MALAWI

Pensions for the Future


Tanzania
Lake Malawi (Nyasa)
Malawi
Lilongwe
Zambia
Mozambique
Blantyre
Zimbabwe

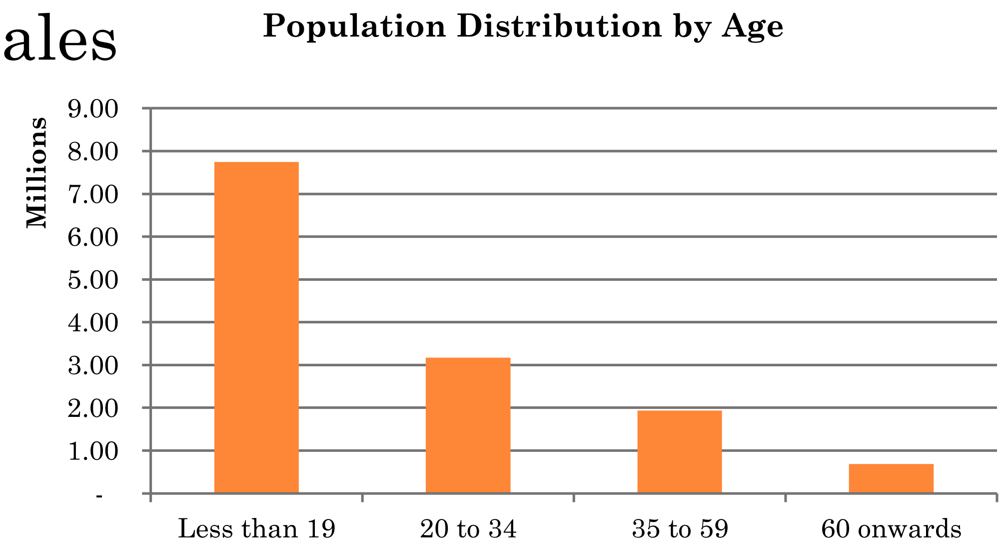

© Concern

Economic Profile

- Inflation: 23.5% (average 24% since the 90's)
- Main Exports: Tobacco, tea, sugar, cotton
- GDP: $4.3bn
- GDP/ Capita: $216
- Poverty headcount: 50.7%
- Indicative yields: 1 year: 28.4%; 3 year: 27.2%;

Country Demographic Profile

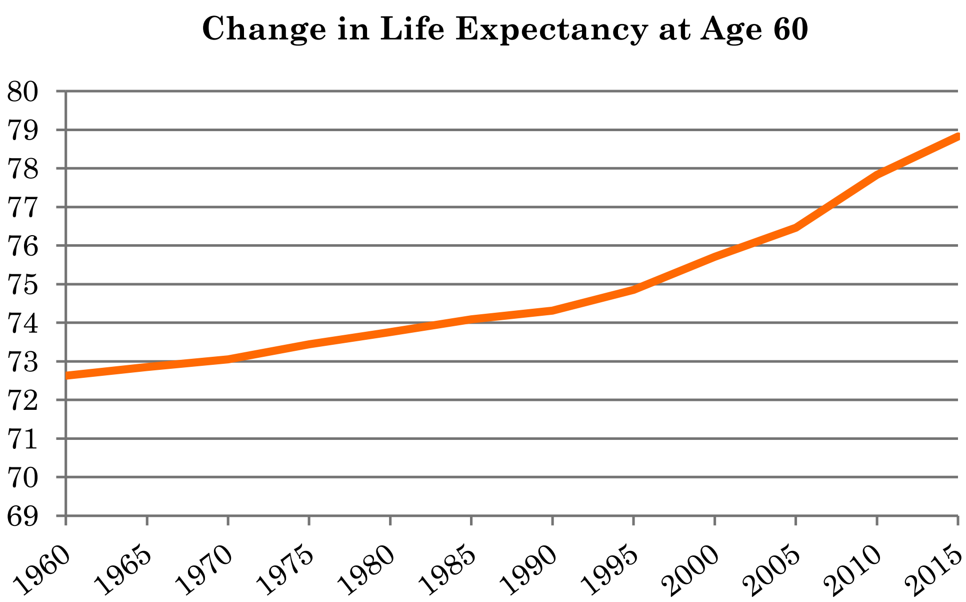
- 16.4 million people
- 53% females, 47% ,males
  - Under 20: 57%
  - 20 to 60: 38%
  - Over 60: 5%
- Fertility rate: 5.6



- Labourforce participation: 84.9% - 89% informal

Country Demographic Profile

- Life expectancy: 63
- Life Expectancy at 60 (pensionable age): 79



Pensions System

Public Pension System - Background

- Before 2011, there were unregulated pensions. Employers including government voluntarily set up pension schemes. The government had the Civil Service Pension Scheme (CSPS).
- Pension Act 2011 was set up with 4 objectives:
  - Ensure pensions are provided for every employee.
  - Ensure every employee receives retirement and supplementary benefits.
  - Promote safety, soundness and prudent management of pension funds.
  - Foster agglomeration of national savings in support of economic growth and development.

Structure

Public pensions: (voluntary)

- The Civil Service Pension Scheme, a non-contributory, DB, pay-as you-go scheme
- The scheme will become mandatory from July 1, 2016

Private pensions: occupational (mandatory)

- The National Pension Fund, administrated by the National Pension administrator (DC scheme)
- Fully funded private pension funds (DC, DB or hybrid)

Private pensions: occupational (voluntary)

- Voluntary private pension plans

Public Pensions

- Public Pensions system governed by the Malawi Pensions Act 2011
  - A National Pension Fund (NPF) to which employers and employees may make mandatory contributions

  - **Coverage:**
    - Every employer to ensure that all employees are members of either NPF or any other licensed pension fund
    - Employers with less than 5 employees and with annual income of less than MK120,000 (USD790.00) are exempted

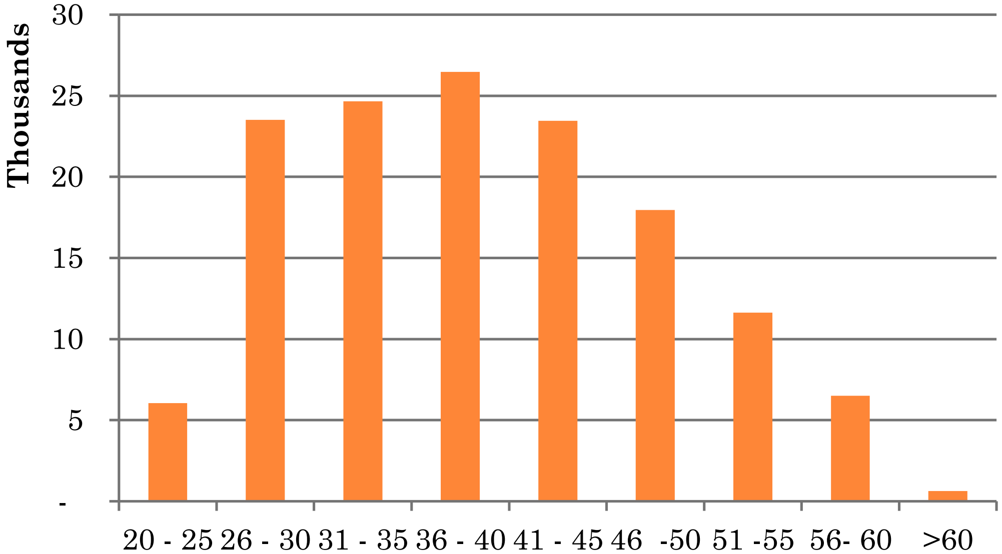
  - **Contribution rate:**
    - Employer – 10%
    - Employee - 5%

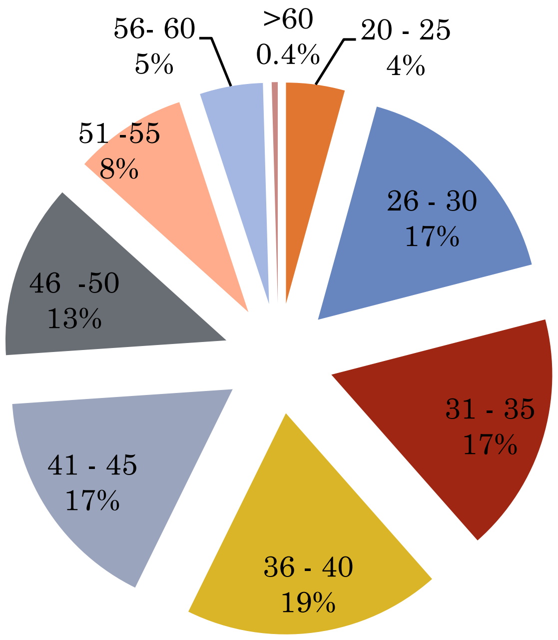
  - **Benefits**
    - A life insurance benefit equal to the employee’s yearly salary
    - Retirement benefits at age 60 or after 20 years of contributions, whichever is later.

Private Pensions

- Private Pensions system governed by the Malawi Pensions Act 2011
  - Permits establishment of three types of private funds:
    - Restricted funds
    - Unrestricted funds
    - Umbrella funds
  - 3 Life insurance companies
  - 300,000 members (5% of gainfully employed – 7.4% when civil servants included) – rife with duplications

Civil Service Pension Scheme Age Distribution

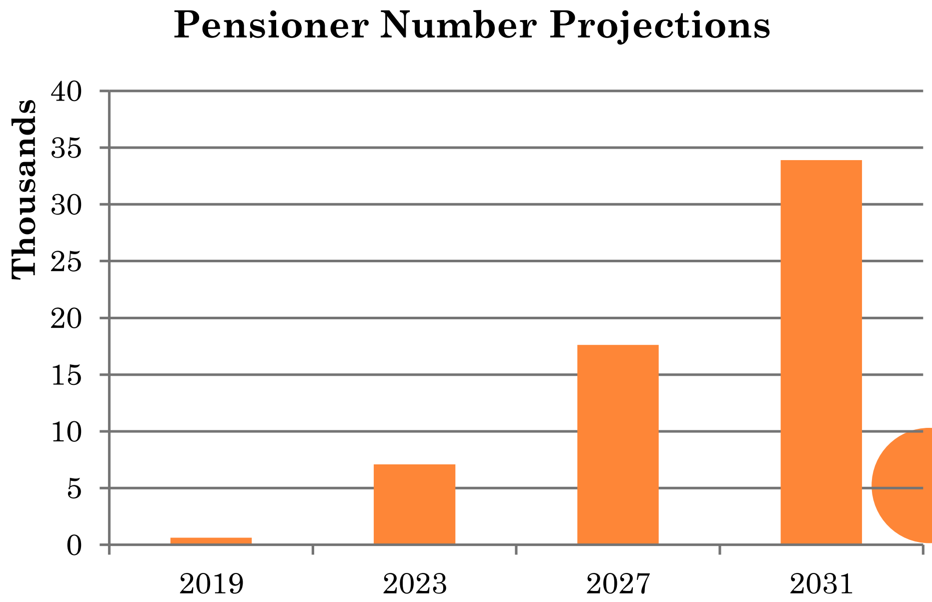




- 39% below 36 years old
- 57% below 41
- 0.4% over 60

Civil Service Scheme vs Fiscal Space

	USD	% of GDP
Current Wage Bill	324m	7.5%
Pensions in Payment	61.4m	1.4%
DC Contributions to All	18.6m	0.4%
New Wage Bill 1	80m	1.9%
DC contributions for 35 year olds and below	8.6m	0.2%
New Wage Bill 2	70m	1.6%



Reform Needs

- Set up civil service contributory scheme
  - Increase adequacy and security
  - Facilitate labour mobility
- Make available more financial market assets with adequate matching to pension liabilities
- Institute Responsible Investment Practice

Challenges

- No Fiscal Space
- Shallow and illiquid financial markets

Enabling Conditions

- Legislation: although implementation slow
- Insurance company is already in play to offer administration services: ID's, records processing, IT systems, back-up services
- Regulatory clarity in the law. Regulation of pension service companies and investment managers already exists. Whether Reserve Bank of Malawi can regulate effectively a board of trustees selected by the country's president.
  - Regulation of investment decisions not yet clear.
  - Foreign investment allowed on case by case basis.
- Capital markets not deep: - equity markets illiquid.
  - -unavailability of long dated instruments
  - Markets not very price transparent
- Existence of dispute resolution but need for swifter regulation of employers

Reform Objectives

- Fiscal sustainability of the civil service
- Strengthen effectiveness of national pensions regulation of both service providers and employers; and data management and policy analysis – perhaps pensions regulation could be hived off from the central bank.
- Pensions Adequacy: - to be addressed in due course
- Improve national pension coverage

Reform Options – Civil Service

Option 1

- Reduce accrual rate for those who remain in DB – too generous
- Civil servants aged 35 and below should be in a DC scheme.

Option 2

- Hybrid scheme for those aged 36 above. DB for past service liabilities.
- Civil servants aged 35 and below should be in a DC scheme.

Option 3

- Hybrid scheme as option 2 but reduce government contribution from 10 to 7.5 or 5%
- Civil servants aged 35 and below should be in a DC scheme.

Option 4

- Remain as things are now.

Selected Reform

- We select option 1
  - Fiscal space
  - Pension adequacy
  - Buy in already secured from trade unions
  - Those aged 35 below have adequate time to adjust and save and will gain immediate vesting of pensions.

Balancing The Ying and the Yang

- Very limited impact on broader social protection particularly of the elderly.
  - Malawi should consider introducing social pension.
- Potential to increases investment and growth
- Exchange rate pressures if funds allowed to be invested abroad
- Expenditures will rise with reform – still paying existing pensions and adding DC contributions but sustainability will be achieved in the long run.

Consensus Building and Communication Strategy

- Trade unions already roped in together with Ministry of Labour and Manpower Development.
- Meetings held with employers.
- Administrator will produce flyers; radio ads and client interfacing offices throughout the country.

Reform Options - National

- Social pension to cover gap not covered.
  - Small population above 60
  - Very little fiscal space
  - Identification not yet in place

Summary

- Reforms to civil service scheme are already in legislation.
- The fiscal situation constrains government from fully funding its liabilities.
- Consensus building mostly done
- Expenditure will rise with the reforms in the medium term.
- The transition will take about 40 years
- Social pension introduction very important but large constraints in the fiscus.

Day 1

Day 2

Day 3