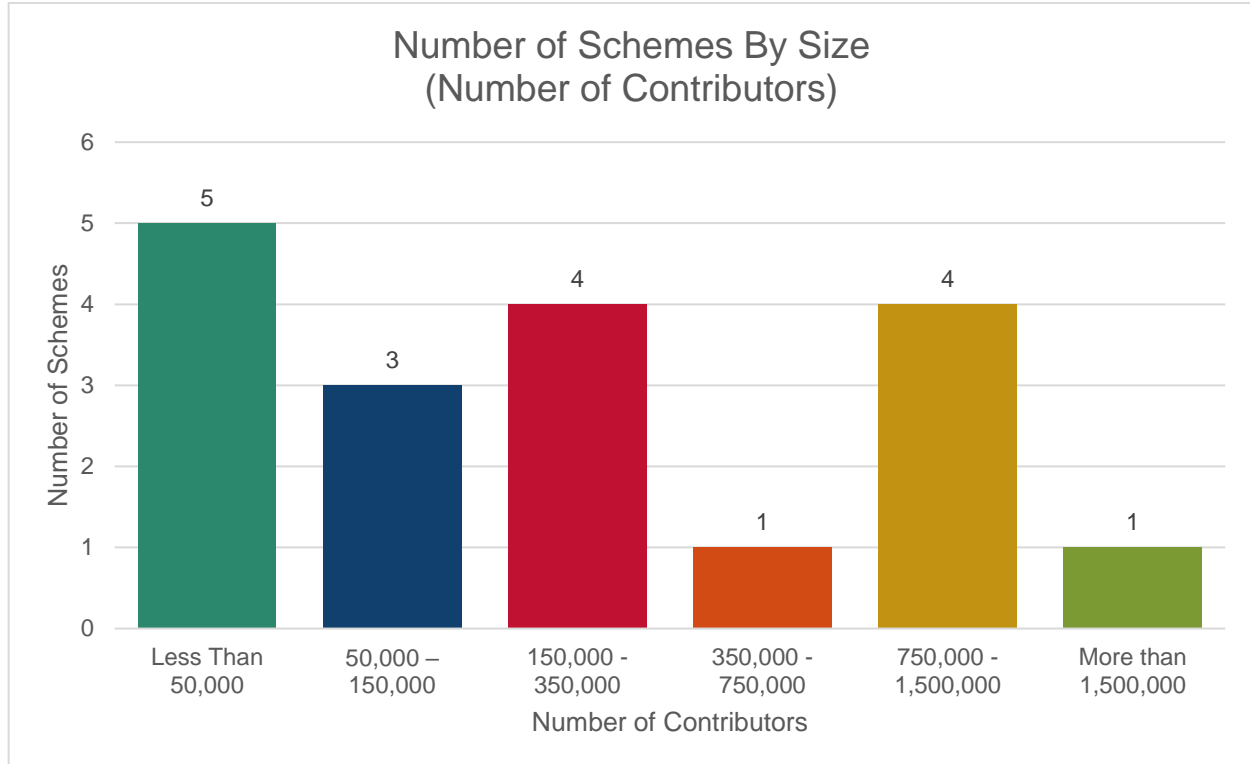
FIGURE 3: DISTRIBUTION OF SCHEMES BY TYPE



2.3 Social Security Schemes by Size

Based on the number of contributors the schemes are categorized by size.

FIGURE 4: DISTRIBUTION OF SCHEMES BY SIZE



3. Board of Trustees

The survey collected information for the Board of Trustees and its operations. In particular, the following questions were asked as part of the survey:

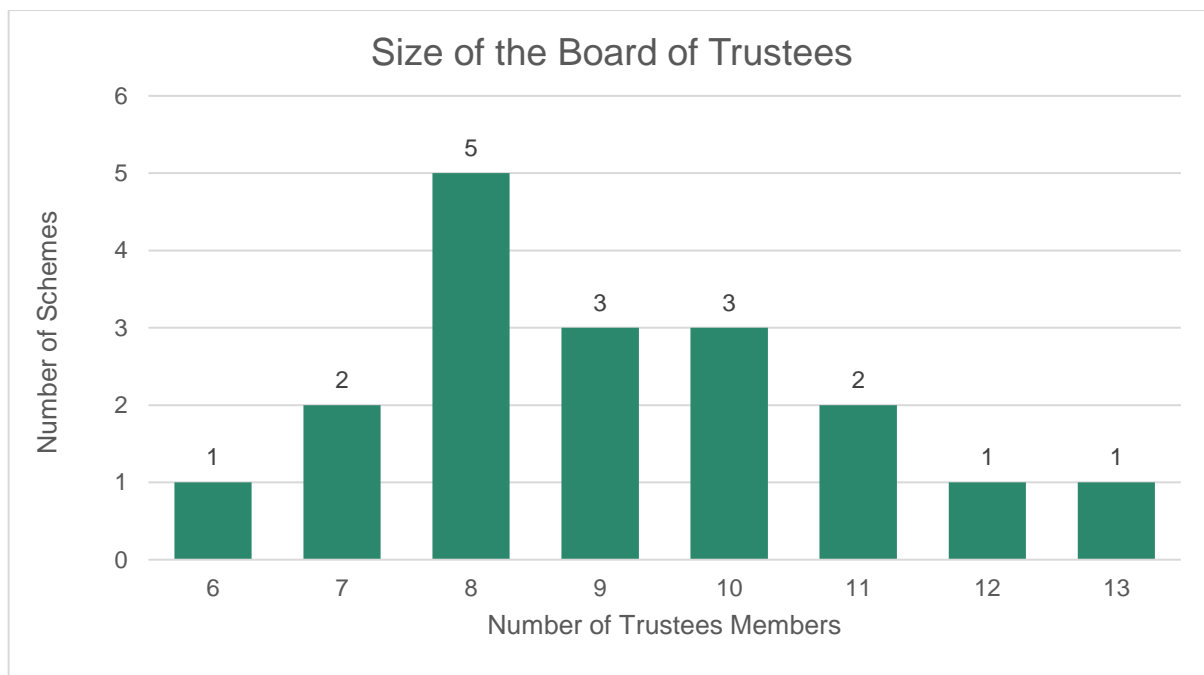
- What is the size of the Board of Trustees?
- How often does the Board of Trustees change?
- How is the Chairman being appointed?
- Who appoints the Director General?
- What is the frequency of Board of Trustees meetings?
- Do the scheme rules allow for ad hoc meetings?
- How many representatives are on the Board from each group of stakeholders (employers, employees/members, trade unions, government, health providers)?
- Is the Fund guaranteed by the Government in case of financial difficulties?

This section provides the analysis of the responses.

3.1 Size

The majority of the schemes are governed by Boards with less than 10 trustee members.

FIGURE 5: SIZE OF THE BOARD OF TRUSTEES



We have observed the following notes when comparing the size of the Board in relation to:

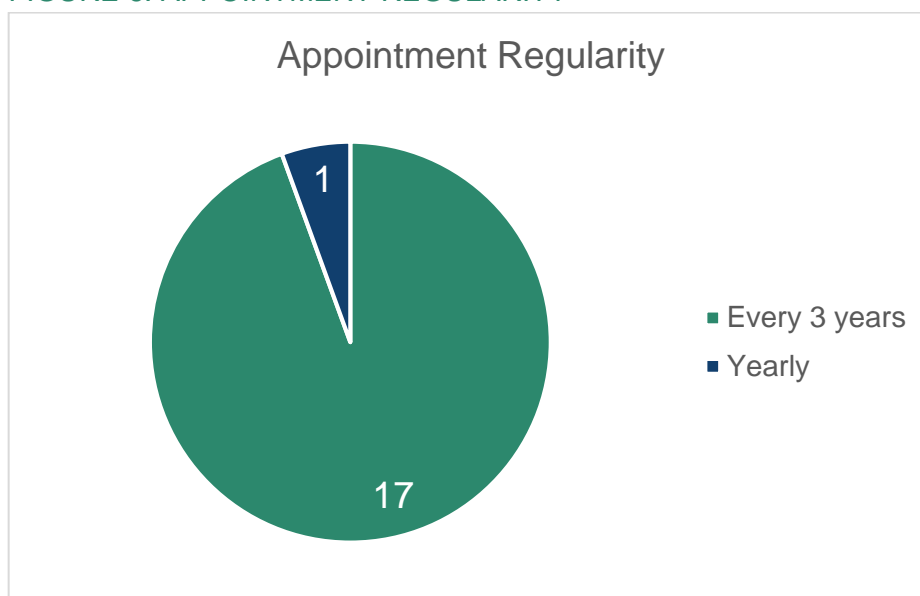
- Type of Scheme: a comparison of the size of the Board to the scheme type shows that occupational pension schemes have small Boards with 6-8 members. It is also evident that schemes which provide insurance against work injuries have Boards with more than 10 members.

- Age of Scheme: there is no correlation between the size of the Board and the age of the scheme.
- Size of the Scheme: schemes with more than 11 Board members are schemes with less than 200,000 active contributors. Schemes with more than half a million members have Boards with 9-10 members.
- Country: there is no correlation between the size of the Board and the country.

3.2 Appointments

Almost all schemes change the Board of Trustees every three years with the exception of one social security scheme which changes the Board on an annual basis.

FIGURE 6: APPOINTMENT REGULARITY



The Government is appointing the Chairman of the Board of Trustees in fourteen out of the eighteen schemes in the survey. For the remaining schemes the Chairman is voted. It is noted that the Chairman is voted under the two occupational pension schemes included in the survey.

In the case of the Director General, the means of appointment is presented in the figure and table below.

FIGURE 7: APPOINTMENT OF DIRECTOR GENERAL

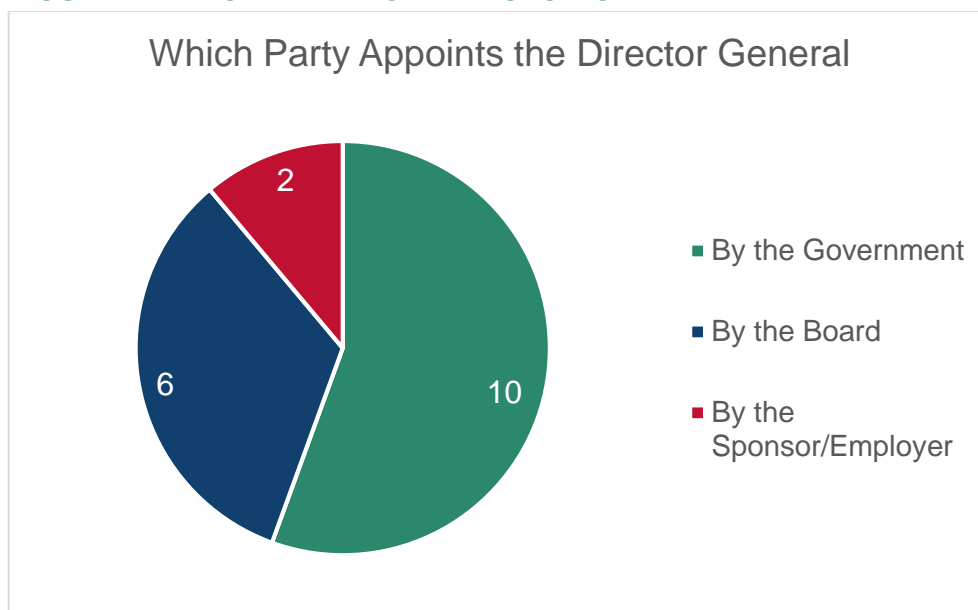


TABLE 1: APPOINTMENT OF DIRECTOR GENERAL DETAIL

Appointed by the:	Type of Scheme					Total
	Social Security Retirement	Health	Social Security Retirement & Health	Work Injuries	Occupational	
Government	6	1	1	2	0	10
Board	4	2	0	0	0	6
Sponsor/Employer	0	0	0	0	2	2
Total	10	3	1	2	2	18

3.3 Meetings

All Boards of Trustees meet on a quarterly basis every year and their scheme rules allow for ad hoc meetings.

3.4 Representatives

The Board of Trustees comprise of representatives from different groups of stakeholders; the employees, the employers, the government, the trade unions, the health providers etc. The responses of the survey showed that for 8 out of the 18 schemes, there was representation from all stakeholders. In 6 out of the 18 schemes, employees/members are not represented on the Board of Trustees.

It is noted that the answers to these questions may be subject to some inaccuracies. In a separate question, the schemes were asked to provide the total number of Trustees. In 10 out of the 18 schemes, the number of Trustees from each group does not add up to the total number of Trustees on the Board.

Separate analysis is carried out by type of scheme.

TABLE 2: BOARD REPRESENTATIVES – OCCUPATIONAL PENSION SCHEMES

Scheme #	Board Representatives Employers	Board Representatives Employees/Members	Total
1	66.7%	33.3%	100%
2	50.0%	50.0%	100%

TABLE 3: BOARD REPRESENTATIVES – SOCIAL SECURITY SCHEMES

Scheme #	Board Representatives Employers	Board Representatives Employees/Members	Board Representatives Unions	Board Representatives Government	Total
1	30.00%	30.00%	20.00%	20.00%	100%
2	28.55%	0.00%	28.55%	42.90%	100%
3	30.00%	0.00%	30.00%	40.00%	100%
4	14.30%	57.10%	14.30%	14.30%	100%
5	33.33%	0.00%	33.33%	33.33%	100%
6	20.00%	20.00%	40.00%	20.00%	100%
7	22.22%	33.33%	33.33%	11.11%	100%
8	25.00%	25.00%	0.00%	50.00%	100%
9	33.33%	0.00%	33.33%	33.33%	100%
10	20.00%	20.00%	30.00%	30.00%	100%

TABLE 4: BOARD REPRESENTATIVES - HEALTH SCHEMES

Scheme #	Board Representatives Employers	Board Representatives Employees/Members	Board Representatives Unions	Board Representatives Government	Board Representatives Government	Total
1	28.60%	14.30%	14.30%	28.60%	14.30%	100%
2	12.50%	0.00%	12.50%	50.00%	25.00%	100%
3	25.00%	0.00%	12.50%	50.00%	12.50%	100%
4	14.30%	14.30%	14.30%	42.80%	14.30%	100%

3.5 Government Guarantees

Occupational retirement benefit schemes, work injury compensation and health insurance funds are not guaranteed by the Government. Social security schemes have some sort of guarantee by the Government.

4. Minimum Level of Authority in Reforming

The survey investigated the minimum level of authority needed to approve parametric amendments. For each Parametric Amendment listed, we requested the schemes to select the minimum level of authority needed to approve parametric change. The options for authority levels were: Management, Board of Trustees, Regulator, Minister/Ministry, Cabinet of Ministers, Parliament, President, or N/A.

The parametric amendments listed were the following:

<p>Contribution Rules</p> <ul style="list-style-type: none"> • Employee Contribution Rate • Employer Contribution Rate • Government Contribution Rate • Contributable Earnings Definition • Ceiling on Contributable Earnings 	<p>Retirement Rules</p> <ul style="list-style-type: none"> • Normal Retirement Age • Early Retirement Age • Eligibility Service/Contribution Requirements
<p>Benefits Rules</p> <ul style="list-style-type: none"> • Accrual Factors • Definitions of Pensionable Earnings • Minimum Pensions • Maximum Pensions • Pension Increases • Penalties Levied on Early Retirement Pension 	<p>Other Reforms</p> <ul style="list-style-type: none"> • Penalties on Delayed payment of Contributions • Funding Benchmarks • Automatic Adjustment Mechanisms

4.1 Contribution Rules

The table below shows the authority required to approve amendments to the contribution rules.

TABLE 5: AUTHORITY TO APPROVE PARAMETRIC REFORMS ON CONTRIBUTION RULES

Minimum Level of Authority Required	Employee Contribution Rate	Employer Contribution Rate	Government Contribution Rate	Contributable Earnings Definition	Ceiling on Contributable Earnings
Management	-	-	-	-	-
Board of Trustees	3	3	-	2	-
Regulator	2	1	1	2	1
Minister/Ministry	4	6	3	6	9
Cabinet of Ministers	-	-	-	-	-
Parliament	6	6	7	6	5
President	-	-	-	-	-
N/A	3	2	7	2	3

For most of the schemes, the decision for changes to the contribution rate and contributable salary definitions is taken on a Ministerial and Parliament level.

4.2 Retirement Rules

The table below shows the authority required to approve amendments to retirement rules.

TABLE 6: AUTHORITY TO APPROVE PARAMETRIC REFORMS ON RETIREMENT RULES

Minimum Level of Authority Required	Normal Retirement Age	Early Retirement Age	Eligibility Requirements
Management	1	1	1
Board of Trustees	-	1	3
Regulator	1	2	1
Minister/Ministry	2	2	2
Cabinet of Ministers	-	-	-
Parliament	10	8	6
President	-	-	-
N/A	4	4	5

For most of the schemes which provided answers to this question, the decision for changes to the retirement rules is taken by the Parliament.

4.3 Benefits Rules

The table below shows the authority required to approve amendments to benefits rules.

TABLE 7: AUTHORITY TO APPROVE PARAMETRIC REFORMS ON BENEFITS RULES

Minimum Level of Authority Required	Accrual Factor	Pensionable Earnings	Ceiling on Pensionable Earnings	Minimum Pension	Maximum Pension	Pension Increases	Penalties on Early Retirement
Management	-	-	-	-	-	-	-
Board of Trustees	1	2	1	2	1	1	1
Regulator	2	1	1	2	2	2	4
Minister/Ministry	2	2	6	6	5	7	-
Cabinet of Ministers	-	-	-	-	-	1	1
Parliament	5	5	5	3	4	1	3
President	1	1	-	-	-	-	-
N/A	7	7	5	5	6	6	9

4.4 Other Rules

The table below shows the authority required to approve other amendments.

TABLE 8: AUTHORITY TO APPROVE PARAMETRIC REFORMS ON OTHER RULES

Minimum Level of Authority Required	Penalties on Delayed Contributions	Funding Benchmarks	Automatic Adjustment Mechanisms
Management	0	2	1
Board of Trustees	2	3	3
Regulator	5	4	1
Minister/Ministry	3	1	-
Cabinet of Ministers	1	-	-
Parliament	5	5	1
President	-	-	-
N/A	2	3	12

4.5 Recent Reforms

Fourteen out of eighteen schemes have positively responded to the question with regards to the implementation of reforms over the last 10 years. Almost all of these schemes stated that the reforms were initiated following the recommendations of the Actuarial Valuation. Market pressures and financial strains were also important reasons that instigated the reforms.

The survey requested details on the reforms adopted. Below, is a list of changes made to these schemes over the last 10 years:

- Contribution rate changes
- Changes to the definition of pensionable salary
- Changes to the level of the accrual factor
- Structural reform of moving from a defined benefit scheme to a defined contribution
- Extension of the normal retirement age from 55 to 60
- Establishing a minimum return threshold on members' savings (10 year moving average of inflation plus 2%)

The respondents were asked to give any comments or suggestions they consider important regarding the reform of social security schemes. Below, is a list of the suggestions provided:

- Need of having a common understanding of reforms in order to avoid making adverse decision
- Continuous professional development for Trustees since many are new to the industry and are required to make key decisions
- Consideration of appointing independent professional Trustees with representation from other groups such as the union, sponsors etc.
- Consideration of Corporate Trustees
- Tax concession for retiring members (and/or beneficiaries) at least from Normal Retirement Age
- Consideration of alternative investments to diversify fund portfolio
- Formulation and implementation of investment strategies that match the age profiling of the funds and relating investment risk-return

- Great need for the social security schemes to remain relevant to the emerging needs of its members
- Governments need to understand the main mandates given to the schemes to avoid wanting to change it without any economic basis for such change. Availability of funding being one of the key factors
- Regular Actuarial & Structural Statutory Instrument Amendments
- Allow extension of coverage of excluded groups e.g. informal sector/domestic workers
- Improve financial sustainability - benefits to be paid according to the corresponding contributions received
- New technologies and extension of coverage
- Coming up with workable funding models for health insurance schemes and how to enhance coverage in the informal sector especially the aspects of retention
- Mechanism on how to capture the informal sector
- ICT is a crucial issue – facilitation in preventing fraud
- Constant Actuarial Valuations of Social Security Schemes
- Reforms are necessary to harmonize the fragmented pension system in the country
- Product innovation needs to be more responsive and able to address social security challenges outside retirement, such as health, unemployment and gender inequity

As stated in the forward of this report: this study does not reflect our view on current best practices. The aim of this report is to outline the current landscape so as to spread awareness across the members of ECASSA. Our hopes are that this knowledge will spur appropriate reforms that incorporate financial sustainability of the scheme as well as governance.

As one of five Accredited Training Institutions worldwide within the ISSA Training Consortium, the Muhanna Foundation promotes the ISSA Guidelines in search of excellence.

ISSA Guidelines:

GOOD GOVERNANCE	SERVICE QUALITY	CONTRIBUTION COLLECTION AND COMPLIANCE
INFORMATION AND COMMUNICATION TECHNOLOGY	INVESTMENT OF SOCIAL SECURITY FUNDS	PROMOTION OF SUSTAINABLE EMPLOYMENT
COMMUNICATION BY SOCIAL SECURITY ADMINISTRATIONS	ACTUARIAL WORK FOR SOCIAL SECURITY*	ADMINISTRATIVE SOLUTIONS FOR COVERAGE EXTENSION
RETURN TO WORK AND REINTEGRATION	PREVENTION OF OCCUPATIONAL RISKS	WORKPLACE HEALTH PROMOTION

*For brief explanation see the box below.

GUIDELINES OF ACTUARIAL PRACTICE FOR SOCIAL SECURITY PROGRAMS

Principles of Actuarial Practice

1. Scientific Rigour: The actuary should ensure that the methodology used for the long-term financial projections is based on actuarial principles. The actuary should comply with any general or specific professional guidance that may apply in the relevant circumstances. The actuary should also ensure that the calculations accurately reflect the methods and assumptions adopted. In this context, the actuary should indicate in the report that assumptions, though reasonably determined, are not predictions. He/she should also make it clear that any differences between future experience and the report's assumptions will be analyzed and taken into account in subsequent reports.

2. Objectivity: If the development of assumptions to be used in making projections is part of the actuary's mandate, he/she should ensure that this occurs without inappropriate political or external influences. If the actuary is not mandated to determine the assumptions but they are set by another entity, he/she should state the origins of the assumptions and, when needed, show a sensitivity analysis of the impact of alternative assumptions.

3. Transparency explicitness, simplicity, and consistency of the information supplied in the report: When preparing a report, a paper, or a presentation, the actuary should aim to communicate as clearly as possible, having regard for the various audiences to whom it is addressed and the different stakeholders who will place reliance on the results. The actuary is accordingly recommended to include in the report an executive summary written in plain language, describing the purpose and the main findings of the report.

Sources: Guidelines of Actuarial Practice for Social Security Programs, International Actuarial Association & ILO Report: Governance of Social Security Systems: a Guide for Board Members in Africa, 2010

5. Concluding Remarks

The schemes which responded to this survey are both young and mature. The majority provides insurance against old age, death and disability. However, there are also health insurance schemes and schemes which cover the incidences of work injuries.

With the exception of one social security scheme, all other schemes change the Board of Directors every three years. Approximately 60% of the schemes have Board of Directors with 8-10 members. The Government is appointing the Chairman of the Board of Trustees in all social security and health schemes. This shows the great involvement of the Government. As far as the Director General is concerned, Government involvement is again observed. The appointment is made by the Government in more than 60% of the social security and health schemes. For the remaining, the appointment is made by the Board.

When it comes to reforming these schemes, it is observed that most of the decisions are needed to be taken by the Ministers and the Parliament. For most of the schemes, the decision for changes to the contribution rate and contributable salary definitions is taken on a Ministerial and Parliament level. When it comes to occupational pension schemes, the authority for approving parametric reforms is to the Board of Trustees.

It is therefore evident that the Board of Trustees of Social Security Schemes is hand tight in making decisions and implementing parametric reforms. As a result, the process which is required to ensure the financial viability of the schemes is delayed and political intervention is unavoidable.

We would like to thank all schemes which participated in this survey and the officers who spent time in filling in the questionnaire.



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