



City Research Online

City, University of London Institutional Repository

Citation: Nyathi, M. (2002). The development of social insurance : an analysis of the effects of the introduction of the National Social Security Scheme (NSSS) in Zimbabwe. (Unpublished Doctoral thesis, City University London)

This is the accepted version of the paper.

This version of the publication may differ from the final published version.

Permanent repository link: <https://openaccess.city.ac.uk/id/eprint/7581/>

Link to published version:

Copyright: City Research Online aims to make research outputs of City, University of London available to a wider audience. Copyright and Moral Rights remain with the author(s) and/or copyright holders. URLs from City Research Online may be freely distributed and linked to.

Reuse: Copies of full items can be used for personal research or study, educational, or not-for-profit purposes without prior permission or charge. Provided that the authors, title and full bibliographic details are credited, a hyperlink and/or URL is given for the original metadata page and the content is not changed in any way.

The Development of social insurance: An analysis of the effects of the introduction of the National Social Security Scheme (NSSS) in Zimbabwe

By

Mandla Nyathi

**Submitted for the Degree of Doctor of Philosophy, City University Business School,
August 2002**

Abstract

This thesis that I am submitting to the department of Insurance and Investment studies at the City University Business School is essentially a report on the development, formation, operation and effects of the NSSS to the local Zimbabwean market. The NSSS is a quasi- independent government company that operates under the National Social Security Authority (NSSA) whose formation was to provide a framework for the provision of various social security benefits by such organisations as the NSSS. This thesis is divided into three broad parts. The first part draws from an historical experience of the development of social insurance in general and Zimbabwean old-age insurance in particular. This part is the basis of understanding the foundation and philosophy behind the formation and expansion of the social security programmes as strong economic and political tools across the modern world. The second segment of this report is the focus on political and economic theories that seek to explain the existence of social insurance in various economies. The last part of the thesis is a particular study of the Zimbabwean pensions market following the introduction of the NSSS and draws from household survey and original source material that has not previously been subject to analysis.

This study has paid particular attention to the forces that have played crucial roles in shaping the development of the NSSS. Contrary to what we expected at the beginning of this study, the NSSS has had little adverse effect to the private schemes and general perception in risk taking behaviour, particularly to the middle class. The NSSS has in fact, had a marginal and effective positive effect in changing people's attitude towards the risk of longevity and long-term loss of income due to perils otherwise insured under the national scheme. This study has also shown that there was inadequate

consultation prior to the formation of the NSSS and that political interests took priority over economic considerations. The scepticism and forces of suspicion within the market are explained within the framework of this thesis.

I grant the librarian and any of the lawful employees of the City University library to give on application, this thesis to anybody who wants to read, refer, photocopy or otherwise use this thesis for purposes of furthering academic research, provided the rules on acknowledgement and copyright are adhered to.

Table of contents

Contents	Page
List of figures	11
List of tables	12
Acknowledgements	13
Chapter one 1. Introduction	
1.1 Motivation for this research	19
Chapter two: Social insurance perspectives and this report	21
2.1 Introduction	21
2.2 Defining social and pensions insurance	21
2.2.1 Our definition for purposes of this report	25
.3 Spectrum of social risks	26
2.4 Scope of social insurance	28
2.4.1 Pensions insurance	29
2.4.2 Unemployment insurance	30
2.4.3 Health insurance	31
2.4.4 The workmen's compensation insurance	32
2.5 The aims of this study	33
2.6 The scope of this study	34
2.7 Justification of this study	35
2.8 Literature review	36
2.9 Major hypotheses tested	42
2.10 Importance of the hypotheses tested	42
2.11 Methodology	44

2.12	Limitations of our data	48
2.13	Organisation of this thesis	49

Chapter Three: Perspectives on state pensions insurance and insurance markets

3.1	Introduction	51
3.2	Ideological phenomena	57
3.2.1	The Libertarians approach	60
3.2.2	Liberals beliefs	61
3.2.2.1	The Utilitarian philosophy	62
3.2.2.2	The Rawlsian philosophy	64
3.2.3	The Socialists approach	67
3.2.3.1	The Socialist Democrats	68
3.2.3.2	The Marxists Philosophy	70
3.3	The economic theory	74
3.3.1	Explaining the Pandora's box	74
3.3.2	Efficiency and state intervention in the markets	75
3.3.2.1	Market regulation	77
3.3.2.2	Tax and subsidies	77
3.3.2.3	Public provision of goods and services	78
3.3.2.4	Subsistence income support	80
3.3.3	Efficient Markets	81
3.3.3.1	Complete Markets	81
3.3.3.2	Fair competition	82
3.3.3.3	Information symmetry	83
3.3.3.4	Absence of externalities	84

3.3.4 Pensions insurance market efficiency	85
3.4 Efficiency in developing economies	86
3.4.1 Zimbabwean market and its efficiency	88
3.5 Demand and supply in insurance	90
3.5.1 Incentives for the demand of pensions insurance	90
3.5.2 Supply of insurance	94
3.5.2.1 Cost of insurance	95
3.5.2.2 Affordability of insurance premiums	95
3.5.2.3 Independent risks	96
3.5.2.4 Data availability	96
3.6 The lifecycle theory of saving and pension insurance	97
3.7 Conclusion	99
 Chapter Four: Evolution of social insurance	 101
4.1 Introduction	101
4.2 General evolution of social insurance	102
4.3 Development of the old age state pensions insurance in Britain	104
4.3.1 Retirement provision structure in Britain	109
4.3.1.1 Basic state pension	110
4.3.1.2 SERPS	110
4.3.1.3 Occupational pension schemes	111
4.3.1.4 Personal pension schemes	112
4.3.1.5 Other personal saving schemes	112
4.4 Development of occupational pension schemes in Zimbabwe	113
4.4.1 Segregationist Capitalism	114

4.4.2 Improvements in medicinal science	115
4.4.3 Economic challenges	116
4.4.4 Legislative factors	116
4.5 Retirement structure in Zimbabwe	117
4.6 Emergence of forces for state provision of insurance in Zimbabwe	118
4.7 Emergence of the NSSA	120
4.7.1 Formation of the NSSS	121
4.7.1.1 Invalidity benefits	122
4.7.1.2 Retirement benefits	123
4.7.1.3 Survivor's benefits	124
4.7.1.4 Funeral grant	126
4.7.1.5 Disqualification from receiving NSSS benefits	127
4.8 Contribution rates of the NSSS	128
4.9 Forces behind the evolution of the NSSS	129
4.9.1 Marxists influence	130
4.9.2 Demands of the Libertarians	130
4.9.3 Triumph of the liberals	131
4.10 Operation of the NSSS	132
4.10.1 Funds and reserves	134
4.11 Conclusion	136
 Chapter Five: Critical review and analysis of the NSSS	
5.1 Introduction	137
5.2 The NSSS Scheme Design	137
5.2.1 Stakeholders' rights and obligations	139

5.2.2 Actuarial management of the NSSS	140
5.2.2.1 Membership participation rates	141
5.2.2.2 Mortality rates	142
5.2.2.3 Salary progression rates	144
5.2.2.4 Interest rates	145
5.2.2.5 Disability and post disability mortality rates	146
5.2.2.6 Normal retirement rates	146
5.2.2.7 Administration expenses relevant to the NSSS	148
5.2.3 NSSS Contributions	149
5.2.4 Retirement and eligibility for a pension	152
5.2.5 Termination of the plan	155
5.3 Benefits	156
5.3.1 Defined benefit schemes	157
5.3.1.1 Flat rate schemes	158
5.3.1.2 Career average schemes	158
5.3.1.3 Final salary schemes	160
5.3.2 Defined contribution schemes	161
5.3.3 Defined contribution or defined benefit, what was best for NSSS?	162
5.4 The NSSS and economic and social development plan	165
5.4.1 Aims of the economic and social development plans	166
5.4.1.1 Economic liberalisation	167
5.4.1.2 Social empowerment	168
5.4.1.3 Regional development and integration	169
5.4.2 Conflict between the NSSS and the National Plans?	169
5.5 The NSSS and the financial markets	172

5.6 NSSS and income redistribution	173
5.7 Broader policy issues	174
5.8 Conclusions	175
 Chapter 6 Demand effect of the NSSS on private markets	 177
6.1 Introduction	177
6.2 The basic lifecycle model	178
6.2.1 Demand for pensions within a lifecycle model	181
6.3 The effect of the NSSS on the demand for private pension	183
6.3.1 Demand effect of the NSSS on the Middle-class employees	184
6.3.2 Demand effect of the NSSS on the working-class employees	188
6.3.3 Effect of the NSSS on the occupational pension schemes	195
6.3.3.1 Reduction in pension contribution rates	196
6.3.3.2 Reduction in benefit levels	201
6.3.4 Effect of the NSSS on personal pension	202
6.3.5 Demand effect of NSSS on the financial markets in general	205
6.4 Broader observations and wider policy issues	206
6.5 Conclusion	209
 Chapter 7 Personal saving for old age and other market findings	 210
7.1 Introduction	210
7.2 Saving behaviour in the presence of state pensions	213
7.2.1 Saving behaviour of the middle-income earners	215
7.2.2 Saving behaviour of the working-class employees	223
7.2.3 Personal saving issues worth noting	227

7.3	Perception of the executives and the future of the market	232
7.3.1	Regulators and legislators' views	233
7.3.2	Directors and managers' views	241
7.3.3	Obstacles to co-existence	245
7.3.4	Perceived life span of the NSSS	248
7.3.5	Desired reforms in the NSSS	248
7.3.6	Lessons learnt from the executives' perception of the market	252
7.3.7	Way forward	253
7.4	Perception of the working- class employees	254
7.4.1	Familiarity with the NSSS rules	254
7.4.2	Desired changes in the NSSS	257
7.4.3	Confidence in the NSSS	262
7.4.4	Effects of the NSSS on the workers' welfare	264
7.4.5	Taxation and retirement plans	266
7.4.6	Effect of the NSSS on workers' mobility	267
7.5	Broader general market observations	270
7.6	Conclusion	272
	 Chapter 8 Conclusions and further research	 273
	 Appendix A. Incidental tables	 281
	 Appendix B. Standard sample questionnaire used in this thesis	 282
	 Bibliography	 290

List of figures

2.1 Venn diagram illustration of the interface of different risks	28
3.1 Optimum distribution of income under utilitarianism	63
3.2 Market failure and optimum production	79
3.3 Income utility and risk-aversion	93
3.4 Income utility and expected utilities by the risk-averse	94
3.5 Labour earnings and consumption within a lifecycle	98
3.6 Assets accumulation within a zero-bequest lifecycle	98
4.1 Retirement structure in the UK	110
4.2 NSSS Management flow chart	133
6.1 Labour earnings and consumption in a lifecycle perspective	180
6.2 Immediate aftermath response of the middle-class employees to the NSSS	185
6.3 Expected retirement locations by the workers in Zimbabwe	187
6.4 Postulation of the AIDS/HIV effect on the workers' lifecycle pattern	191
6.5 Expected retirement ages	194
7.1 Post-retirement age options	217
7.2 Impact of the NSSS in the pensions market	234
7.3 MPs and Regulators' perceptions on the free markets' reaction to the NSSS	238
7.4 Perceived life span of the NSSS by the executives	239
7.5 Effect of the NSSS in the market	244
7.6 Obstacles to co-existence of the NSSS	247
7.7 Desired changes in the NSSS as perceived by the executives	249
7.8 Workers' knowledge about the NSSS rules	255
7.9 Most sought reforms in the NSSS by the workers	259

List of tables

2.1 Selection of research papers on social insurance and households savings	39
2.2 Sample of cross country papers on social insurance and savings	40
2.3 Sample of cross section papers on social insurance and savings	41
3.1 The three broad theories of social justice	58
3.2 Insurability of social insurance risks in the private markets	79
4.1 Factors that have shaped the pensions development in Zimbabwe	114
4.2 The NSSS benefit structure	122
5.1 Sample of state pensions as a percentage of salary and GDP	151
5.2 Sample of state pension benefits as a percentage of GDP	152
5.3 Strengths and weaknesses of the Defined Contribution and Defined Benefit schemes.	163
5.4 The NSSS pension benefit plan compared to the most generous private plans	165
6.1 Working-class average percentage contributions as a % of average earnings	199
6.2 Middle-class average percentage contributions as a % of average earnings	200
7.1 Preferences in saving instruments	219
7.2 Voluntary budgetary contributions between the NSSS and company schemes	222
7.3 Obstacles to the full assimilation of the NSSS to the Zimbabwean market	236
7.4 Working-class employees' awareness of the NSSS pension calculation	256
7.5 Rating saving instruments in terms of value for money and security	264
7.6 The NSSS and the welfare gains	265
7.7 NSSS as a factor in labour mobility	269

Acknowledgements

This thesis would not have developed to this level had it not been of the invaluable support and encouragement that I have received from different people and organisations. I cannot name every individuals and organisations that have helped me through this difficult and at times complicated research. But however, there are some certain individuals whose names I find inevitable to mention in this thesis. Professor E. Dinenis and Dr S.K Staikouras my mentors who have been very thoughtful and patient as this thesis developed from virtually nowhere to what it is today have done a gratuitous job. I cannot narrate everything that they have done for me but certainly they deserve special mention in this thesis.

I am also deeply indebted to my late grandmother MaDube for her courage and vision on life that undoubtedly influenced my decision to pursue academic research to this level. I am also grateful to The National University of Science and Technology of Zimbabwe for the scholarship that enabled me to pursue this research. This thesis is equally mine as it is to the research assistants that helped me gather some useful data in Zimbabwe. I am also deeply grateful to the people and organisations that responded to my questionnaires and those organisations that gave me access to some of their official documents. Other people contributed in various ways to this project. My final debt goes to my family and in particular my two sons, Brandon and She, whose patience during the course of this research has been tremendous. And lastly to my sister Sehlukile who paid for the binding and other final costs incurred towards the end of this thesis.

DEDICATION

This thesis is dedicated to my late grandmother MaDube and all the people who have died in all the various struggles to attain social equality, justice and dignity in the society. And, of course, not forgetting the intellectual victims that have suffered racial discriminations in the institutions that undermine the very concept of intellectualism.

CHAPTER ONE

1. Introduction: This thesis is basically a report on the formation, operation and effect of the NSSS to the Zimbabwean financial markets in general and pensions insurance in particular. NSSS is an acronym for National Social Security Scheme. The scheme was formed as part of the furtherance of the objects of the National Social Security Authority, a body corporate that was established by the government to provide benefits of insurance nature to the people of Zimbabwe. The NSSS has generated, and in fact, still does generate a lot of debate from enthusiastic commentators of different social, political and economic inclinations. To the economists and academics alike the subject of debate has centred on the impact of the scheme to the establishment of the insurance and pensions services and the perception that ordinary people have of it in so far as their pensions insurance purchasing behaviour is concerned.

Because none of the debates that have made headlines in the financial press and local media alike have been properly documented, we have had a problem as to where to start when researching for this report. I say we, because this report is not an output of one person, but many people that have contributed in their various ways. Partly because of the inadequate documentation of the NSSS and the Zimbabwean financial consumers, this report has had to draw from personal views of the market leaders, regulators and so forth. The literature available, most notably by Western scholars has, undoubtedly, influenced our general approach to this report. We need not mention the obvious, that the principles developed by these Western scholars have acted as a guide, yardstick and above all as a leverage of direction of many of the

issues that we raise, examine and test in this report. The incomplete records that we had to contend with in the course of the preparation of this report meant that at times we had to make some speculative analysis and decisions alike.

The NSSS like most of the government quasi-independent companies was formed as an anti-climax of various economic and political considerations. The culture of the ruling party and its philosophy reflect vividly in the structure, organisation and operation of the NSSS. The same is true of the other factors that undoubtedly influenced the formation of the NSSS. The economic and social forces played a lesser though a crucial role in determining the establishment of the national scheme. The scheme was as such formed as a result of that cluster of factors, conflicting at times.

The lifecycle theory has been used by various academics to model the consumer behaviour of different classes of people. As the lifecycle literature and consumer behaviour is abundantly available we thought it unnecessary to dwell onto long lengths to explain how as a theory explains the disposal of labour earnings over the lifecycle of a household. That the lifecycles are different and that the Zimbabwean lifecycles are different from the life cycles in the developed world, we thought it important to emphasise. The difference in lifecycles possibly explains the variations in consumer behaviours of people from different geographical circumstances.

In this report we find little evidence of the absolute negative contribution to the Zimbabwean pensions market by the NSSS. Instead, there is in most cases, either no effect or awareness effect that will undoubtedly work to the advantage of the competitiveness of the Zimbabwean pensions market. Particularly less affected by the

introduction of the NSSS are the middle-income workers. Men in that group, being the least responsive to the introduction of the national scheme. On the other hand, the working-class consumers showed much appreciation of the NSSS with the women more appreciative of the new national scheme. That being the case, it was interesting to note that the same group had more people least willing to contribute voluntarily to the national scheme.

The saving for retirement or otherwise of the people of Zimbabwe has been insignificantly affected by the introduction of the NSSS. The place value that most of the respondents in the survey put on the NSSS is testimony to that. Besides that, there are a lot of people who would have possibly had their saving behaviour swayed by the NSSS who are excluded from the NSSS scope of cover. These are the people on low incomes and mostly the contract and manufacturing employees who are by any standard the biggest percentage of the workforce. As urbanisation and development continues and more and more people become aware of their rights under the national scheme, the observed trend will undoubtedly change.

The views of the market executives do not suggest a gloomy future in so far as the Zimbabwean pensions insurance is concerned. There is clear evidence that there has been gross exaggeration by both independent and partisan commentators on the adversity of the NSSS to the pensions insurance market. Contrary to fears that have been postulated before and after the introduction of the NSSS, the market growth has been tremendous and the confidence of the traditional recipients of the private market schemes is little moved by the coming of the new state scheme. The lack of confidence in the national scheme is evident across the body. The people's knowledge

of the rules and their general rights in so far as the national scheme is concerned is disappointingly low. That is so including the formulae used to calculate benefits, the particular benefits that they can claim, the method of claiming and so on. However, the most encouraging reflection of most of the respondents to our survey is that almost everyone agrees that the NSSS is a positive development that can be modelled to the benefit of the workers and their beneficiaries.

The current low confidence in the present government undoubtedly influenced the views and perceptions of many of the respondents about the NSSS. That is also true of the economic and political instability that is threatening to rip the society apart. There is however, a solid structural foundation for the development of the NSSS and the pensions market in general into world class icons.

1.1 Motivation for this report

The research that has culminated in this report has been triggered mainly by the unavailability of Zimbabwean literature on this subject. Most if not all the professionally script written literature are statutes and other government instruments. The reports that have been produced by the department of social welfare have tended to be of partisan nature and lack the requisite intellectual analysis. The controversial claims and debates by the market commentators on the impact of the NSSS to the established schemes undoubtedly influenced our interest in the subject. Some of the fallacy in the arguments has been so articulated that one would have no option but investigate independently to establish the truth. The claims that the NSSS has led to the fall in the demand for conventional private pension schemes have been made without prior research to ascertain the validity of such claims. So also have been the

claims about the NSSS depressing individual household saving through other instruments.

My teaching of the “Pension Planning and Administration” and Social Insurance has undoubtedly driven me to this research. It is my hope that this report will at least serve as the basis for the teaching of social insurance to the fourth year students at the National University Science and Technology. This report will be of invaluable use as a foundation for further studies and research in the area of social insurance in Zimbabwe. At least the researchers coming after us will have somewhere to start from.

1.2 Conclusion

The rest of the report comprises of seven chapters. The order of the chapters reflects the chronological relevance of the development of social insurance in general and the NSSS in particular. The individual chapters are comprehensible when read independently though we would encourage that they be read in the order in which they are in this report.

CHAPTER TWO

SOCIAL INSURANCE PERSPECTIVES AND THIS REPORT

2.1 Introduction

In this chapter I define and explain social insurance together with its general scope so as to map out a sound framework of understanding the subject of this study. The definition adopted for purposes of this research is outlined to avoid ambiguity and uncertainty of terms when interpreting this report. I also spell out the aims and scope of the research so as to have a conceptual framework of this research. A brief account of the justification of the research and the major research questions that arise from this report is made with a view to explaining the importance and necessity of this study. The multi-methodology approach used in preparation of this report is explained together with the sampling procedures that were followed. This chapter also explains the arrangement of the chapters in this report.

2.2 Defining social insurance and pensions insurance

In the developed world where the welfare state programmes are mature the word social insurance is possible one of the best known and let alone the least understood by the majority. The reasons for this are vast and diversified but most notable are the obvious ones such as lack of intellectual development of the subject relative to other disciplines such as banking and finance. It does not call for exceptional intelligence to note that had social insurance been developed in the same conventional academic preference, as was other wise accorded to the other subjects of economics, some of the mysteries surrounding the subject would be irrelevant today. Nonetheless, despite that developmental let down by the founding scholars, some attempts have been made

to define the subject and its scope. One of the earliest attempts to define social insurance is by Rubinow (1914). In a nutshell, Rubinow says social insurance, as a matter of principle does not differ in a single iota from the principles governing private insurance. In his own words he talks of it as being:

“.... An organised movement to prevent the destruction of wage working families as consuming units by any of the ordinary emergencies of modern day existence. It means the establishment of national or public institutions to help and encourage the various forms of insurance, which the workman needs for protection against the various hazards of his existence. It means the willingness of the social body to assume a substantial part of the cost of insurance, to assume a part of the burden which otherwise the wage working class must carry on its shoulders.”

From Rubinow's definition one may safely deduce the following characteristics of social insurance schemes. First, such schemes are based on the law of large numbers, as is the case with fire or life assurance. The second issue and usually less emphasised in modern literature is that such schemes are intended for the benefit of the low income cohort, the wage labourers not the middle nor the upper class. That prognosis raises other questions such as to why none labourers have to contribute to national schemes when they are prima-facie not the intended recipients of the benefits. The political and economic theories discussed in chapter three of this thesis answer some of those questions though there is inevitably a scope for debate beyond the two theories.

The last but fundamental issue is that the states must make a contribution that is very substantial towards the cost of insurance. In essence what it implies is that the insured person under a social insurance contract does not need to bear the full cost of insurance but rather make an unfair contribution. By an unfair contribution I mean one whose actuarial equivalence does not match the benefit otherwise payable under a normal insurance contract policy.

McCleary (1930) discusses the development of national health insurance schemes in Europe and makes an interesting description of what he understands about social insurance. He says by a national scheme he does not mean one that insures the whole population of a country, but one which, though limited to the insurance of workers in certain defined occupations, nation-wide in its extent and subject to some measure of state supervision and control. He goes further to say that such a scheme need not be a scheme of compulsory insurance as such.

From McCleary's definition, at least four deductions can be made from it. The first and possibly most important is the fact that such schemes need not insure the whole population. The national scheme may cover just a group of employees. That is to say, it would be perfectly within the domains of social insurance for it to target a particular section of employees defined by trade, income, and so forth. The other outstanding feature is that such schemes need be under state supervision though the state need not be responsible for the every day running of the scheme. Lastly, a point reiterated by Rubinow (1914) is that compulsion of membership to a national scheme is not necessary.

Lyrio (1993) says social insurance must be understood in the context of social security. He defines social security, as a set of programmes ruled by the public sector, of which amongst its integral sets is included social insurance that encompasses the state pension schemes. Lyrio (1993) says social insurance and state pensions as such are a proper subset of social security, but the former are responsible for programmes concerning benefit area, that is retirement insurance, unemployment benefits and so on. He goes further to argue that social insurance is distinguishable from other social security programmes by its high degree of sophistication as it operates in the field of well defined compulsory payments and financial allocations under a series of pre-established rules.

Lyrio is one of the authorities that believe that compulsion is an integral feature of a National Insurance scheme. As would be seen later in this report, some of these arguments about making national schemes compulsory are flawed as a matter of principle. Booth and Dickinson (1997) make an interesting evaluation of the insurability in the private markets of some of the risks that have otherwise been traditionally thought to be outside the scope of private markets provision.

There are many other attempts to define social insurance whose content and context is of less relevance to this paper. See for example Lalor (1995), Collin (1986), The Oxford English Dictionary (1996) and so on. However, in short and judging from the definitions that have been explained by the various authorities, I can conclude that the key features of a social insurance are that it is a state propelled, more often than not compulsory and non-means tested contributory insurance scheme for wage earners and other such people on low income. I however note that there are some permissible

variations to the actual structure and operational functions of this otherwise complex branch of economics. The intention of national schemes seems to be one and that is that of helping labourers or otherwise people of low income overcome some of the risks that they would otherwise fail to place in the private markets.

2.2.1 My Definition for purposes of this research:

In this paper I consistently use the word social insurance and state pensions interchangeable as if they are one. Broadly speaking, state pensions are a proper subset of social insurance but for purposes of this research I am not being fastidious about the finer technicalities that may imply an explicit difference. By social insurance I mean one of the many varied national schemes whose objective is to pool and manage financial contributions of workers or those made on their behalf with the primary intention of improving their risk positions in light of the unforeseeable financial risks that they stand to incur as a result of old age, poor health and accidental injury arising from work related activities.

As said already in this paper I am not concerned about other forms of social insurance but state pensions insurance. In the case of Zimbabwe, when I am talking about the social insurance, I am referring to the National Social Security Scheme (NSSS). The state pensions referred to are the non-means tested benefits receivable by virtue of satisfying the eligibility contribution record to the national scheme. Such benefits as would be seen later have to be distinguished from the other means tested old age benefits that are found in virtually all the civilised parts of the world as part of the national social assistance programmes. In my report, I am not fastidious about the

difference between social security and social insurance and may use the two to refer to pensions insurance as is covered under the National Social Security Scheme.

2.3 The spectrum of social risks

In the context of my study I felt it imperative that I define the spectrum of social risks so as to give the reader a wider appreciation of the scope of social risks. Broadly speaking, social risks fall into four distinct classes. The first group includes risks that are generally referred to as the private risks. That is risks that are particular to individuals and whose occurrence is not fundamental to descent survival of mankind by standards acceptable by the general populace. To guard against contingencies of this nature, the individuals so exposed have to buy private insurance policies or risk having to bear the cost of the consequences of crystallisation of such risks. Typical examples of private risks would include such risks as theft of personal belongings, damage to private dwellings by insurable or non- insurable natural or man-made perils and so on.

The second class of risks is that of risks that can potentially affect a large cross section of the population and insurance in the private markets is not viable for reasons of efficiency or cost or other such economic/actuarial considerations that may render it uninsurable in the profit seeking markets. The risks in this category are generally classified as the social security insurance or simply social insurance risks. Conspicuous in this group is the unemployment insurance benefits and old age pension schemes. The financing of such risks varies from country to country, though the widely used approach is the pay as you go system directly dependent on current

payroll taxes. The benefits so provided are generally not correlated to total contributions made but mere uniform across the insured group.

The third group of risks is that of risks that affect the general populace but at a smaller scale and more haphazard in structural nature compared to the risks described above. Because of their nature whose behaviour cannot be predicted or controlled effectively by the private markets, risks in this class are generally not insurable in the conventional insurance markets. The social assistance programmes that are means tested in most cases make this class of risks. The benefits payable under social assistance schemes, in addition to being means tested, may in fact come in the form of benefits in kind rather than cash. Examples of state assistance benefits tend to vary from country to country depending on the economic and social circumstances of individual countries. The housing benefit and food relief schemes for the families earning or living below the tolerable poverty line or those suffering from mental infirmity are good examples of such schemes to help the less privileged. The financing of these risks is generally through the treasury from general taxation though special levies may apply to some high earners in other countries.

Last, there are those risks that can hardly be quantified in numeric terms. That is those risks that do not have an actuarial equivalence. These scarcely manifest themselves in physical form. Pain, grief and sentimental loss are difficult to quantify let alone in currency quanta. Such losses are found in every risk class I have discussed above. The vein diagram below shows the mathematical relationship of the risk classes.

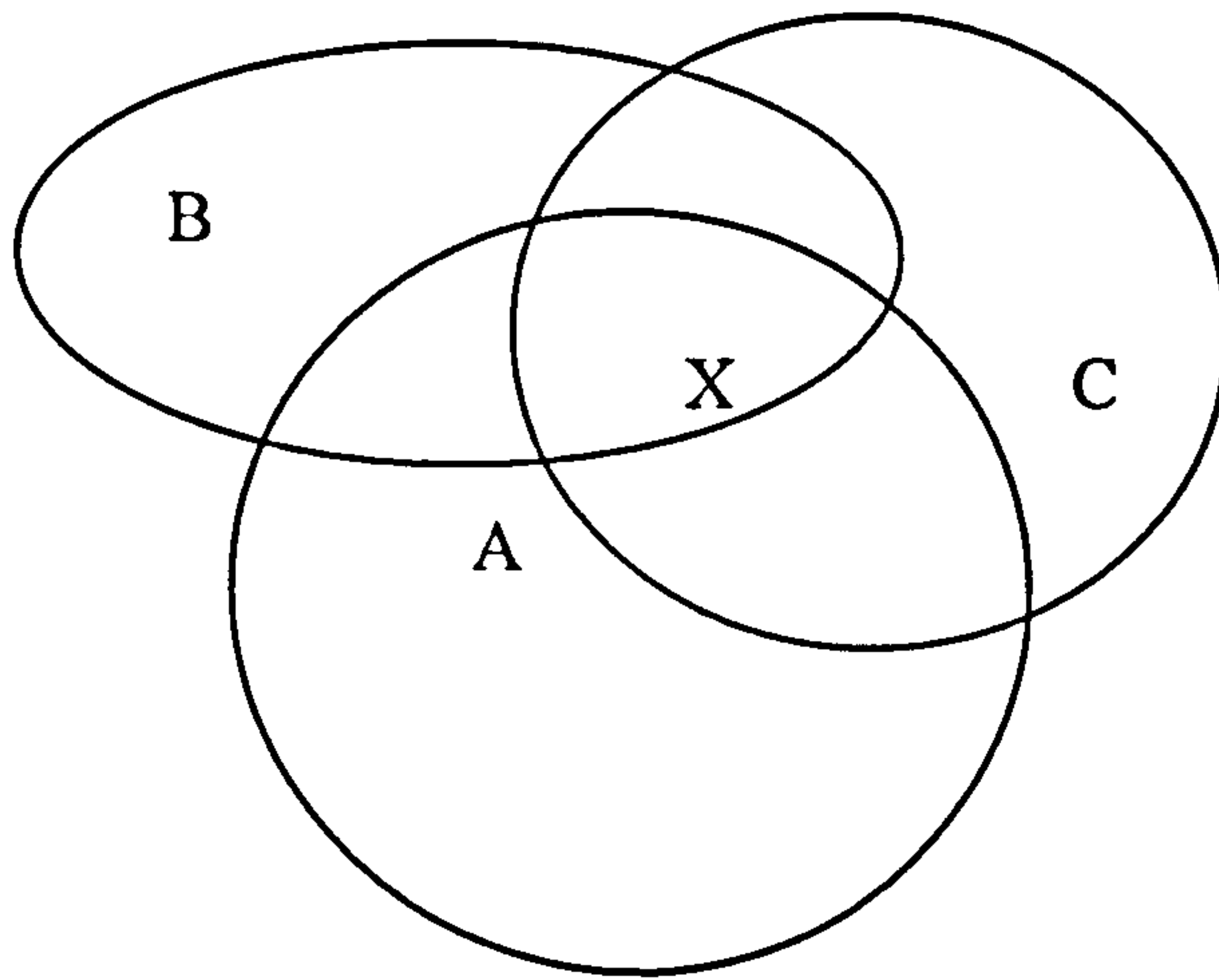


Figure 2.1: Source derived from risk assessment

Key to figure2.1:

A = Social insurance risks

B = Social assistance risks

C = Private insurance risks

X = Sentimental loss risks

As can be seen from the vein diagram above there is a lot of theoretical overlap in the relationship of risks that is also evident in practical life.

2.4 The scope of social insurance:

The span of risks insurable under social insurance schemes varies from country to country. In a very broad sense the social insurance falls under four groups. These are Pensions, Unemployment, Health and Workmen's Insurance. It is also worth noting that in some countries the legal expenses insurance is incorporated in the national social insurance scheme. This is the case with the United Kingdom. I briefly look into each of the broad classes of social insurance below.

2.4.1 The Pensions insurance:

The pensions insurance objective from an individual assured perspective is basically of two principal purposes. First and foremost, it is viewed by many as a precautionary saving for one of those rainy days. It may be seen as an insurance against the longevity risk. That is, risk of income loss due to old age and incapacity to provide for oneself. Alternatively it may be viewed as a saving for other motives other than insurance. This is generally known as the saving motive of pensions and generally associated with bequest theories. See Abel (1985), Hubbard (1985) and Kotlikoff and Summers (1981) for some of the accounts on precautionary saving and bequests. I will also discuss that subject in chapter three of this thesis. Diamond (1977) expands well on the subject of pensions as insurance and may be very useful to audiences not familiar with the business of pensions and insurance.

The provision of pensions by the state leads to other issues such as forced saving, adequacy of such saving, implications of such savings to the capital formation requirements of a country and many other issues as may not be covered in a report of this size. There are no immediate answers to some of the questions that may be raised under some of those headings as various studies have shown before.

The pensions insurance covers three risks as a generality. These are old age, invalidity and premature death of the insured. The latter two risks are covered as a matter of gratuity as it is possible and often advisable that a person must have a separate life policy against premature death and another separate personal accident/injury policy. The state pension schemes are as a generality not that generous though they tend to

cover the three risks without limiting their scope of cover to longevity risk exclusively.

The different national schemes have different rules relating to minimum qualification period, retirement age and so on. In the EC the Barber case led to the requirement of the standardisation of the retirement ages between men and women. It is worth noting that this requirement will take some time to implement fully. In the UK for example, it will not be until the second decade of this century before the equalisation in pensions in payment takes place. The benefits also vary and very few schemes have significant lump sum payments.

2.4.2 Unemployment Insurance:

In the greater part of the nineteenth century, it was generally acceptable that the responsibility of finding a job was an individual's responsibility. Those who could not find one often found themselves having to rely on charity or other such organisations as the church, feeding houses and so forth, and that is where such institutions existed. For the history of unemployment insurance see for example Tillyard (1949). As a result of Otto Von Bismarck's radical reforms in Germany, it soon became acceptable almost through out Western Europe that the states had a responsibility to shoulder the burden of unemployment. This philosophy has since gradually spread to most parts of the world though it is still alien in many. To ease the problem of financing such big schemes, most countries adopted a tripartite approach to financing unemployment insurance benefits, whereby the employees, the employers and the government contribute towards such a scheme.

In many countries the trend is that unemployment insurance benefits schemes cover workmen in factories, commerce and industry while the agricultural and self employed persons are excluded for underwriting and logistical reasons. The benefits provided under unemployment insurance schemes are generally both in cash and in kind. Benefits in kind would normally entail retraining and counselling.

2.4.3 Health Insurance:

The primary purpose of national health insurance schemes is to improve and maintain certain minimum health standards for the workmen and the general populace. The blind view has tended to be that the benefit of national health insurance accrues to the insured public. The implicit cost that firms stand to incur in the form of recruiting and training a replacement employee in the event of elongated absence through sickness or death of an employee is more often than not overlooked. Other indirect costs such as diminished production output as a result of poor health or low moral from working in a sickly environment hits employers and the government indiscriminately. It is also worth noting that low production means lower revenue for central governments to tax. That explains one of the theoretical foundations for the economic rationale in the tripartite financing of health insurance. McCleary (1930) discusses the subject of the history of health insurance very well and may be a good source for elaborate reading in the subject.

The national schemes would as a generality give both preventative and curative benefits to the insured population. Some schemes do cover funeral expenses, usually in the form of a single lump sum grant predetermined in the scheme rules.

2.4.4 The workmen's compensation insurance scheme:

This is a national version of the group personal accident insurance schemes underwritten in the private markets. The core risks insured under such schemes are accidental injury or death and fortuitous contraction of a disease during and in the course of one's employment. Many national schemes of this nature usually exclude small employers from participating¹.

The benefits so provided under such schemes are both in cash and in kind. The benefits in cash will normally be a percentage of one's full earnings (usually 75% to 80%). Such payment is generally made until the insured has recovered his ability to work though there may be some time limits as to the maximum number of years one may claim such a benefit. If the insured becomes permanently disabled a lump sum settlement may be payable of which there after he may have to live on invalidity pension, depending of course on his contribution record and other qualifying requirements for such benefits and the general social security provision in place.

In addition to the above, some national schemes may offer rehabilitation or other such benefits in kind. In Zimbabwe the national scheme owns a number of such rehabilitation centres including its own medical clinics. The practice as already said varies from country to country.

¹ There is no apparent rationale for this anomaly though problems with enforcing this insurance requirement to small firms are often used to justify it.

2.5 The aims of this study

My first object in this study is to survey the existing literature, make historical and theoretical foundations for the existence of social insurance in general and state pensions insurance in particular. It is my hope that by so doing I may provoke fresh thinking and some academic debate on some of the pertinent issues relating to pension insurance provided by the states through various public institutions.

The second and probably most important of all my objectives is to review and evaluate the effects of the introduction of the NSSS (social insurance) to the Zimbabwean economy. In particular, to examine how the national scheme has impacted to different market agents such as the assured public, traditional pension firms and so on. I also make some analysis of the immediate past and current experiences in Zimbabwe as perceived by those that matter most in the development of the insurance and pensions markets. It is also my intention to discover and highlight through narrative, analysis and comment on some of those contributions of social insurance that have not been subject of debate in Zimbabwe in the past.

Thirdly, it is my aim to use the previously unused data to test empirically the theoretical arguments about the effect of state pensions on the demand for private pensions. Prima facie there may seem to be an obvious case that state pensions reduce demand for private pensions, but given the complexity of the demand factors for pensions insurance it is of paramount importance that this hypothesis is subject to some empirical examination before any conclusions are made.

The issue of the economic impact of state pensions in Zimbabwe has never before been fully examined at this level. It is my hope that despite the problems of both political and economic instability at the time when we were researching for this thesis, our submissions would be able to set a framework of analysis of the Zimbabwean pensions markets that is intelligible not only for purposes of satisfying the requirements otherwise expected of research at this level but also for use by the policy makers and/ or other such groups that have interest in this area.

Finally, it is my hope that this study will form the starting point for some other people interested in this area of research in Zimbabwe. Not only do I hope that our thesis will form the basis of future research but also that it may form the basis for future theoretical and policy formulations in so far as the Zimbabwean and other related Southern African markets are concerned.

2.6 The scope of the study:

This paper is not influenced or restricted by any form of political or religious allegiance or any other force. The only limitations came in the form of time upon which the sponsors of this research expected me to be through with it. The other sources of restriction were sources of data and the strict financial budget under which this research was carried out in the past three years. The other restrictions are in no way different from those that any other researcher in our field would encounter in the work of this magnitude.

The subject of social insurance wide as it is cannot with any reasonable analysis be evaluated at this level as a single occurrence. This report, as such focuses on the state

pensions insurance and its immediate peripheral markets. Having given a broad perspective environment of the markets in general and pensions insurance in particular it starts by tracing the development of social insurance in general and the British and Zimbabwean cases specifically. It also briefly explains the structure and financing of the two schemes after which it draws at the specific economic issues that arise from the two models. I go on to make a careful review of the Zimbabwean NSSS in the light of the wider social, political, and economic and international experiences with social insurance schemes. Salient features from both social and economic theories developed by western academics are visited in the context of the Zimbabwean experience in a bid to determine the extent to which Zimbabwe national social security scheme conforms to those observations.

A full list of references together with the bibliography is available at the end of this thesis. The appendices are also attached at the end of this report.

2.7 Justification of the study:

The issue of the development of social insurance as a general subject is as fascinating as the debate on how pensions affect our capital stocks. At the moment there is no consensus on both originality and effect of social insurance. Contradicting accounts and effects have been widely availed in the academia literature. In fact, different economies seem to respond in different ways to the otherwise similar or related social insurance schemes. It is in that regard that we felt obliged to carry out further research so as to establish how the Zimbabwean market responds to such a development.

While tracing the origin of social insurance is one of our many objectives the central core of our research centres on the economic effects of social security pensions. As is

shown in the later part of this paper, most of the previous empirical work has been based on the US data. There is no evidence of similar work that has been done using the Zimbabwean data. By doing this research, it is my hope to provoke similar research but using different sources and origins of data. In so doing, it is my hope that may be some of the mist of public pensions and private pensions markets may be better understood and policy implications applied accordingly.

The controversy of compulsory and voluntary pension provision apart from being critically reviewed also forms a substantial part of my debate in this research. It is my sincere hope that our findings in this area will contribute to the pool of knowledge about the provision of pensions and most importantly how national schemes ought to be arranged particularly in small economies such as Zimbabwe.

We feel that this research would be of interest to both the academia and policy makers. The simplicity of language and uncomplicated statistics used in this paper makes my research readable by people from a diversified back ground. The envisaged wide spectrum of readership will at least, I hope widen the horizon and understanding of the subject at various levels.

2.8 Literature review

Different professionals ranging from political scientists to actuaries have made a vast of very wealthy literature available in this subject area. To say I was able to visit all of that literature is not true with all possibilities. I try to make as such an appraisal of that which relates meaningfully to this thesis. The rest of the avalanche is left for others to chew.

Ogus (1982) traces the development of social insurance in Britain from 1882 to 1982. The work covered there can be a good starting point for those not familiar with the development of social insurance in Britain. Maseko (1991) makes a related account on the Zimbabwean private occupational schemes. The latter in fact, gives an insight to some of the traditional structures of the Zimbabwean pensions insurance market.

Barr (1986 and 1998) gives a good framework for a foundation on both the political and economic theory of social insurance. His broad work compliments that of various authorities that have contributed individually in the many political economy journals and other such publications.

The subject of measuring household saving dates very far back. Many incumbents in this area are known but probably the most outstanding has been Franco Modigliani. His 1949 paper on problems in economic forecasting in measuring saving-income ratio is one of the earliest of the modern attempts to explain the problem of saving measurement. That paper has since been followed by other equally outstanding works such as the 1986 Nobel Prize winning paper on lifecycle, individual thrift and the wealth of the nations. Gapinski (1993) makes a good account of the economics of saving. The various saving theories are reiterated and critically examined by independent reviewers.

The basis of current debate in the subject of state insurance and private savings goes back to Feldstein (1974). Feldstein's work is important in this area for principally three reasons. First he is the first to have put the controversy of social insurance on the academic forum for debate. Secondly, his work marked the beginning of academic

interest in the subject of retirement behaviour and saving. Thirdly and last, his theories are a solid foundation for the initiation and subsequent development of future hypotheses in the subject.

Barro (1978) extended the life cycle model to include altruistic bequests and showed that social security had no impact what so ever on saving. In his conclusion, in fact, goes further than that in highlighting the fact that the uncertainty about future labour income may make his first submission untrue. The same result could be found in a model with myopic households with less regard to uncertainty about future labour income. The empirical results at that point become dicey in that they cannot be accounted for in a single model. This has the same effect with results that fall in a multicollinearity econometric map. Many other persons have taken the time series analyses. Magnussen (1994) summarises most of the recent major works in the area of private saving and state pensions.

The table below shows a summary of the major time-series analysis papers that have been published in this subject. The papers address the question of whether or not state pensions reduce private saving. The papers with a # indicate that quarterly data was used.

Table 2.1: Selection of some papers on social insurance and household saving

Authors	Estimation period	Country	Conclusion
Feldstein (1974)	1930-71	US	Yes
Munnell (1974)	1929-69	US	Yes
Barro (1978)	1929-74	US	No
Darby (1979)	1929-74	US	?
Markowski and Palmer (1979)	1954-75	Sweden	Yes
Boyle and Murrey (1979)	1946-69	Canada	No
Denny and Rea (1979)	1946-75	Canada	No
Pfaff, Hurler and Dennerlein (1979)	1965-78	Germany	Yes
Carmichael and Hawtrey (1981)	1961-79 #	Australia	No
Leimer and Lesnoy (1982)	1929-76	US	No
Feldstein (1982)	1929-76	US	Yes
Browning (1982)	1966-76 #	UK	Yes
Bentzel and Berg (1983)	1955-79	Sweden	No
Lee and Chao (1988)	1930-74	US	No
Magnussen (1994)	1966-90	Norway	No

Source: Magnussen (1994)

Table 2.2 below shows the list of authors and their findings on the same question of whether or not pensions reduce personal saving. These authors use the cross-country analysis to interpolate their empirical results. As is normally the case, in cross-country analysis the authors use data for different countries over an estimation period of five or more years.

Table 2.2: Cross country papers on social insurance and savings

Author	Period	Countries	Method	Results
Feldstein (1977)	1954-1960	15	O, 2SLS	Yes
Barro and Macdonald (1980)	1951-1960	16	p	No
Modigliani and Sterling (1983)	1960-1970	21	O	No
Feldstein (1980)	1969-1975	12	O,2SLS	Yes

In the table above, O stands for the ordinary least squares on average data for each country. P indicates regression on pooled data while 2SLS shows that the labour participation rate is estimated separately.

The effect of social insurance on personal savings has also been investigated using the cross section analysis. Below, in table 2.3, we show some of the authors together with their responses to the question of pensions depressing personal saving. In the table the age group is specified only if a single age is investigated.

Table 2.3: Some cross section studies on social insurance and personal saving

Authors	Data	Period	Observations	Age-group	Conclusion
Kotlikoff (1979)	NSL	1966	2124	45-59	Yes
Feldstein and Pellechio (1979)	SFC	1962	126	55-64	Yes
King and Dicks-Mireaux (1982)	CSCF	1977	12734	-	Yes
Feldstein (1983)	LRHS	1969	2087	58-63	Yes
Blinder, Gordon and Wise (1983)	LRHS	1971	4130	60-65	No
Dicks-Mireaux and King (1984)	CSCF	1977	8279	-	Yes
Kurz (1984)	PCPP	1979	4293	-	Yes
David and Menchik (1985)	WS	1947-64	720	-	No
Mariger (1986)	SFC	1962	623	-	Yes
Bernheim (1987)	LRHS	1969	5267	58-63	Yes
Leimer and Richardson (1992)	CES	1982-83	2715	-	Yes

Table 2.3:source: Magnussen (1994)

Key to the table: All data except for CSFC are American. The abbreviations are as follows: LRHS= Longitudinal Retirement History Survey

PCPP= President’s commission on pension policy

WS= Wisconsin Survey

SFC= Survey of Financial Characteristics

CES= Consumer Expenditure Survey

NLS= National Longitudinal Survey

CSFC= Canadian Survey of Consumer Finances (Supplement)

The results of the various authors are testimony to the diversity both in approach and expectation of results in this area.

As would probably be expected in a research of this nature, we make specific literature reviews on particular chapters. The wide diversity of the scope of our study partly explains our approach. Most importantly continuous literature review in the respective chapters serves as a basis of understanding individual chapters.

2.9 The major issues investigated

- The nature and impact of factors that have shaped the NSSS into its current form.
- The effect that mandatory state pension schemes have on the demand for private pension schemes.
- The effect that mandatory state pensions insurance have on private savings
- The perception and understanding of specific clauses of the NSSS operations by the assured public.
- The perception and wishes of the executives with power to influence the development and operation of the NSSS in the future.
- The viability of the state scheme in its current form and possible reforms

2.10 Theoretical arguments behind some of the issues investigated

The state pensions insurance can potentially impact on the above stated hypotheses in various ways of which the very salient are discussed here. The conventional explanation of compulsion of state insurance schemes is to overcome the risk of adverse selection of risks. That is the risk of information asymmetry arising when the

most at risk are the most likely to seek insurance protection or higher levels of cover. In the pensions insurance that implies that those with higher longevity survival rates would be the most likely to seek pensions insurance cover. Booth and Dickinson (1997) argue that adverse selection in pensions insurance is an irrelevance.

The first hypothesis is self-explanatory. In our second hypothesis the argument is on how the introduction of a compulsory pension scheme will affect the demand for the voluntarily purchased private pension schemes. If the premium for the compulsory pension scheme is fair the demand for the voluntarily purchased schemes will reduce by the equivalent proportion. But if the premium is unfair the individual rational risk-averse household will almost certainly demand more private cover than would have had the compulsory pension scheme been fair.

The effect of social insurance to the private saving behaviour may manifest itself in various ways. First and crucially, if state benefits are predictable with certainty and adequate, the insured may feel obliged to save no more than what he contributes as premium to the national scheme. In this way the household consumption will increase thereby leading to a reduced individual provision.

An alternative to the above would be the case whereby the uncertainty about state insurance may lead to the risky averse paying less regard to the state scheme in their plans for providing for the future, irrespective of whether driven by bequest motives or post retirement income uncertainty.

The introduction of a national scheme may in fact increase private saving through what is sometimes called the “awareness” effect. The awareness effect is probably best associated with schemes at their infancy state, as it is hard to conceive that this effect would have a perpetual impact even to those schemes at their maturity levels.

The state pensions may also affect individual household saving behaviour depending on whether or not tax laws have a positive or negative effect on aggregate earnings from labour and pensions. The tax system may discourage households from continuing in employment after attaining retirement age. This is part of the so- called tax effect on saving and retirement behaviour.

The state provided insurance, at least in theory, can be seen as a competitor of the private markets supplied pensions. The advocates of private provision of pensions argue that deleting the state mandatory pensions from the pensions market equation will lead to a better deal for the consumers. It is also important that the level of understanding the law and rules governing the NSSS is tested if generalisations of the perception of the state scheme are to be used as a guide in the direction of the development of this market.

The generosity of state pensions may also have a negative effect to private household saving. The households who may feel adequately protected by the state scheme may opt for earlier retirement than they would in the absence of a state scheme. This is sometimes known as the disincentive effect of social insurance in that it reduces the amount of active workforce in an economy.

2.11 Methodology

As would possibly be expected with any research on this subject and magnitude it would not have been possible to use a single method nor would it be rational to expect one to do so. This research was largely twofold in approach. That is, we employed two distinct tools of investigation. The first instrument employed in our first four chapters is that of deskwork while the rest of the chapters are founded on fieldwork. Two of Zimbabwe's biggest cities were selected for fieldwork. That was so, for we felt that sample sizes from the two biggest cities would be representative of the current characteristics of urban trends in the country. Household surveys were carried out in Bulawayo and Harare between April and May 2000. Before we discuss the actual exercise of gathering data, we will briefly explain the questions found in our questionnaires and the justification of our approach.

The questionnaires that were used in the investigation were twofold. The first was aimed at the employees, the assured public. The second was directed at the regulators and executives of the organisations in the insurance market. The first part of the questionnaire used for the assured public is essentially about the basic information of the respondent, that is gender, age, number of dependants and so on. The second part of the questionnaire sought to solicit information about the income and assets of the respondent. The amount of assets and income that employees have has a direct relevance to the amount that they would be willing to dispose on particular commodities. And as such, analysing the budget expenditure of individual household was deemed essential as a gauge of appreciation of the NSSS. The budget spread of the household on various commodities tells us about the willingness to spend on a particular commodity.

We also found it important to test the level of understanding of the law and rules governing the contractual obligations and benefits payable by the NSSS as a way of determining whether or not people understood the meaning and relevance of the state scheme. Testing that ability was also a way of judging the weight of the respondents' opinions about the state scheme. The less informed the respondent the higher the chances that they would make a less informed decision and provide a less realistic expected progression of the state scheme and the market in general as the society continues to learn more and more about the NSSS.

We also found it important to test the significance of the NSSS in improving the welfare of the employees for it is the perceived welfare gains that would undoubtedly influence the assured public about continuation of the state scheme and the form under which it should continue to develop. Complementing answers solicited through some open-ended questions corroborated the views gained by including a question to this effect and those that developed outside the scope of the standard questionnaire as the interview progressed.

The questionnaires used for the regulators and executives borrowed much from the standard questionnaire already discussed about the assured employees. We discuss most important questions that are included in the executives' questionnaires. The impact of the NSSS to the private markets was included, as a question, because we felt it important to find out the perception of the executives to that effect, for it is those perceptions held by executives that will help shape the NSSS.

The reaction of the private markets to the introduction of the NSSS was investigated from the view of the executives as a way of determining the sources of friction between the state scheme and the private markets. Including the question about the major obstacles to co-existence of the NSSS and the private schemes complemented the responses from our question soliciting the perceived life span of the state scheme. The open-ended question also brought to light some complementing views about the deep seeded suspicions between the state scheme and the private schemes.

Questionnaires and personal interviews were used for collecting information from a usable- population sample size of six hundred and three households (318 in Bulawayo and 285 from Harare). The questions contained in the questionnaires were piloted between September and October 1999 in Harare by two of my research assistants, David and John who had previous experience in information gathering, from their experiences working for a national brewing company. The major concern that was revealed by the pilot scheme related to a general climate of mistrust and suspicion arising mainly from the political situation at the time. They for example, reported that many people were suspicious of their intentions and displayed a general feeling of mistrust to the whole exercise. That was all caused, to a large extent, by the prevailing political situation in Zimbabwe. Some of the interviewees and potential interviewees thought, for example, that my two research assistants were agents of a political organisation. The fact that the information so gathered was to be given to me in London at the time made the scepticism about the whole intentions of the exercise even worse. There were for example some unfounded rumours that my research assistants were collecting information for onward transmission to the British government agents in London. It was for that reason that we modified the original

questionnaire and resulting in the exclusion of certain questions that could have been potentially misconstrued for political intents.

Still on that subject of suspicion, there were some people, for example, that thought the two research assistants were insurance agents trying to lure them into buying life assurance policies. Some people thought, of course wrongly, that my two research assistants could help them financially. Others wanted to know if co-operating with our team would entitle them to any benefit, most of which were social and caused by the economic hardships at the time. It was a mammoth task convincing the people that our exercise was just an academic exercise without any political affiliations.

My friend and now Member of Parliament for Matopo, L Moyo advised us to engage the local civic leaders and other influential organisations to void any ambiguities about our intentions, a strategy that worked greatly for me. During the months of April and May when the actual data for the thesis was being collected, the national parliamentary elections were not only looming but were also just a month away. The political violence that preceded the elections made it not only unsafe for me to collect the data but also posed a serious threat to the sensitivity and otherwise independence of opinions of the interviewees. For that reason my team and I had to be occasionally escorted by some makeshift local youth securities when we in the high-density suburbs where violence was most rife. We had to be very alert as we moved from place to place as would be expected for an investigative data gathering exercise in a country like Zimbabwe.

The level of suspicion and mistrust was better in offices than in the individual households and street surveys that we visited during our data gathering. It however suffices to mention that even the office staffs were not willing to talk freely at first. It was for that reason that we had to employ tactical strategies to get the confidence of the people we had targeted.

At times my team was to blame for the suspicions that were raised by the interviewees and our potential interviewees, as at times we tended to deviate from set down questions in the questionnaires. In the process the interviews ended up being longer than initially budgeted for. Partly because of that and to a large extent owing to the economic-political developments in the run up to the parliamentary elections, it was not possible to get information that was absolutely unbiased. The extent of bias and the ultimate effect to the overall picture of this report may never be fully ascertained.

The managers and other interviewees were difficult to find, as they all seemed to be operating under very stringent time budgets. My patience was brought to test on several occasions, as I had to wait in some of the managers' offices for more than I would have liked to. Some I had to make lunch appointments and discuss issues over lunch and have the questionnaires completed at the same time. There was equally little joy with the parliamentarians as most of them were preoccupied with party businesses in the run up to the parliamentary elections that were themselves very tense and closely contested. Assuring the Members of the House of Assembly that I was soliciting their views on social insurance for no other purpose other than the

academic exercise that I was carrying out proved a mammoth task. Most of them emphasised that their views were “off record” and did not want to be quoted.

We were also given some access to the life assurance annual returns statements and reports to the registrar of pension and provident funds and the commissioner of insurance’s crude annual reports by various companies and those by the commissioner himself. Though a large percentage of reports were either incomplete or up to date, they were quite useful for purposes of our research. We need also not emphasise that because of that we had to make some speculative analysis and conclusions at times.

Approaching a thesis from the angle we have done will inevitably attract criticism from certain quarters. We are however, not the first to use such an approach. Other people have employed different methods before successfully. Guduza (1996), Layman (1994) are examples of some of the people who have used a similar approach. The limitations to our data and methodological approach are briefly explained below. Some of the shortcomings are explained in the particular chapters.

2.12 Limitations of our method and data:

First and foremost, since I do not claim virginity in this area of study, it follows therefore that my theoretical framework has been influenced in one way or the other by the works that precede mine. As has already been shown above, some of the data used in this thesis was collected by people who had nothing to do with this thesis and certain aspects of the issues that are germane to this report were found missing resulting at times to speculative analysis and conclusions. The rest, if ever any, of the shortcomings are not significant in anyway as to warrant special mention. Lastly and

probably most importantly, I ought to mention that the time framework put upon me forced me to speed the process of this research to such an extent that I was not afforded a chance to make repeat observations on certain issues that I might have liked to.

2.13 Organisation of the thesis:

This thesis comprises of eight distinct chapters. The order of this thesis reflects the chronological development of the main issues that are subject of our investigation and analysis in this report. The order of the thesis also reflects some coherence of our analysis. Below I detail the core subjects of the respective chapters that make this thesis.

Chapter two lays the foundation and defines the salient concepts of the subject. Broad conceptualisation of markets and in particular state insurance and pensions are made. The general framework upon which our research centres is also made in this chapter.

Chapter three sets out approaches to social insurance markets as developed by the academics from the Western world. I discuss the principles of insurance provision and seek to explain here the reasons behind the emergence and continued existence of state provision of some of the insurance services. This chapter also gives a literature review in this debate as a prelude to testing the relevance of those structural, organisational, political and economic arguments to the Zimbabwean experience bearing in mind that they have been developed with Western economies in mind.

In chapter four I trace the development of social insurance in general and look at the specific developments relating to state pensions in the UK and Zimbabwe. In this chapter I also discuss the present pensions structure in the two countries. Some core salient features of the two schemes are carefully noted in this chapter, as are the broad economic policy implications of such features.

A critical analysis of the state pensions insurance in light of the present pensions market structure in Zimbabwe is made in chapter five. It is in this chapter that I also make a critical review and appraisal of the National Social Security Scheme in view of the wider socio-economic policies in place.

Chapter six continues where chapter five left. I use a simple model to explain the demand effect of the Zimbabwean NSSS to the local market. As with any other work of this nature, our mathematical analysis was determined by the circumstances of our data.

It is in chapter seven that we look at the various market findings in Zimbabwe. The effect of the NSSS on the personal household saving trends is tested in this chapter. The results of our field- work are discussed here and where necessary compared to the experiences from the tried and established markets such as the UK. In chapter eight we make some broad conclusions from our research and high light areas that have not been fully addressed or that need further research in their own right and possible reforms that can be done to improve the NSSS.

CHAPTER THREE

PERSPECTIVES ON STATE PENSIONS AND INSURANCE MARKETS

“The political process has a short electoral time scale: governments respond to current dissatisfactions, well founded or not...(There) is a tacit conspiracy to maintain the welfare state (as) it is still a powerful way to win votes. The contests between the parties preserve and inflate the system...Expenditure (has) has been taken as a measure of effectiveness.” Seldom (1996)

3.1 Introduction

In this chapter we seek to make an informed approach to state pensions insurance and insurance markets as developed by the academics from the western world. It is essential from the onset to mention that the concepts that we discuss here were developed primarily to explain and at times to justify the state pensions in those developed insurance markets. The economic and other econometric models that have been developed and used were developed primarily with the western economies in mind. It is as such not surprising that they have tended to fit so well to the western arguments, data and experiences. In this end we seek to set a framework upon which the same tools developed by those academics can be extended so as to explain their relevance and applicability to the Zimbabwean experiences. I find this an important academic cause for never before has the Zimbabwean state pensions insurance system been scrutinised at this level in terms of the broad financial markets within the domains of both economic and political spectrum.

A lot of empirical work has been done in the developed economies in moves aimed at least to prove that social insurance can be explained in terms of conventional principles and models of economics. The US works take a lead in that aspect see for example the works of the likes of Feldstein (1974) Katona (1965) Wentworth and Mortley (1970) and many others.¹ Recently there has been a fair wide spread of research in this area of social insurance and particularly on how it impacts on individual saving behaviour and capital markets at large. Reports using empirical data for countries such as the UK,² Italy, Norway to advance or dent some of the longstanding views about social insurance and household behaviour are abundant by whatever standards. The same view can be said with regard to comparability studies on social insurance systems; that is their organisation, financing, performance and so forth. But such works seem to have been limited to the Western and North American experiences with East and Central European and Latin America featuring mostly on pensions reform.

It is not easy to come out with a universally acceptable definition of an insurance market nor does it sound rational to expect one such definition. Various academics have attempted to introduce relatively acceptable definitions of insurance markets. Carter (1974) defines the UK insurance industry as that paradigm of firms consisting of companies, societies and individuals producing closely competing services. He refers to the whole totality of participants as the UK insurance market. I will for our part seek to define the insurance market as that totality of suppliers, consumers and regulators of the insurance services in any given economic set up. As may be noted,

¹ See for example Wittee (1962) "The Development of the Social Security Act" University of Wisconsin Press, Madison.

the actual insurance market in practice is far more complicated than that. The diversity and intermingling within the paradigm of participants that constitute the market itself explain that complexity.

The insurance market unlike other markets is unique and thus calls for a unique approach. The pensions insurance market is a proper subset of the insurance market as a whole that is it self-a proper subset of the financial services market at large. The state pensions insurance market exists as an integral part of the whole system. The relevance and impact of the state pensions insurance market depends to a large extent on how it is organised and financed.³ And more importantly, on how it is perceived and interpreted by the private participants in the market. In addition to that there are other forces that shape and determine the pace and direction of the debate about social insurance and its effect or future likely effect on the economy. Most notably being the political pressure groups, the social policy research institutes, actuarial discoveries and many others.⁴

The nature of the commodity that is the subject of pensions insurance explains its variance from the other conventional economic markets. The unique physical nature of pensions includes the following: “its high cost of supply, long-term investment, quasi-homogeneity and poor liquidity in the short run”.⁵ In addition to these, because

² See for example Magnussen, K.A (1994): Precautionary saving and old age pensions. Discussion paper 108, Statistics Norway. Browning (1982): Savings and pensions: some UK evidence. Economic journal 92

³ See for example Casey (1993) “Employer’s choice of pension schemes: London HMSO.

⁴ See Dilnot A, Disney R, Johnson P and Whitehouse E (1994) Pensions Policy in the UK : An economic analysis, London: The Institute of Fiscal Studies.

⁵ Note that firms selling insurance products are statutorily required to meet minimum capital requirements before they can be licensed. The long-term liability reserves that the government actuaries recommend make pensions a business for the financially sound only firms.

of susceptibility to fraud and financial loss due to firms failing to perform, pensions have to conform to generally tight regulatory obligations meant to protect the public.

Insurance business (pensions included) is about buying deferred promises. Pension provision may be viewed, as an insurance against the risk that the individual will outlive the age at which he is capable to continue in effective employment. As such pensions insurance is a prepaid benefit realisable only when the individual insured reaches the pre-agreed retirement age. The economic benefit that the insured enjoys is the certainty of income in the life after retirement. The insurer, at least in theory, rests on the risk that the individual life will drop before retirement age. In practice it may not be so as the insurance companies are generally generous enough to pay the accumulated capital sum to the beneficiaries of the insured's estate should the latter die before reaching the retirement age.⁶ It is also normal for the suppliers of pensions to invest the individual sums paid as premiums in highly profitable ventures and make profit despite having to pay huge pay outs in respect of lives that drop before maturity.

The whole contract of insurance is based on the principle of "utmost good faith." That is the legal duty to disclose all the relevant material facts without misrepresentations by both parties to the contract. In pensions the subject of disclosure is of less relevance as the ability to see one's life through to retirement age is independent of the individual insured's control. If ever the insured were to influence the risk, it would have to be through cutting short his life, which in theory would be to the advantage of the insurers.

⁶ Booth and Dickinson (1997) "The Insurance solution" European policy forum, London

A pension as a product is characterised by amongst its important features the non-liquidity and vulnerability to inflationary pressure that may lead to social costs if not properly meditated. Investing in pensions may thus be viewed in the context of the individual's life cycle consumption. There has been some works aimed at modelling pensions as a function of the human life cycle, see table 2.1. The non-liquidity of pensions as a commodity stems from the fact that pension insurance is a long-term investment. Money invested in pensions may as such not be used to finance short-term financial constraints. This is normally in black and white in the contract. This is true in respect of both the state and private pension provision.

When a house- hold decides to invest in a pension policy, it defers a part of today's consumption to a future date after retirement.⁷ This deferred income may not, as a generality, be touched until the agreed retirement age. It is partly because of this that pensions as are other long-term assurances, are governed through a strict financial code through both statutory Acts and self- governance in the form of professional bodies.⁸ The latter in particular tend to exercise strict ethical codes that the affiliate members are expected to abide by. Failure of which may result in expulsion or de-registration as it is often called in the professional world. A system of prohibitive and punitive fines may also be used depending on the gravity of individual misdemeanour to curtail members from acting in a manner that puts the reputation of the profession into disrepute.

⁷ See Barr (1998) "The Economics of the Welfare State", 3rd edition, Oxford University Press Oxford.

⁸ See the Financial Services Act (1986) HMSO London

The stringent regulatory framework and high ethical expectations in the market cut out potentially “bogus” firms from entering the market. Firms with short-term life spans are kept out by the capital and long-term reserve requirements. It is rather rational to expect that only firms with long-term projections will be willing to hold large sums of money in the form of relatively non-liquid form such as investments in land and estates.

The issue of inflation, a subject that we will turn to later in the report brings yet another dimension to the pension debate. Neither the insured nor the suppliers of pension have control over inflation. It is the central government that is in principle the sole custodian of curbing inflationary sores. The cost of inflation in state provided pensions insurance is as a generality fully met by the suppliers where is in privately run schemes the insured is normally left with a substantial cost of inflation to contend with. It is for that reason that only the state can offer inflation insurance that the argument of public provision of pensions is enhanced.⁹ It is in fact the only principal feature of pensions that even the opponents of state provision find difficult to ignore. The inflation variable thus brings to question the suitability of private provision of pensions in view of the fact that private suppliers cannot fully hedge against the risk of inflation.

It is because of this broad diversity of pensions insurance aspect that this subject has been approached from various disciplines and schools of thought. Principally it has been approached from the angles of political science, psychology, philosophy, economics, actuarial science and sociology. This broad diversity in approach explains

⁹ Barr (1987) “The Economics of the Welfare State” Weidenfield and Nicolson; London

the apparent polysemy and interpretation of the insurance markets and in particular as they relate to state insurance. The rich theoretical background in support of these various approaches shows how varied their scope is.

We will now thus attune this chapter to the fundamentals of the major schools of thought in pension provision. To achieve that, we disentangle our analysis into two distinguishable broad cells comprising of ideology and political and economic theories. The former two are generally intertwined and are as such best understood when discussed simultaneously. This is so primarily because they both seek to address the issue of social justice in the society where is in the case of economic theory the substance of debate lies with the economic efficiency of systems in resource allocation.

3.2 Ideological phenomena

Barr (1998) contends that amongst the core aims of the developed western world are efficiency in the use of resources: their fair and just distribution and the preservation of individual freedom. The interpretation and applicability varies according to different schools of thought.¹⁰ Most other developing nations as are some of the poorest states do adopt similar mission statements to those upheld by the developed western countries, namely to provide and uphold individual freedom, security and justice.¹¹ The undeveloped economies have only tended to differ from the rest of the world in failing to implement honestly and truthfully the spirit of this largely universal mission statement. Having said that, it must not be failed to realise that there are some other reasons that explain this anomaly in the developing world, notably of

¹⁰ Ibid.

which is lack of adequate resources, divergence of cultures and economic beliefs and the impact of neo-colonialism.

The subject of security, freedom and justice has been applied in various humanity needs in particular where human rights are pivotal. Pensions insurance has not been an exception as in fact has been the case with any other insurance and other fundamental needs of mankind.¹² The question of exceptions has tended to arise only when issues of “to what extent” have been invoked. And it is this question that distinguishes the Libertarians from the socialists and the latter from the utilitarian and the former and others.¹³ It is within these ideological idioms that the political eclectic running of pensions insurance comes to play. Notwithstanding the fact that it is a mammoth econometric task measuring these concepts that are distinguishing characters, there still remain strong theoretical arguments for and against these ideological schools of thought. It is where this chapter will now focus.

¹¹ See the UN charter on individual freedom, security and justice

¹² Typical considerations are housing, medical, legal protection schemes and so on.

¹³ Note that these focal groups are many and their impact in our society varies extensively. See Barr (1987) *The Economics of the Welfare state* Weidenfeld and Nicolson London

Table 3.1: The three broad theories of social justice.

Theory	Priority	Ultimate goals	E.g. reference
Libertarians	Individual freedom and market mechanism	Maximisation of total welfare	Thornely (1993)
Liberals	Advocates of capitalism with government action	Maximisation of efficiency and equity	Gorovitz (1975)
Socialists	Government action & equality	Equality, freedom and fraternity	Laski (1967)

Source: Compiled from Barr (1998) The economics of the welfare state Oxford, Oxford University Press and Seldon (1981) Wither the Welfare State London Institute of Economic Affairs.

3.2.1 The Libertarians approach

The Libertarians are of two groups, namely the natural rights and empirical class. The latter class argue that state provision of services reduces total welfare while the former are against intervention in the markets on the grounds that it is morally wrong except in very limited circumstances Barr (1987). The “Thatcherist” approach in the UK falls under the empirical Libertarian. The two classes view the society in terms of individuals rather than group and give weight to individual freedom with unequivocal support for private property and the market mechanism. They both view the state involvement in taxation and redistribution with circumscription.¹⁴

In the insurance market the Libertarians philosophy would mean leaving the private market to sort itself out. The individuals would thus be expected to be rational and the markets to be able to provide with minimal or no difficulty at all. The people who share the views of the libertarians thus view the public-subsidised state pensions insurance with contempt. The role of the state, including regulation, in the market as far as they are concerned is best left at very minimal levels.

The Libertarian approach while it may be applied with relative ease and compromises in other commodities such as in housing as the Thatcher government once attempted in the UK, it is unlikely that the same could be said with old age pensions insurance. This is primarily for reasons of inflation that are beyond the scope of control of individual suppliers or markets. Booth and Dickinson (1997) argue that the private markets can in principle provide successfully in pensions. They note that from a pure underwriting point there is no obstacle whatsoever, see table 3.2 on insurability of

¹⁴ Ibid.

various social insurance schemes. They conclude that from the supply side there are no significant constraints that can hinder the private market being the major or sole supplier of old-age pensions. Of significance is that Booth and Dickinson (1997) do not discuss the subject of adequacy of pension that the individual household would seek to buy from the private market. The cost of inflation is also not discussed. Drawing these two important variables to the discussion would possibly have led to a different conclusion.

The libertarian approach does fail as a matter of principle to address some of the fundamental principles that are traditionally in the heart of the spirit of social insurance. These are some of the most important: vertical redistribution of wealth from the rich to the poor, the social solidarity of the workforce, distribution of wealth from the young to the old. And above all, the states' moral obligations to contain extremism in free markets.

3.2.2 The liberals belief

The liberals are of broadly two classes, namely the Rawlsian philosophy and utilitarian approach. The liberals unlike the libertarians discussed above believe in a "mixed approach." That is they recognise that the central governments alone cannot deliver efficiently in those areas where private provision is otherwise an alternative. More over they realise that private provision alone is inadequate and not to the best of interest of the consumers. Because of that the liberals argue that the government and private sector partnership is the solution to the social justice conflict arising from the economy adopted. From their view it is the combination of capitalism and

government action that jointly maximises efficiency and equity Barr (1998). We will now seek to make an overview analysis of the two approaches by the liberals.

3.2.2.1 The Utilitarian philosophy

The intellects that argue under the banner of utilitarianism share the foundation with the empirical libertarians discussed above. The utilitarian scholars are concerned about the maximisation of total utility in an economy's distribution of resources. To achieve that resources have to be distributed efficiently and equitably though not necessarily equally.¹⁵ Figure 3.1 below shows the equitable distribution line sought by the utilitarian philosophers. This figure represents a simple model consisting of two people A and B. The total income to be distributed being AB would imply that A's marginal utility is represented by the line aa (read from left to right) and diminishes as the income increases.¹⁶ B's marginal utility declines from right to left and is represented by the line bb. Total utility is maximised when income is shared equally, in fig.3.1 that is when A's income is AC and B's income is BC.

To justify state intervention for purposes of redistribution of resources the utilitarian scholars cite the egalitarian cause that comes by through government action in the market. This as Barr (1997) rightfully says depends crucially on the sample population having identical marginal utility of income functions. There are other econometric variables that have to be satisfied.¹⁷ As is shown in fig.3.1 changing B's marginal utility function to line b*b* leads to an unequal total welfare maximisation distribution function as A's income is increased by CD.

¹⁵ Ibid.

¹⁶ Ibid.

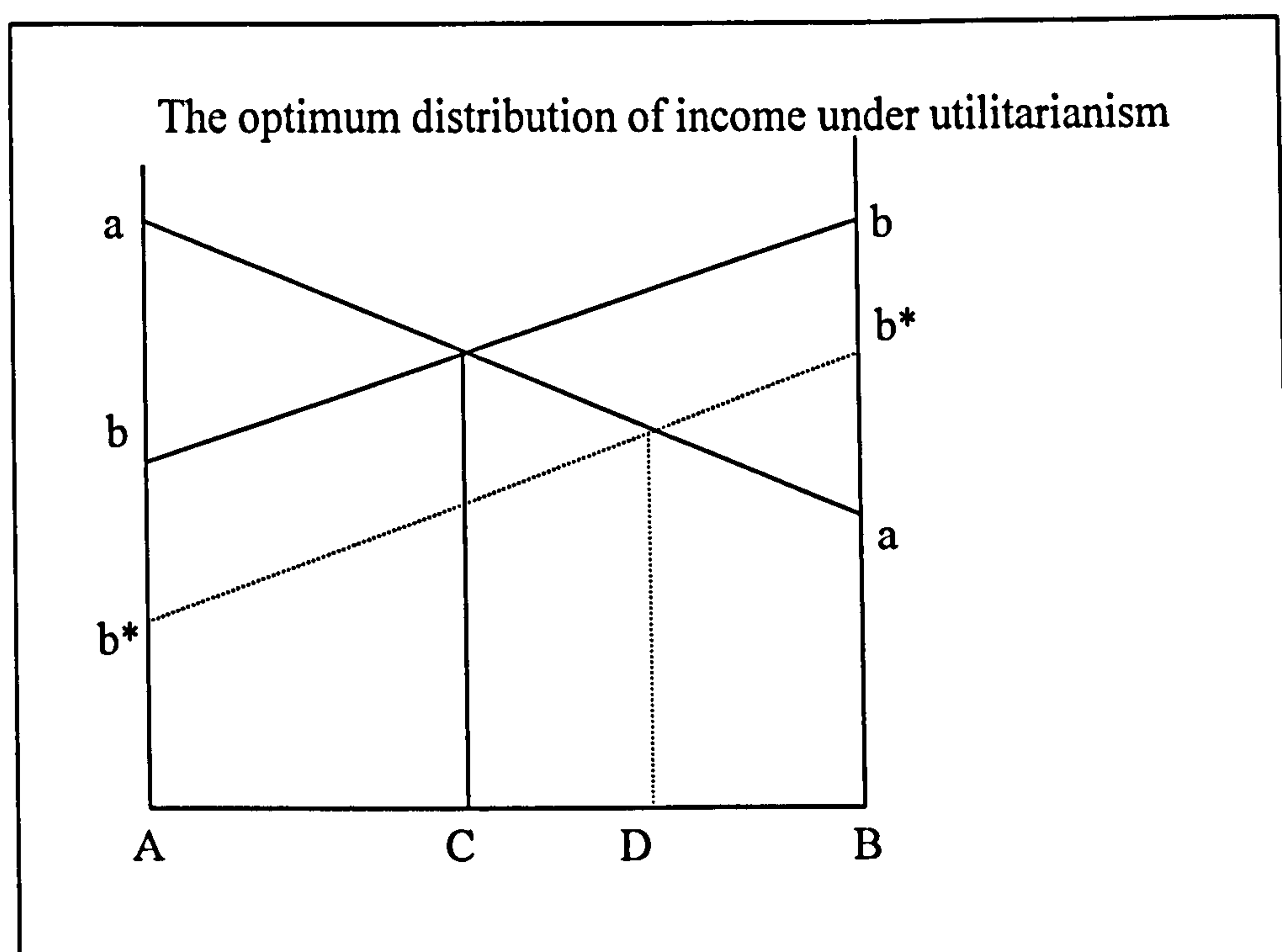


Figure 3.1 : Source Barr (1998) pp49

The utilitarian argument is as interesting as its short falls. From a practical point of view it is quite difficult to visualise as to what extent it has to be conceived. Apart from the obvious flaws such as the abstract mathematical measure used to measure utility and its functions there is also a fundamental question of compatibility with other prime objectives that are pivotal to social justice.¹⁸

In the pensions market the utilitarian approach raises some crucial moral and ethical questions. For example, it is difficult to say whose income satisfaction and security has to be used as a distinct line for the state intervention in the provision of pensions. More over is it ethically correct to penalise those members of the society that are irrational and can, as such not take adequate precautionary steps to hedge their

¹⁷ See Mdartz (1987) The econometrics of the welfare state University of Wisconsin Press Madison

¹⁸ There are some inevitable points of conflict that may render realisation of social justice objectives impossible. For example, in this instance the concept of individual freedom has to be compromised if a total maximisation of welfare under utilitarianism has to be achieved.

earnings against the foreseen difficulty of old age retirement life? On the other hand, is it morally justifiable to sacrifice the well-being of the rich few in order to maximise total utility? Taken from a pure economics point of view, there is an essential question of capital formation vis-à-vis whether it has to be sacrificed for the benefit of attaining total utility in the society.

Finally, above all the question that all these considerations lead to is the appropriate action plan in the form of government policy towards the provision of pensions. Because of the difficulty in satisfying all the members of the society equally, the decision would tend to be political rather than economic. In this instance of pensions that would mean for example sacrificing the pension needs of the rich few for the benefit of the poor many constituting the majority electorate.

3.2.2.2 The Rawlsian philosophy

The Rawls approach puts social justice as the prime aim of institutions. The argument starts essentially from a moral perspective and centres on the perception that institutions have to be perceived as being just.¹⁹ The Rawlsian approach is based on an assumption that people are rational, egocentric but bound by social contract principles that are negotiated by individuals as free agents to determine the distribution of goods Gorovitz (1975). The individual participants in the negotiations are assumed to be behind a mask of veil of ignorance in so far as the individual details about individual self are concerned. That is they are thought to be well informed about all the relevant facts surrounding them serve for the specificity of the occurrence of those events that will trigger the applicability of those principles agreed

¹⁹ Ibid pp44

upon. Failure to agree and be bound by such pre-agreed principles would lead to chaos as individual adversely affected members seek to violate the social contract principles in pursuit of individual remedy and equalising advantage.²⁰ It is from that point that this approach may be viewed as morally justifiable as the principles are determined in advance in the absence of individual prejudice. It is within the same analogy that Rawls himself argues that the principles of justice so derived rationally and unanimously will, because of the veil of ignorance, result in maximisation of liberty for the sample at large.

The Rawls theory is expounded dichotomously into first and second principle. These are the liberty and the difference principle respectively. The former is explained in terms of the individual's equal right to the most extensive basic liberty compatible with a similar liberty for others Rawls (1972) cited in Barr (1998). Having achieved that the individual negotiators will then focus on other goods²¹ other than liberty with each rejecting any principle of distribution that could leave him disadvantaged or exploited.

While the principle of equality is upheld as of primary importance it goes without saying that the advocates of this theory realise that the individual negotiators do uphold the principle of inequality for the best of the social contract. By way of example if introducing a non means-tested non- contributory old-age pension eliminates the burden of poverty and begging nuisance, the negotiators may find it advantageous to curve in even if it means that scroungers who do not want to work for

²⁰ By way of example, consider a case where all the society members agree that a drug abuser has to be executed. When out of the blue an individual family is faced with this predicament, their interest becomes to the contrary of the general interest.

²¹ Goods interpreted widely to include other essentials of mankind such as security, freedom etc.

their life after retirement are to benefit. It is as such not misleading to conclude that where there is social benefit or reduction of social cost the negotiators will be willing to give in to inequalities in distribution of goods and resources.

The second principle also known as the difference principle justifies social and economic inequalities if it satisfies the following conditions: First if the inequality is such that it is to the most benefit to the least advantaged. And secondly attaches to offices and positions open to all under conditions of fair equality of opportunity.²² The possibility of a potential conflict between the two principles is ruled out by a priority principle that gives the first principle absolute priority over the second.²³

Having said that it does not follow that this theory goes without its flaws and ifs and only ifs.²⁴ Of particular significance is the obscurity as to how Rawls reconciles the concept of being just without losing efficiency in the process within the social contract that the negotiators enter into. The Paretian efficiency measure wildly appreciated in modern economics hardly befits in the Rawlsian approach.

In the old age pensions market the application of the Rawls theory is as fascinating as is its importunate questions that it generates. First and foremost, it is difficult to envisage a pension insurance policy that may be deliberately tilted to the benefit of the privileged without posing a mandatory subsidy by the rich. Within the same analogy, even if it is the state that meets the cost of subsidy that, still results in double contribution by the well off in respect of their pension contribution in the economy. It

²² Ibid cited page 51

²³ ibid

²⁴ For a detailed analysis see Gorovitz (1975) "John Rawls: A theory of Justice" edited by Crespigny A. and Minogue K. R., Contemporary Political Philosophers, London: Methuen.

is in such flaws that the Rawls approach fails to justifiably meet the justice concept that is so much sought after by the liberal theorists.

The desire to develop policies that benefit the least well off poses a dilemma in the pensions market. Not only that this is absurd on its own right but it is also strange that a pensions model that may make the rich richer without making the poor worse off will be unacceptable in a Rawls backed model despite being a Pareto improvement.

Lastly, like any other social justice theory discussed so far, the Rawlsian approach is susceptible to political manipulation. Apart from determining the “yard sticks of measure” the politicians are known for their juggling skills in so far as pleasing the dominant electorate group is concerned. For that reason alone a policy drawn alongside the Rawls philosophy may manifest itself differently from one economy to the other all depending on the political muscles surrounding each. In that regard, it may not be surprising to find that in trying to apply the Rawls backed pensions model may in fact result in one contrary to the principles defined by Philosopher Rawls.

3.2.3 The Socialists approach

Like any other theory the socialists’ theory has various theoretical approaches and applicability. Barr (1998) refers to the socialist theory as the collectivist views. Historically the socialists have always believed in collective ownership of resources and means of production. They as such believe that equality and social justice could be attained when the state assumes the control of the allocation and distribution of most resources.²⁵

²⁵ Ibid.

Despite the wide divergence in various socialist goals they remain united when it comes to questions of equality, freedom and fraternity. The socialist authorities differ widely on the relative importance of each of these three. But as Barr (1998) relays it neatly, it is the collective weight of equality, freedom and fraternity that make up the socialist definition of justice. We will seek to review how these three concepts may be defined in terms of the insurance markets and their relevance in so far as the progression of the markets are concerned. For purposes of simplicity we will define the socialists as of two groups, namely the socialist democrats and the Marxists. The latter are the extremist groups that have a total disregard of capitalism while the former are the advocates of a capitalist economy with a blend of government involvement in the market.

3.2.3.1 The Socialist Democrats

These socialists subscribe to active state involvement in the production and distribution of resources and the tradition has been that they are opposed to the privatisation of public goods pensions included. The social democrats unlike the other extremist socialist groups observe the importance of retaining capitalism as a viable and efficient economic system. In addition to that they do not want to lose the distributional role that they envisage through state involvement in the economy. The mixed economy approach in the UK is partly explained by this ideological compromise. The observation in the UK with the coming of the new Labour government in to power is that the difference between the liberals and the democratic socialists is becoming a thin line.

The traditional socialists by virtue of their ideological priorities will advocate a state pensions insurance scheme that is generally standard on the benefits side but with a differential contribution scale to reflect individual earnings. In so doing it is also hoped that the distributional objective of wealth from the rich to the poor will be maintained.

The present flat rate old age pension system in the UK does satisfy the socialists' aim of equality in the distribution of income.²⁶ The subject of equality of opportunity as discussed by Tawney (1964) fits well to the publicly financed flat rate state pensions financed on a pay as you go basis that are found in most of the developed capitalist countries.

With the collapse of the communist economies in the late 1990s and the current trend of left political parties moving in the centre left or even further than that it is not obvious that the current set ups in the pensions will survive long. In fact, in the UK with the New Labour government so in obsession with modernising every sector it is likely that the UK old age pension system will move very closely to the liberals oriented goals. The proposed pension reforms in the UK are currently under the mist of uncertainties but indications are that it is likely to be highly individualised stakes.

Freedom as defined by the socialists is very broad. It includes amongst other things the free exercise of individual choice (which is possible only if there is no poverty and no substantial inequality of wealth and power) legal, political and economic security Barr (1998). In the insurance markets that would imply that the individual households

²⁶ Note that the flat rate pension mentioned here is but a part of the three-layer system under the British pension structure.

must exercise some power to the way they want the markets run and products designed and distributed. Contrary to the private markets approach where insurance (including pensions) is sold, it must be publicly distributed or at least have a substantial involvement of the state in the way it is supplied and distributed.

Fraternity the third major value of the socialist approach implies co-operation and altruism as opposed to competition and self-interest. From the point of view of the socialist democrats that objective becomes attainable by fostering public provision of those essential goods that the private markets may not provide to the best interest of the communities that they serve. This partnership between the state and the private sector in the provision of goods must be clearly distinguished from the fundamentalist socialist approach of absolute state provision.

3.2.3.2 The Marxists philosophy

The advocates and writers of this approach are united on the essence of equality. Barr (1997) refers to this group of socialists as the “fundamentalists who reject capitalism.” This is particularly justifiable when one considers that the basic philosophy of Marxism centres on the absolute dismissal of capitalism as an exploitative mechanism by the elite few. The extent of fundamentalism varies invariably within the Marxists philosophers. But according to Marx himself, as is stated by Mishra (1981) cited in Barr (1998) his attitude towards capitalism was one of outright rejection rather than reform. However, as this thesis is not on pensions role in the Marxists societies, we will not seek to elaborate much on the finer trivialities within this theory. Instead we seek to make a logical conceptualisation of the theory in relation to the insurance markets and show how some of the Marxists arguments have been used by some

critiques in the conventional western economies to blame or justify the states roles in the market.

The Marxist approach, as a socialist philosophy advances the importance of liberty, equality and fraternity. They view freedom and equality as the two central themes for the attainment of social justice. Freedom and equality are seen as two intermingled concepts contrary to the liberals' approach where the potential conflict between freedom and equality creates the central problem of the political economy Barr (1998).

The advocates and many authors on the Marxist philosophy particularly qualify the question of equality. According to them equality does not imply complete equalisation.²⁷ Laski (1967) cited by Barr (1997) argues that the Marxist approach is to attend to urgent claims of all before the particular needs of some. Having achieved that objective the next principle relies on the concept of "individual effort or ability."

The economic equality envisaged by the Marxists, as is the risk of class conflict calls for greater government involvement in the production and distribution of resources. To ensure that these aims are met, the Marxists thus subscribe to nationalisation of resources as a means of achieving their ideological goals. In so doing the public ownership and worker participation in the decision- making bodies become central to a Marxist state. That is in line with the concept of freedom that they uphold so much.

²⁷ Ibid

The concept of Marxism is itself as is any other theory not immune to inherence of flaws; some are general while some are particular to the financial markets. From a natural-rights libertarian point of view, the Marxists' equality vendetta is seen as a violation of individual freedom. The free market philosophy blames the central control of both production and distribution for inefficiency. The collapse of the East and Central European economies in the late 1980s has been cited as one of the examples of the inefficiency of the socialist approach.²⁸ But that line of argument is possible flawed as what was happening in the so- called former communist bloc was never what the original advocate such as Marx himself prescribed. Authorities such as Angel and Marx never advocated the command structure as that exercised by most of the brutal dictators during the- hey days of the communist era in Europe. And most importantly they never supported the concept of oppressing the workers by the governing agents most notably that of dictators.²⁹ The list of examples of possible misinterpretations of the concept of socialism and what actually happened in the former eastern bloc may form a separate study and will as such not pursue it further. We will how ever, concentrate on those issues of relevance to our study.

From a financial markets point of view in general Marxism would thus imply a tight control of the market through a system of central government controlled agencies. The exact modalities of production and distribution of the service would vary from country to country. Booth and Stroinski (1996) give any adequate background to the Polish financial market during its communist days and would as such be an invaluable

²⁸ See Eastern (1994) Competition and competition policy: A comparative analysis of Eastern and Central Europe, London , University of London

²⁹ See Veane R. et al (1983)The original works of Marx and Angels The world socialist movement occasional paper no.12 University of Zimbabwe.

reading for those not familiar with the former East and Central European economies before the modern reforms.

The Marxists as a general application to the pensions insurance market advocate a strong government intervention in both the production and distribution of the pensions. The government intervention may take the form of having one state owned supplier enjoying monopolistic rights or the central government itself directly executing such duties. The pensions products so provided would normally be of standard value sold at compulsorily uniform premiums. In fact, the experience with the cold war socialist countries has been to prove this analogy we are hypothesising here.

The experience with other regions such as China and Cuba conforms to the general observation that can be said of such countries as Bulgaria, Poland and other Central European countries before the reforms. Shifting the focus to African countries that once attempted the Marxist approach heralds a rather different synergy. Apart from the fact that Marxism never took up to the same extent as it did in other parts of the world, there is no clear record of the national old-age pensions niche being a fervent integral part of the government's social and economic policy.

Lastly as will be shown in chapter three there are some countries such as Zimbabwe in particular that once endeavoured to implement radical socialist based reforms in the financial markets. In some African economies the ruling elite exploited the peasant majority by having obscure command financial systems under the disguise of

Marxism. It was partly in that concept that some dictators managed to siphon millions of dollars out of Africa.³⁰

The Zimbabwean adventure was hindered by some technical uncertainties and some spurious commitment by the Zanu PF government during the years the latter sought to introduce a Marxist based economy. However despite that the taints of Marxist philosophy did manifest themselves in various forms in the financial market most conspicuous, being the tight regulatory control of the foreign currency exchange and majority shareholding scheme by the government in most of major occupational pension schemes. It is worth noting that the present large government stakes in the life assurance and pension funds was partly orchestrated under the pretext of advancing socialist goals of worker participation in the economy through government aided stakes.

3.3 The economic theory

3.3.1 Explaining the Pandora's box

So far in the immediate preceding section of this chapter we have discussed the political philosophy in so far as it relates to social justice of mankind. The involvement of politicians in markets goes beyond that of seeking social justice and most importantly in the production of goods and financial services it is for reasons of efficiency. The concept of efficiency has been discussed in relation to the three social justice principles already discussed in the preceding sections by different scholars. There is no single work that captures comprehensively all the different analogies of efficiency and political intervention in the production and distribution of resources but

³⁰ See Martela et al (1994) Socialism and the sub Saharan African states: Issues and views

Barr (1987) and Stiglitz (1993) do provide a wide conceptualisation of the various theories, observations and comments.

In this section we do not attempt to go through the rigorous exercise of reviewing efficiency in relation to every social justice theory discussed so far. Instead we seek to explain efficiency in a very broad sense applicable or at least explainable in terms of the various social justice theories within the context of the economic theory. Having done that we go on to explain the implications for the efficiency failure in markets and how the society has responded to such failure. The market efficiency in insurance is discussed in general and more specifically with regard to pensions insurance. The subject of insurability of old age as a risk is also well expounded in this section. It is our hope that this section gives a reader a brief but rich background to the conceptual theories of efficiency and insurance mechanism.

3.3.2 Efficiency and state intervention in the markets

Efficiency is the maximisation of the production output that leads to an added value accumulation without making anybody worse off. It can best be construed as a production function of various commodities determined by a particular mathematical equation where in deviation from the equation results in one or some members of the society being worse off. Vilfredo Pareto's model of price mechanism in determining the allocation of resources explains well the marginal social cost/benefit effect in reaching optimal production level. In fact when the marginal social cost is equivalent to the marginal social value the Pareto optimal prevails.

In figure 3.2 it can be shown in a simplified form that for the simplicity sake if X is a good whose production results in both marginal social cost and marginal social value, its optimum production would be at X^* .

If a market fails to produce at X^* the state through the regulator intervenes to force the market functions to move towards X^* . There are various ways through which the state can influence the production patterns in a free market. These include amongst others the use of a market regulator, assuming production, tax and subsidies. These forms of state intervention in a market would as such impact differently to the market.

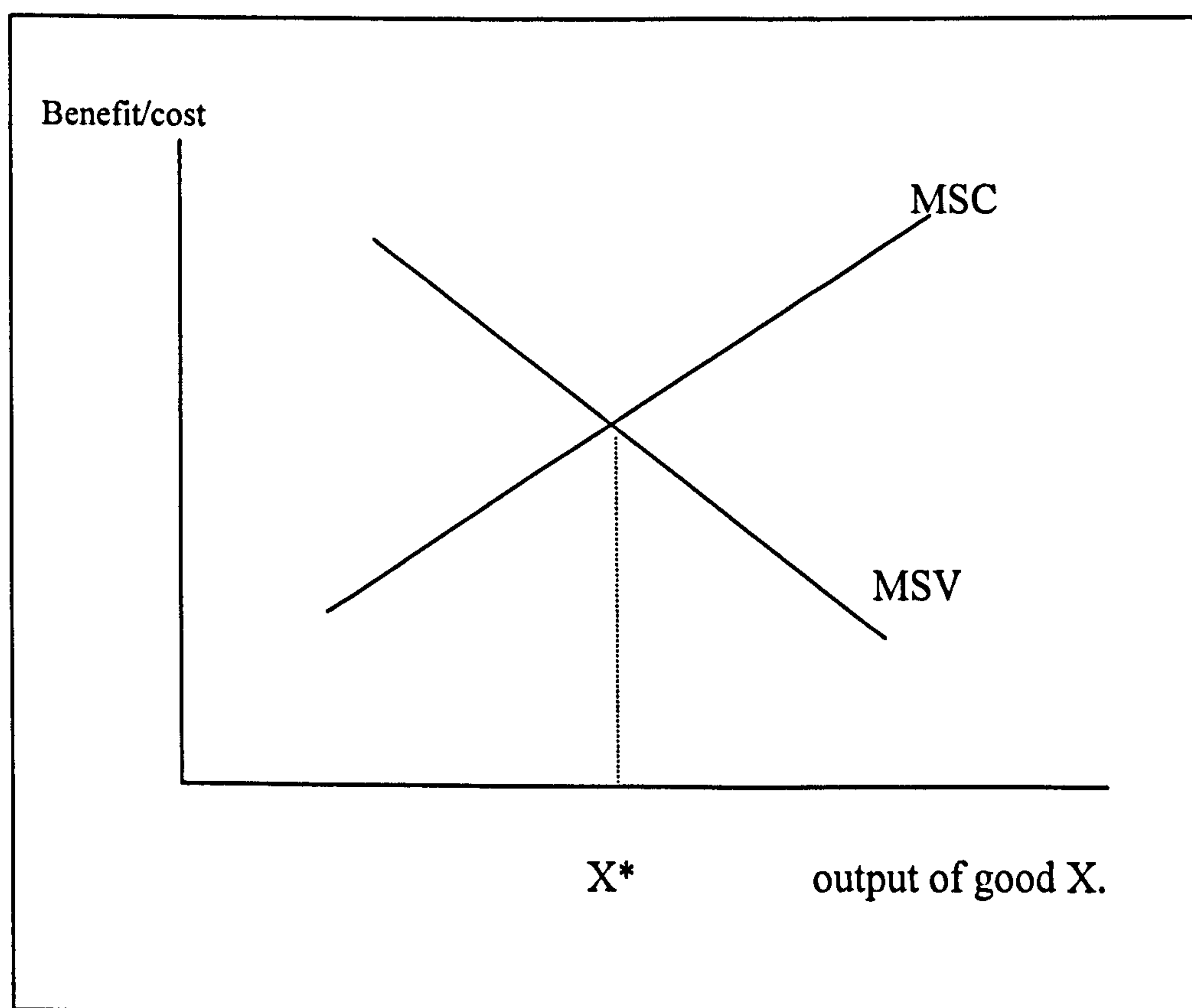


Figure 3.2: Source Barr (1998) pp 71.

3.3.2.1 Market regulation

The regulation of the market centrally involves the state having power to set down the rules and regulations that have to be followed in the production and distribution of a particular commodity. Such rules and regulations may specify the method, quality, quantity and price that have to be adopted for a particular commodity. The principal objectives being to see that consumers get their money's worth and that the markets are efficient to the point that there is equitable distribution of resources, such market interference is a perpetual process.

In the insurance and pensions market the regulation of the market involves amongst the principal concepts: setting minimum standards of qualification and/or experience for insurers, enforcing minimum capital requirements, ensuring reciprocity in fidelity matters and ensuring that public interest is protected.

3.3.2.2 Tax and subsidies

The state can influence the production equations of a market through punitive taxes for a particular commodity to discourage its production or to pay for the externality costs that its production brings about. Alternatively it can offer tax concessions for a particular commodity to promote its production. Other than tax rebates the state can give pure subsidies in respect of particular commodities. This can be in the form of supplementing capital requirements for huge projects that improve efficiency and social benefit being to the advantage of the general populace.

In the field of pensions the aspect of taxes and subsidies can be experienced in several ways of which the most common is to treat pension premiums as a tax- deductible

item for purposes of calculating tax payable to the state. The state may in addition to that offer corporate tax rebates to firms that supply a particular type of pension that may be seen as promoting the sitting government's national pension policy.³¹ The exact format which these tax rebates may take is a prerogative of individual governments.

The subject of subsidies in pensions markets is somewhat dicey but would most notably be experienced when the state decides to subsidise certain benefits within the pension products sold in the market. This can be in the form of capping up premiums payable for certain pension policies or guaranteeing certain benefits, which would otherwise be impossible in the absence of such guarantees. The state may also come forward through the provision of infrastructural support. The purchase or rent of former government buildings at discounted prices by the private entrepreneurs in the business of pensions would be another way by which the state can be seen as giving subsidies to the pensions market.

3.3.2.3 Public provision of goods

The state can assume the production and/or distribution of certain commodities if it is in the public interest to do so. The public interest can be of various forms but most central to all is state security that renders certain sectors virtually impossible to give to the private sector to provide. The state can also assume the production of certain goods if so doing will result in a better efficiency, which would otherwise be unattainable in the private sector. On the ordinary markets, the goods that fall under the jurisdiction of public provision generally include health care, education, transport

³¹ For details on pension and taxes see for example Hannah (1986) "Inventing Retirement: The development of occupational pension schemes in Britain" Cambridge University Press Cambridge.

and environmental health care. The private sector does provide some of these services though the scale of doing so has been very low on the global average scale.

In the insurance market the state production takes the form of the state setting up and financing both the infrastructure and human resources to develop and run various insurance schemes on behalf of the public. Apart from this initial capital input, the state also guarantees payment of certain benefits in return of a pre-set premium. There are four basic risk explanations as to why the state may be the sole or major producer of certain insurance services. These risks are namely, adverse selection, moral hazard, and informational asymmetry in risk pricing and poor risk spread. Table 3.2 shows a summary of the insurability of various insurance risks in the private sector. For an elaboration on table 3.2 see Booth and Dickinson (1997).

Table 3.2 the insurability of social insurance risks in the private sector markets.

	Information to price risk	Risk concentration	Adverse selection	Moral hazard
Pensions	Y	Y	Y	Y
Disability and sickness	Y	Y	Y	Y
Health care	Y	Y	Y	Y
Long term care	Y	Y	Y	Y
Short term unemployment	X	Y	Y	Y
Long term unemployment	X	X	Y	X

Key: X= Potential problem, Y= No major problem

Source: Booth and Dickinson (1997) “The Insurance Solution” European Policy Forum London.

The pensions insurance underwriting does not pose any substantial underwriting considerations from both a qualitative and actuarial mathematical analysis. The issue of concern in so far as the pensions business is concerned would be the adequacy of pensions that individual households can buy at any one given time not withholding the fact that a pension policy is a long term commitment. We will discuss the relevancy of pension adequacy when we look at the menace of inflation to pension in chapter five.

3.3.2.4 Subsistence income support

The state can affect the market activity by not interfering with the production directly but by influencing the buying power of the individual consumers. That can be in the form of paying for the product on behalf of the individual household or giving cash to the household to spend, as they like. The kind of financial support that is available to economies varies across the global spectrum.

In the insurance and pensions markets the direct income from the state in respect of purchase of a particular service can principally be of the form of an insurance voucher system. The British housing support benefit where in the state pays the private housing markets to shelter its needy people is a classical example of a cash benefit to the individual household but paid to a private sector supplier. The long term care protection paid for by the state to private old-people's nursing homes is another example of state paying cash benefits to the private suppliers on behalf of the individual household.

The state can supply annuity vouchers that households can produce to the private suppliers of insurance in return for payment of the relevant pension benefit. In effect what this arrangement does is that the state buys annuities on behalf of the households from the private suppliers who incur all the other costs of supplying the relevant service. As such the state becomes the major if not sole customer on behalf of the households in a market where there could be many competitors all vying to supply the same service to the state.

3.3.3 Efficient markets

There is no single clear -cut definition of an efficient market other than to say it is one that is free of market failures. That is one perceived as being complete with no informational asymmetry, no barriers to entry or exit and gives fair competition to the participants with no externality effects. We briefly consider these causes of market inefficiency below.

3.3.3.1 Complete markets

A complete market produces all the goods that consumers are willing to pay a positive price that covers the production cost in respect of such goods. In real market situations at times such markets may be few. This is primarily due to a number of economic factors that influence the shape of markets. Within the market there might be some missing markets or no complimentary markets where the latter are the inevitable necessity for the existence of the original market. If the private sector cannot exploit the missing markets the state through its system of public enterprise may provide those services that fall under the scope of the missing markets.

The insurance and pensions markets are no exception to the above observation. There are risks that do not conform to actuarial insurance underwriting requirements to the extent that there is no exceptional best in the private sector other than leaving them to the public sector. This is so with long- term unemployment insurance. The absence of developed reinsurance markets may fail the primary markets from underwriting certain pure risks for no reason other than the absence of the former markets. The absence of capital or advanced reinsurance markets may deter certain primary markets from underwriting risks such as long term acute care insurance in fear of risk accumulation.

3.3.3.2 Fair competition

Markets that exist where there is a fair competition will not have conflict with price taking and equal opportunity. The concept of pricing calls for a large number of consumers and firms with no barriers to entry or exit from the market. In this analogy there is no single firm or consumer that can influence the behaviour of the market. All the participants in the market must have equal opportunity though some may command greater purchasing powers than others may. Both the principles of price taking and equal opportunity may frequently be violated in real life markets. To safeguard the former, laws such as the British's Department of Trade and Industry administered Monopolies and Mergers Commission is enacted in the public interest. The spirit of equal opportunity is also enforced through legislation such as the Equal Opportunities Act in the UK.³² In so far as this is all to do with enforceable laws and regulations, it must be realised that some forces do pervert these rules leading to other complicated market imperfections.

³² There are various ways of dealing with this problem across the globe. The cited examples may not necessarily, be the best ways of dealing with the problems mentioned.

In the insurance markets apart from the self- governing professional bodies found in most free markets the governments through various finance or trade and industry ministries do set broad legal frameworks under which the markets must exist. Punitive regulations with restitution to the victims of unfair dealing are general put in place so as to protect the general public. The professional bodies that keep the registers of members set strict practice and ethical rules that members must have to abide by, failure of which may lead to derecognition and/or fine.

3.3.3.3 Information asymmetry

Information efficiency implies the efficient processing of information that must be distinguished from pricing efficiency. The argument about information asymmetry starts from the perfect information analogy that is some how absurd in real life economies, hence our approach that information needs to be efficient. The absence of such information failure makes the participants in the markets to make informed decisions. The lemons-orange subsidy ceases to exist if there is full disclosure of information in the markets.³³

Information efficiency in the insurance and pensions markets goes to the heart of the underwriting requirements in so far as it entails having full disclosure about facts material to the risk. That is disclosing all the information necessary to price a particular risk and decide whether to accept it and under what conditions attaching. The symmetry of information in insurance markets is crucial if the risks of adverse

³³ For a detailed discussion of this subject see Stiglitz (1988) "The economics of the public sector (2nd edition.) Norton London

selection and moral hazard are to be minimised. The relevance of these two to pensions is minimal, as argued by Booth and Dickinson (1997).

Asymmetric information problems limited as they may be in pensions markets can none the less be as a menace as never been thought before. This is in so far as the average individual household investor may not be in a position to distinguish between bad and good investment firm despite the availability of the usually complicated financial statements. The blind trust that consumers have in the mostly self-regulated financial markets poses a potential information failure. Not only does the self-regulating financial service supply investment policies; they as a generality employ or pay the agents that market their products. This on its own is a potential source of informational failure. In some markets such as the UK this problem has been partly been alleviated by the introduction of independent financial advisors.

3.3.3.4 Absence of externalities

Externality effects manifest themselves in various ways as is explained by the possibility of the flow of costs or benefits in numerous directions within the markets. In principle the effect of externality arises when the action of one participant or group of participants results in some loss or gain to third parties and do not receive compensation or pay a price for the benefit gained from the orchestrator of the event. The most common problem of externality is pollution where in the industrial firms produce waste that pollute the environment if not properly disposed. The general public does not benefit from such firms' action but the cost of cleaning the environment falls on the public purse. To levy certain firms that produce waste into

the environment is a recent approach to dealing with the externality problems in this area.

In the insurance markets the externality problem is no stranger. The homogeneity of products in the pensions markets compounds the extent of externality problems in this market. A new invention in both product and its distribution can with minimum improvement be emulated and taken over by the competitor. The conflict between patent rights enforcement and free dynamic inventive market concept can make the policing of this externality effect complex and difficult.

3.3.4 Pensions insurance market efficiency

From what has so far been discussed above, we need not over emphasise that this is one of the key features desired for the successful performance of the insurers in supplying old age insurance cover. With insurance in general, the two fundamental that must be minimised for the viability and sustenance of cover are adverse selection and moral hazard risks. The insurance business thrives on the principle of “utmost good faith” that is essentially about full disclosure of information material to the assessment of risk.

Adverse-selection is principally a lemons and oranges in one bucket in a market. That is a case where the price of inferior goods is the same as that of superior goods and the consumers are not forewarned of the inferior goods. The information asymmetry so created is a result of information failure in the market. In theory the assured public may become victims of that information asymmetry. However, in practice, it is the assurance firms that have tended to be victims of information disclosure failure. With

pensions insurance, the duty of disclosure so required under other insurance policies, is less relevant if not irrelevant at all. That is so for the reasons that there is not a single way by which the assured can influence the crystallisation of the risk leading to the payment of the claim. The length of one's life is independent of one's control. If ever the assured were to influence the outcome of the risk that would have to be through suicide and in theory such action would be to the advantage of the insurers.

The question of moral hazard just like adverse selection is of minimal relevance to the business of pensions insurance. That is primarily so for the reasons that there is not a single credible way through which the insured's behaviour can be influenced by the inception of a pensions policy. The amount payable in the event of the policy reaching maturity is always predetermined one way or the other and usually by form of pensions formula to be used to calculate the total pension benefit payable.

3.4 Efficiency in developing economies

It is often said that emerging markets have a higher than usual beta in risk analysis by investors. This general assumption follows a general framework of analysis that conceptualises the emerging economies as being a good playground for the high-risk takers in pursuance of potential high growth opportunities. Not only do the high-risk takers stand to gain from the exceptional growth rates of their investment capital, they also stand to benefit from market dominance that is shunned by the least informed and low risk takers.

The fear perceived by the investors from the western markets where information about their markets is efficient does influence the perception that even the indigenous

investors have about their own markets. There are many reasons to explain this, but the major single phenomenon is that most of the emerging economies are built from the images and shadows of the developed markets.

The degree upon which the emerging markets fail to match the developed markets varies from market to market. Each emerging market has its own features peculiar to it but infrastructural, informational and transactional standards can be generalised of all the emerging markets.³⁴ Because of inadequate documentation of the information relating to these emerging economies the investors and western analysts alike have tended to form perceptions that is based on their psychological perceptions of the markets. The rationale behind these assumptions has never real been examined outside the context of the developed markets.

The insurance and the pensions markets have not been an exception to these observations. In analysing insurance markets from the developing world the tendency has been to compare and contrast them with the experiences of established and tried western markets. The risk acuteness of various classes of insurance has often been tailored along the actuarial experiences of the western world markets. This raises a lot of theoretical and policy questions that may in fact be the basis of an independent study to ascertain the extent of benefit or loss that has been done to the emerging markets by bids to follow the western experiences.

³⁴ See Keane (1993) "Emerging markets-The relevance of efficient market theory Chartered Association of Certified Accountants Series number 15

3.4.1 The Zimbabwean market and its efficiency

The Zimbabwean market comprises of the private and social insurance markets. The Zimbabwean insurance market structure was undoubtedly influenced by the colonial past that is evident in many structures, including buildings, design and culture of management used in both the private and public sectors. The risks insured under the private markets have become so not as a result of the local market's actuarial assessment, but that has come as a direct result of the influential parent companies based mostly in Europe. The state insurance system that has been introduced reflects to some extent the effect that the British systems have on the former colony. It suffices in fact, to mention that the British insurance system is a big part to the Zimbabwean insurance mechanism, particularly when it comes to complex and risky portfolios that are generally construed to be beyond the capacity of the regional and local capacity.

The Zimbabwean market is generally lightly regulated though it does not have strong professional bodies to oversee standards of practice and conduct. The registrar of pensions and provident funds supervises the conduct of pension funds. Above the registrar is the minister of Finance and Economic Development who has an array of sweeping powers that include amongst others that to dismiss the registrar and setting the minimum amount that pension funds can invest in government approved stocks.

The Zimbabwean market is by the standards of the region the second best to South Africa. It is a highly competent and efficient market able to shine to international standards. It has no barriers to entry or exit from the market. The recent mushrooming of both broking and underwriting firms is evident of that. Despite that, the

Zimbabwean market has its short falls. First, the region under which it falls makes it inevitable to be grouped with other poor regional markets.

There is no prescription as to the kinds or scope of assurance that the Zimbabwean firms can underwrite. The licence to trade in insurance (including pensions) gives the firms a wide spectrum of choice on the risks and scope of cover. The only nagging restriction is with regard to the investment of the premiums. The government directs the percentage of premiums that has to be invested in government- approved stocks. At the time of this research the figure is forty-five percent having been previously at fifty-five percent until 1997.

The registration of firms intending to deal in insurance generally requires the directors to satisfy the Companies Act and the Pension and Provident Funds Act. The process is usually uncomplicated and undertaken within a short space of time. The fact that the administration of the governing Acts is done through different public offices may mean at times that the process of registering and actual beginning to transact business is longer than may otherwise be envisaged. The nature of insurance services, as has been described in the preceding pages, explains the need to make sure that every procedure is met before the next can be embarked on.

There is a new problem that foreign firms venturing into the Zimbabwean pensions in market face today. That is the inability to remit or expropriate profits without having to go through a bureaucratic procedure administered by the public service. The outlawing of corporate foreign accounts has not helped at all. The currency risk exposure makes it difficult for firms to hedge effectively against currency

fluctuations. The tight regulation in foreign currency makes the market less attractive as a destination to foreign investment.

3.5 Demand and supply in insurance

It has been shown in various literatures that insurance products, inclusive of pensions, behave in no way different from other financial services in so far as the demand and supply principles are concerned. Like any other product, the demand and supply of insurance would be affected by such factors as the price of other products, tastes and preferences, levels of income and distribution of such incomes in the consumers' market, credit availability and so on. There are however other demand and supply factors that have been known to be peculiar to insurance in general and pension assurance in particular. The purpose of the theory of demand for insurance is precisely about determining the various factors that affect it.

3.5.1 Incentives for the demand of pensions insurance

There are some interesting theoretical and practical questions that raise scope for both theoretical and practical arguments. Most obvious, is probably the question of why people would be prepared to buy pension assurance, a promissory purchase when there is, in fact, a chance that they may not survive to retirement age and claim. There is also a crucial question of why people buy pension policies when, in essence, the mathematical expected pay out is less than the total premiums payable to the assurance firms. The most logistical explanation to these paradoxical questions lies with the concept of risk aversion. The risk-averse individuals would rather pay a sum certain of money than risk the uncertainty of losing a potentially big cost. Such people would, as a matter of principle, get utility from knowing that certainty is guaranteed.

Certainty is as such a commodity yielding a positive marginal utility for which the risk-averse would pay a positive price.

The pension assurance risks are predictable with a high degree of accuracy. It is, for example, known with almost certainty the number of people say aged sixty-two years old who will die before their next birthday. But the individuals in that cohort do not know which life in particular will drop until it has done so. The information about mortality rates available as it is to the individuals seeking pension assurance cover, is of less relevance and importance than it is to the assuring firms and their underwriters. To the individual assured the issues at stake are that he or she dies or may survive to retirement age. For argument's sake, let's look at an arbitrary example of a sole household earner with a potential pension of say \$60000 per annum dependent on him foregoing \$600 per annum in the form of pension contribution. If this hypothetical member were to decide not to join pension insurance scheme, he would be \$600 better off every year and that he could spend as he wishes. Should he die before his retirement date he would have won but should he survive to the retirement age he stands to be \$60000 worse off. It is this variation in expected outcomes that induces the risk-averse individuals to seek pension insurance protection.

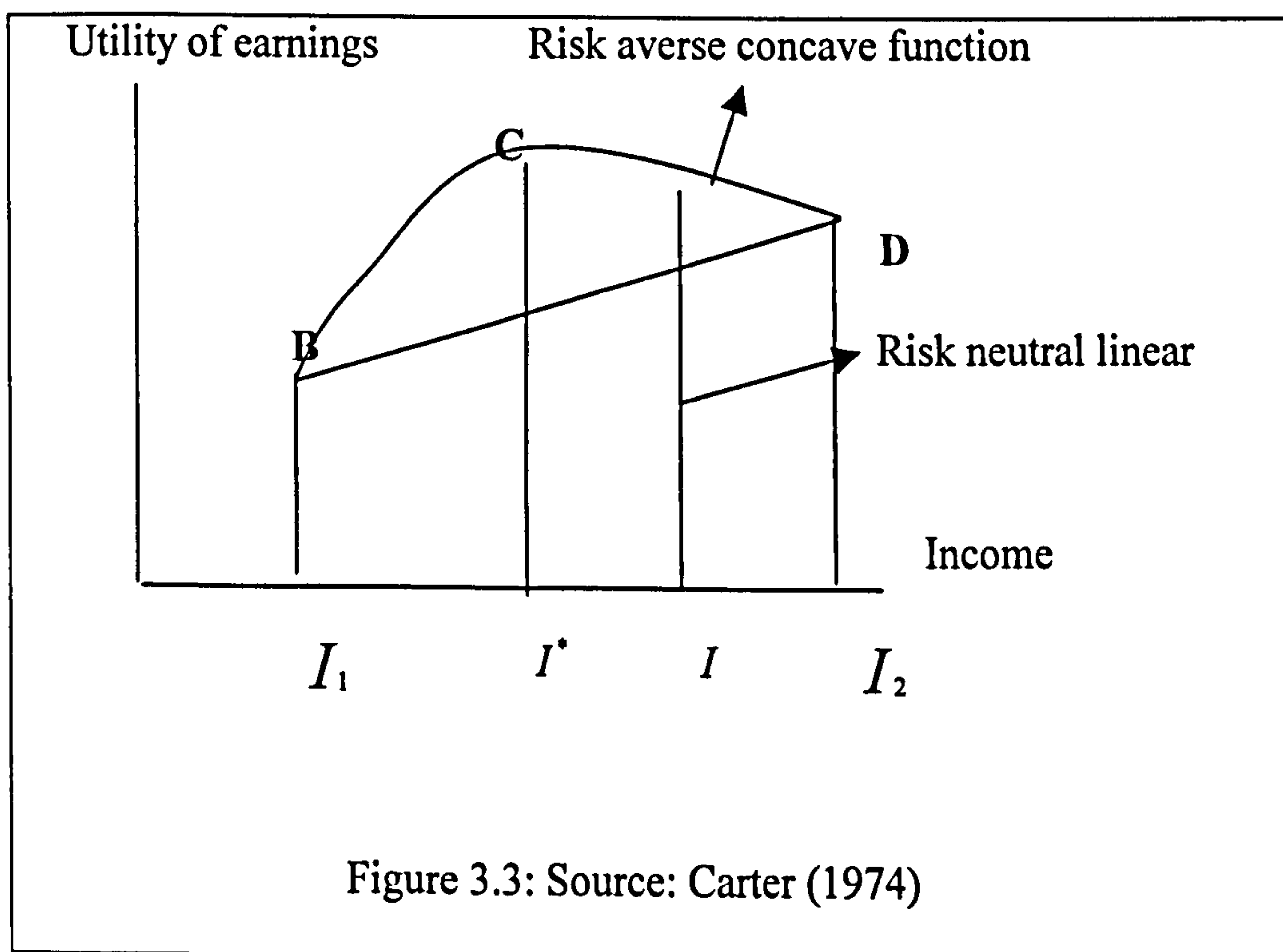
Because risk-aversion is some how an inborn- phenomena, individuals tend to respond differently to a rise pension contributions relative to perceived benefit at retirement. Those with higher aversion to old-age risk will as such continue to buy pension insurance cover despite the escalation of the cost to such a cover. They will cling on to membership until the utility they get from pension membership starts to result in negative satisfaction with each extra unit of dollar spent on the pension cost.

Figure 3.3 and 3.4 show the diagrammatical representation of utility satisfaction derived from pension assurance membership by risk-averse individuals. In figure 3.3 it is assumed that a risk-averse individual has a wealth denoted by I_2 that will fall to I_1 in the event of him surviving to an age beyond his retirement age. The following observations can be made with respect to pensions insurance and utility.

First, his utility curve will follow the path **BCD** because of risk-aversion. Secondly, his expected wealth in the absence of pensions insurance would be the sum of the wealth I_1 and I_2 multiplied by their respective probabilities. If I represents the expected wealth without pensions insurance, then the rational risk-averse individual must be indifferent to attaining the same utility expected from the two uncertain events from that he stands to get from buying pensions insurance to guarantee him income I^* . The net wealth he stands to get in the presence of pensions insurance will be the difference between I_2 and the cost of pensions insurance. Thirdly, if the risk-averse individual aims at maximising his utility, he must be prepared to pay contributions up to the level represented by the difference of I_2 and I^* . As our diagram is not to scale, the difference between these two may look some how exaggerated in the diagram.

Turning to figure 3.4. If a risk-averse individual has a choice to join or not to join pension insurance scheme, where upon his decision will result in the two outcomes y_1 and y_2 with probabilities p and $(1-p)$ respectively, the following theoretical deductions can be made if y_1 is a bad outcome and y_2 is a good outcome. The path

of the utility curve is as depicted in figure 3.4. Because these outcomes will certainly result in different utilities to the risk averse, the $E(y) = \bar{y} = py_1 + (1-p)y_2$ and the $E(U) = U = Pu(y_1) + (1-p)U(y_2)$. A rational risk-averse individual can obtain the expected utility in two distinct ways. That is, he can have it from a certain income y^* or get it from the uncertain incomes y_1 and y_2 . The fair premium that the individual risk-averse person would be prepared to pay is marked by the difference between the expected average income and the income certain y^* . In real life situations there is no way the expected average income can be obtained as the only possible outcomes are y_1 and y_2 only. The only exception that can lead to a variation of these outcomes is with the introduction of pensions insurance premium that guarantees a certain income.



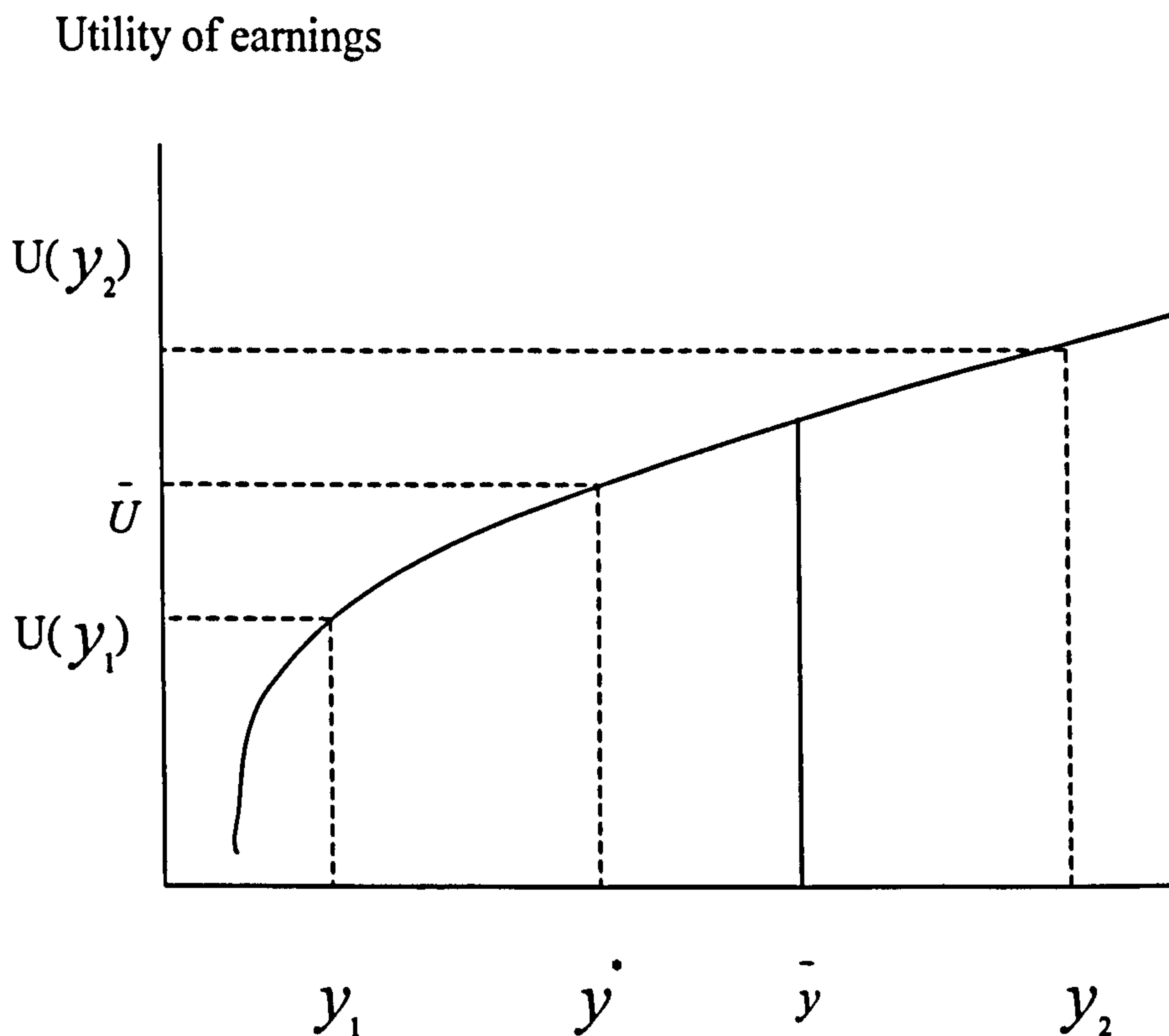


Figure 3.4: Source Barr (1998)

3.5.2 Supply of insurance

The supply of insurance like any other product depends to a considerable extent, with all things being equal, on the availability of an effective positive demand. There are some instances when an insurance market may fail to perform. To that extent that it is important to understand those forces and factors that affect and determine the supply of insurance services. In a broad sense these fall under the following classes; capacity, affordability of risk price, availability of data, independence of events and risks insured and efficiency of the markets that we have already considered in the preceding sections. Below we explain some of these factors and how they relate to insurance in general and pensions insurance in particular.

3.5.2.1 Cost of insurance

The supply of insurance would probably stretch infinitely in the absence of the cost determinant. The cost of insurance is as important to the suppliers as it is to the buyers of insurance. To the pension firms it is crucial that they have adequate capital and financial reserves to underwrite a particular risk. The cost of capital as an opportunity is equally important. The pensions insurance depends to a considerable extent on the reliability of the life mortality tables to estimate the actuarial cost of providing pensions to the public. Because pensions is a specialised form of long-term assurance contract, it is important, particularly taking into account that pensions is generally traded according to occupational trades, to have specialised trade biased mortality tables.

On the other hand with the assured under pensions insurance contracts, the cost of buying insurance is almost independent of the individual demands of the participants. Because pension assurance firms cannot distinguish between the individual assured lives with high longevity risks and those without such risks, it is difficult, in fact impossible for the firms to charge differential premiums to each risk category. Overall however, the cost of pensions is a straight forward underwriting exercise.

3.5.2.2 Affordability of insurance premiums

The insurance premiums and pension contributions in the case of pensions assurance have to be within the means of the assured. That is to say the cost of paying for retirement pensions must be affordable within the budget requirements of a household. It is in fact true that in the event of the price of insurance going up to that level where even the most risk-averse rational individuals get a negative utility from

pension scheme membership, at that level pension insurance is a failure as a solution to old age uncertainty risk. For the pension scheme membership demand to be a success, at least the cost that employees are prepared to pay towards their retirement cost ought to be bigger or equal to the suppliers' cost. That principle does not necessarily hold true in instances where there is compulsory or quasi-compulsory membership schemes and subsidised membership.

3.5.2.3 Independent risks

It is quite essential that the causative and occurrence of the events that are the subject of insurance are independent of each other. The homogeneity of events is less practical in real life situations. The independence of risks is crucial in the pensions insurance for amongst the reasons, the spreading of losses/ payments that help smooth the cash flow outlay of the firms. In a sense the circumstances that may lead for example to employee A retiring early on full pension must be independent of the circumstances affecting employees B, C and so on. That must be so with actual dates of retirement otherwise a firm may face a catastrophic payment situation.

3.5.2.4 Data availability

Lastly, it is of paramount importance that the insurance firms have adequate data to make scientific projections of the trends in the crystallisation of an insured event. In the case of pensions insurance, that has been made easy by the availability of reliable mortality tables. However, besides the mortality tables it is also important for individual firms to have statistical data relating to claims/payout history of the members insured. The payout distributions help the actuary and management to design general and relevant loss reserves for the pension scheme. In addition to claims

history, the availability of data enables the pension firm assurance to project client growth rates and thus come out with reasonable assumption loading rates.

3.6 The lifecycle theory of saving and pensions insurance

The lifecycle theory seeks to explain our economic variables as a function of income, wealth, consumption and age. The saving theory as a lifecycle determined function has been expounded well by Franco Modigliani in his various publications but most notable in his Nobel Prize winning 1986 lecture. The fundamental assumption behind this theory is that a rational household would seek to maximise the utility function over the entire lifecycle, wherein the utility function is homogenous with respect to consumption at different points of time. As a generality the lifecycle theory of saving can be divided into two groups. That is where there is a zero bequest and where there is a positive bequest.

A typical lifecycle pattern of labour earnings and consumption in a zero bequest model is shown in figure 3.5 while figure 3.6 shows a positive bequest model. In both figures the age is assumed to start from zero and that is the date the particular household is formed. In many countries that start age would be around the ages of eighteen to twenty-five years. T is assumed to be the date of death not the date of active retirement. Consumption and income is best measured as a logarithm function to correct for inflationary distortions. The hump shape shows the gradual increase, peak point and decline in labour earnings as a person moves from young age to middle ages where labour income is at its peak and the down turn as one reaches ages where his skills are no longer in demand.

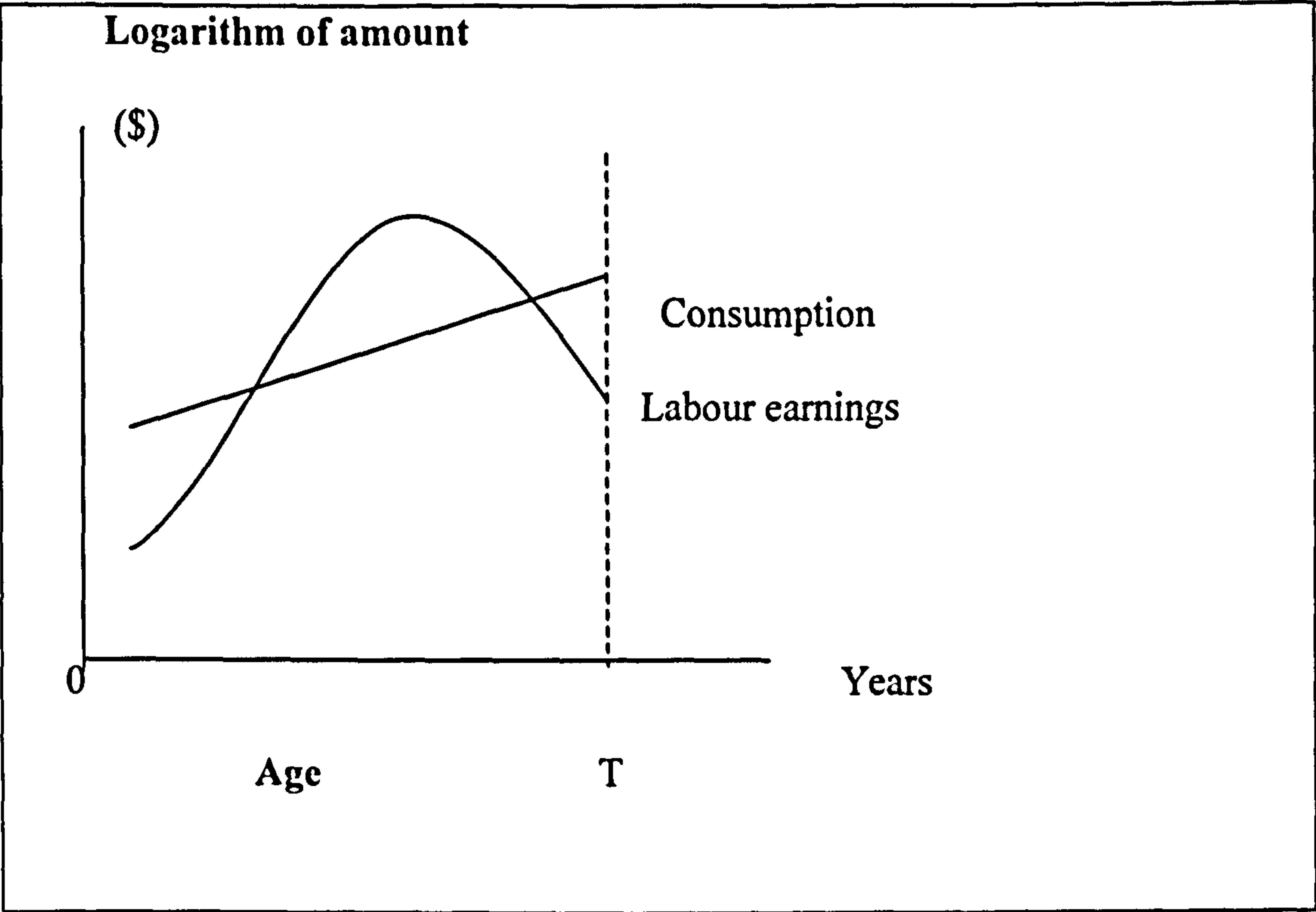


Figure 3.5

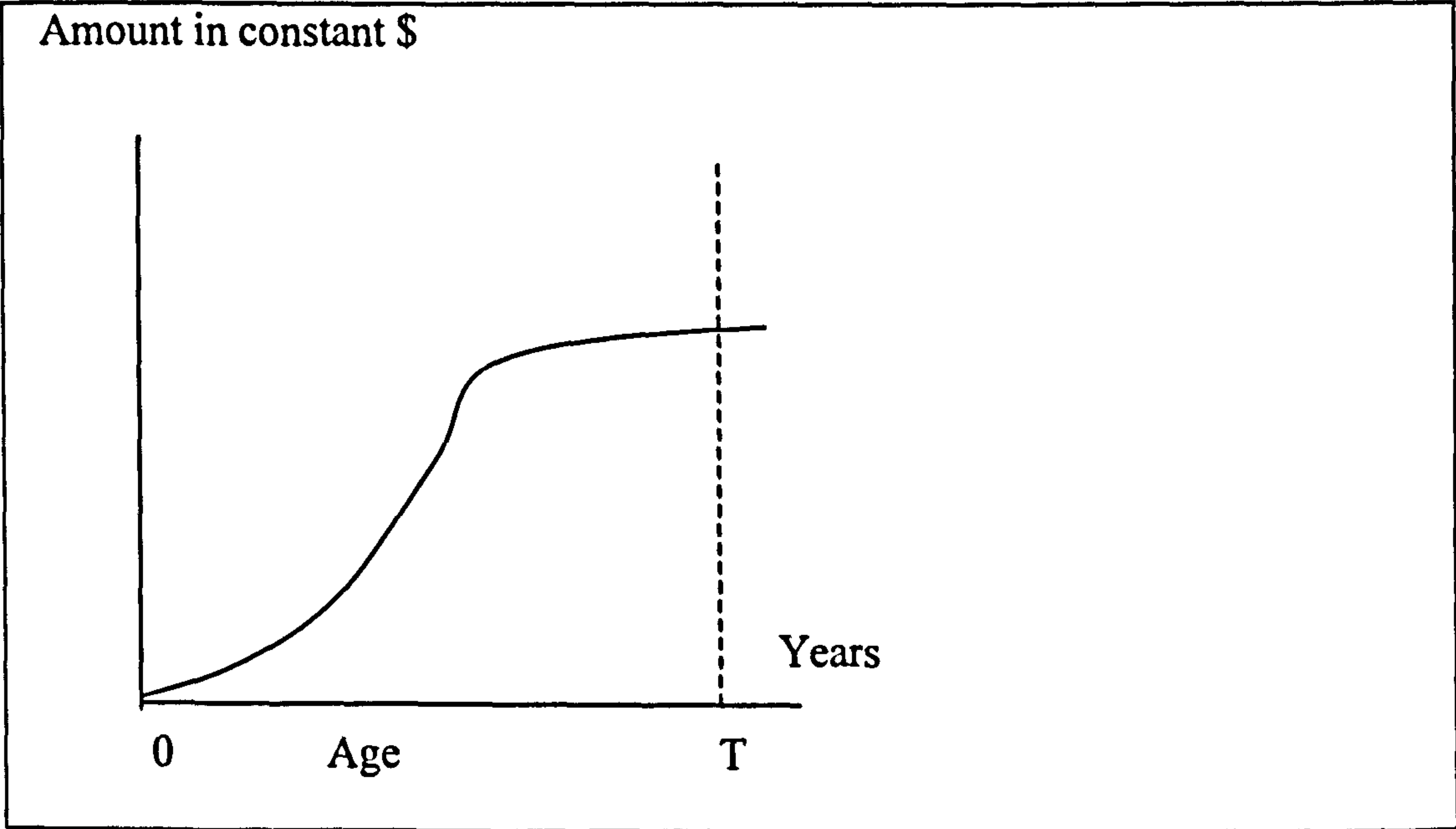


Figure 3.6: Source Darby (1979)

As can be deduced from figure 3.5, the lifecycle assumes a low, usually negative saving during the early years of formation of a young household fresh from college or parental custody and care. In zero-bequest models the saving at the beginning of the lifecycle is zero because there is no inheritance assumed and wealth accumulation is nil at the end of the lifecycle for there are no assets left behind. That approach in lifecycle does not, however, take cognisance of the fact that in real life there are some issues that are hard to ignore such as borrowing constraints, accuracy of projected labour earnings and the life expectancy assumed at each consumption period.

The positive bequests model on the other hand has its own limitations. First and most importantly, the theoretical argument behind the model is flawed. The almost universal acceptable assumption that in developing generation model, that is growing economies model, the future generations are bound to be better off than their predecessors is not considered. Again the precautionary motive in this hypothesis does not explain why a household would not purchase insurance to cover against the medical, longevity or other such risks. Despite all that, the lifecycle does explain the concept that households forgo a particular consumption today in anticipation of the rainy days ahead. It portrays a theoretically sound distribution of labour income over the entire lifecycle.

3.7 Conclusion

We have in this chapter reviewed the major conceptual approaches to economic markets and in particular as they relate to the pensions insurance markets. The theories reviewed are those as developed by the western academics whose focus are the developed capitalist economies. The economic and political thought to state

provision of various services has been carefully noted. The issues arising from the various theories have been carefully noted throughout this chapter. We will test some of these theories to see whether they are of any relevance to the Zimbabwean markets. The economic theory as far as the pension insurance is concerned has been reviewed and issues of particular interest carefully noted. Particularly the demand and supply factors as they relate to pensions insurance have been carefully reviewed. The lifecycle as a saving theory within the pensions insurance has also been explained. In the next chapter we look at the evolution of social insurance from medieval times to date.

CHAPTER FOUR

The Evolution of social insurance

“There shall never be freedom without security. Without lifetime income guarantees there can never be security. Until we all come to realise the economic urgency of providing descent living conditions for our pensioners who have worked so hard in order for us to be where we are today, we will not have the freedom and security that we value so much. The plight of the poor pensioners is a moral problem for the whole nation, black and white. It is a lesson to modern workers, and unfortunately, an unpleasant experience to the retired workers who cannot move the clock back to fight for their security.”¹

4.1 Introduction

In this chapter we aim to develop a broad framework upon which the subject of the Zimbabwe occupational state pensions insurance, other wise generally referred to as the NSSS in most of this document, must be understood. To achieve that we look at the specific developments and origins of the history of social insurance in general and state pensions in particular. In pursuance of this goal we found it imperative that we trace the evolutionary progression of the subject from its ancient roots to date. As the Zimbabwean scheme was undoubtedly influenced by the developments of similar or comparable schemes across the world we thought it necessary that we reiterate the development of a varied cross section of schemes in the world. We realise that some of the experiences discussed may be of irrelevance to the present Zimbabwe national scheme. But for purposes of achieving a broadened conceptual analysis of some of the issues that we discuss later in the thesis, we found it logical to capture the discussion of such schemes. The factors that have helped shape the evolution of such schemes are carefully noted. The detailed account of the British experiences explains both the

colonial past of Zimbabwe as much as is the influence that the British legacy has in the economic model thinking of present Zimbabwe. There seems always to be an aspiration by so many people from different spectrums of life in Zimbabwe to for instance, try and model and judge every policy or development according to how it would or was modelled by the British.

In this chapter we also seek to highlight the strengths and weaknesses of the British and Zimbabwean schemes. It is in so doing that we hope to lay the theoretical foundation for our empirical analysis and to have certain principles of historical fact addressed thereby avoiding the ambiguity that may arise in the mind of the reader and maintain coercion in the future chapters.

4.2 General evolution of social insurance

The subject of social insurance has its roots stretching many years back into the history of mankind. Zacher (1981) says the precursors of social insurance have existed since the Middle Ages. There is in fact evidence to the effect that in the Muslim world well-developed forms of social security existed as long back as the 7th century. During that time those publicly run schemes were financed through systems of means tested taxes known as the Al-Zakat in Arabic. There was also tax on private property (The Al-Karaj) to finance those national schemes that sought to provide social security to the needy, particularly the old aged and the disabled.

In the Arabic world, the rich were held to be legally bound to finance the cost of living of the poor and could as such have their private fortunes nationalised in the

¹ Extracted from a National University of Science and Technology 1992-1993 Secretary General of Students Representative Council memo defending the workers' rights to pensions

interest of the general populace within the kingdom upon which their property existed. This scenario continued well into the Turkish invasion of the Islamic Empire and the absolute decline came when the European colonial powers introduced a system of “one man for himself and God for us all” in the form of capitalism. In the twentieth century most Islamic states particularly those in the Middle East had reintroduced very sound social security systems largely dependent on oil income.

In Europe the first sound traces of social insurance programmes date much later compared to the Islamic Empire experiences. Most European Countries introduced Poor Laws around 16th century². Prior to that and notably in the eleventh century, Charity was being widely used as the sole provider of protection during economic hardships. Charitable organisations were founded on different backgrounds but most common were those founded on religious or other social basis. Poverty was one of the many tasks of these charities so formed. Old age it would seem was itself on its own not a strong basis for a claim from the funds so generated under the charities. Poverty arising from infirmity and disability took priority.

In sub Saharan Africa, the Bantu people generally lived in close family units with kingdoms and at times chieftainships retaining much of the wealth that those societies possessed. Because of the widely rural and feudal style of economies that existed in sub Sahara Africa before the influence of the Europeans, the social problems such as old-age, physical and mental infirmity, were responsibilities of the community at large though it was the close or immediate family members of the infirm that bore much of the burden of caring for such victims. The strong family links that include the

² See Hannah (1986) *Inventing Retirement “The Development of Occupational pensions in Britain”* Cambridge University Press Cambridge

extended family caring have existed in most parts of Africa until fairly recent. Caring for the old has in part been promulgated by the widely common belief in sub-Saharan Africa that when the old die they return to their families in the form of spirits to look after their families. This belief has remained very common and extremely respected by many despite the conversion into Christianity of many societies. It is this dimension of the Bantu people's anthropology that partly explains why old-age infirmity has not been a monstrous problem as the experiences in Europe and other parts of the world have gone through.

It is the gradual breakdown of the extended family system that has been so much part of the culture of the African people, partly propelled by urbanisation, emergence of a new breed of educated blacks that thrive to identify themselves with the Western world, that makes it necessary for the present working African to use conventional modern economic saving instruments to save for his retirement. Notwithstanding the fact that the coming of modern economies, mostly capitalist orientated, to Africa has made dependence on subsistence farming unviable as a means of meeting modern challenges, the selling of one's labour has become the dominant means of living in modern African societies particularly the urbanites.

4.3 Development of the old age State pension in Britain

In Britain as the central government became more cohesive and stronger, particularly during the times of the Tudors, care for the poor became a national rather than a local responsibility. The Tudors nationalised the growing funds of the local associations although the economic help was not afforded directly by the central government. The

Poor Laws of 1597 and 1601 placed a direct responsibility to the local authorities to raise and distribute poor relief, a practice that has survived to this century.

The 1834 amendment of the Poor Laws led to the workhouses, most frequented by scroungers, to being very unattractive in a bid to discourage the able bodied from frequenting them. The menace of old age was at this time gaining momentum in spheres of public debate but the state provision of national pensions was still some decades away.

The nineteenth century social and political condition changes prompted many countries to solve socio-political problems by social insurance. The advancement of national health insurance schemes across Europe is among others testimony to that.

The present social insurance schemes in Europe have been influenced in one way or the other by Otto Von Bismarck's radical reforms of 1881. It is as such not misleading to view the year 1881 as the beginning of the present social insurance schemes in Europe and those parts of the world whose social and economic development has been driven by European forces. In Britain the social insurance scheme was introduced more than a quarter of a century after 1881. The scheme that was introduced differed very significantly from the schemes in place at the time in continental Europe³.

The British State pensions history in its modern form dates back to 1908 when the Old Age Pensions Act was first passed. Under that Act the state undertook to pay

³ See Hannah (1986) *Inventing retirement: The development of occupational pensions in Britain*, Cambridge: Cambridge University Press.

annuities to persons aged seventy years and above who had less than a prefixed amount of wealth. That meant means tested pension was provided on a non-contributory flat rate basis by the state.

The social effects of the first world war prompted the introduction of the Widows', Orphans' and Old Age Pensions Act (1925). This Ministry of Health administered scheme brought about the contributory flat rate old-age pension payable from the age of sixty-five years. The premiums were payable by use of the stamp collection system.

The Old Age and Widows' Pensions Act (1940) followed the 1908 Act in terms of introducing radical developments in the British old age state pensions provision. Central among the provisions of this Act was the supplementation of widows and old age pensions through a needs test (1981). The 1970 National Insurance Act introduced a non-contributory pension scheme that covered those above pensionable age and already retired but were not covered by the post-war National Insurance scheme. The 1971 National Insurance Act provided for the implementation of a non-contributory pension for all persons above the age of eighty years and not the subject of cover by any of the pension schemes.

The 1915 Ministry of Pensions Act introduced discretion-based pension. It was not until 1919 that the War Pensions (Administrative Provisions) Act was passed. This Act introduced a war pension as of right. The ex-servicemen pensions principles are founded basically on this Act.

Strictly speaking the current British comprehensive national scheme dates back some fifty years back. It came about as a result of the recommendations of the Beveridge report. According to the AES (1994) the important ideal of this system was an adequate level of benefits as a right to eliminate means tested benefits as far as possible. The Beveridge scheme introduced a flat rate contributory insurance financed by both the employers and employees on a pay-as-you-go basis.

The original scheme as recommended in the Beveridge report suffered drawbacks from the funding implications resulting in the National Insurance Act (1959) that sought to redress the anomaly by introducing the compulsory earnings related pension in addition to the flat rate pension. This new mandatory earnings related scheme was financed on earnings related- contributory basis. In the short run this new scheme was perceived as an ideal solution to the spiralling costs of the flat rate scheme already in existence AES⁴. The only fundamental overlook seems to have been the failures to take into account the long-term cost of the two schemes.

The State Earnings Related Pension Scheme (SERPS) and inflation- proofed flat rate pension were introduced by virtue of the 1975 legislation. The employers that provided superior level of benefits were allowed the option to opt out of the national scheme. Today the average weekly pension for a single person is approximately twenty percent of the national average earnings. For that reason the British scheme has been criticised for being inadequate. That criticism seems justifiable when the British scheme is compared to other continental Europe schemes of similar plan. N.B

⁴ Ibid

in Germany for example, basic state pensions are approximately seventy percent of national average earnings.

The home-responsibilities protection clause in the British system ensures that socially vulnerable groups such as women who may spend years nursing disabled children or such dependants do not lose out on pension benefits. The government credits such members with the same number of years that they would have spent out looking after the needy dependants. The ultimate goals being that such people have to work a relatively shorter period of time before they qualify for a full pension.

At the present moment, for people retiring before year 2000 with a full pension record, their pension is calculated as twenty-five pence of pension per pound of pensionable emoluments between the lower and upper earnings limits. It is expected that the twenty-five pence per pound pension figure will scale down to twenty percent for people retiring in or after 2010. At the time of writing this report the pension is based on the individual's best twenty years but after year 2000 it would be based on the individual's entire contribution record. The pension formula is standard for both men and women but the state pension ages are different being sixty and sixty-five years for women and men respectively.

The British national pension scheme is still undergoing reforms to this date. Most recent, the introduction of personal pension schemes provided by the private market was used to encourage people to opt out of SERPS which themselves had the level of future benefits cut so as to make them less competitive. At the time of making this report a retiree is entitled to one and a quarter percent of the excess of earnings over

the lower earnings limit or the ceiling for each year of contribution. This computes for example to 50% of earnings for a person with a forty- year contribution record. This as already said above would be paid in addition to the flat rate pension.

The miss selling scandal rocked the personal pensions venture. At the time of writing this paper the government Green paper on social security and pensions seeks to introduce the stakeholders pension. It is not clear at the moment the actual format that these stake holders pension will take.

4.3.1 Retirement provision structure in Britain

In the UK the provision of retirement is best explained by figure 4.1. The same generality can be said for most of Western countries. The difference lies on the contribution, benefit structures and rules governing these instruments. The state pension membership, which is through the National Insurance contribution, is generally compulsory to all those employed in the UK. That is unlike contributing to the other three retirement protection instruments as depicted in figure 4.1 below.

Of interest to this thesis as is shown in the coming chapters is not only how the state pension have impacted on the development of the other three but also the effect it has today on the respective markets under which they fall. That various scholarly arguments have been presented on the interplay of these various instruments is testimony of the enormity that they play in shaping not only the markets but also those forces in and around the markets.

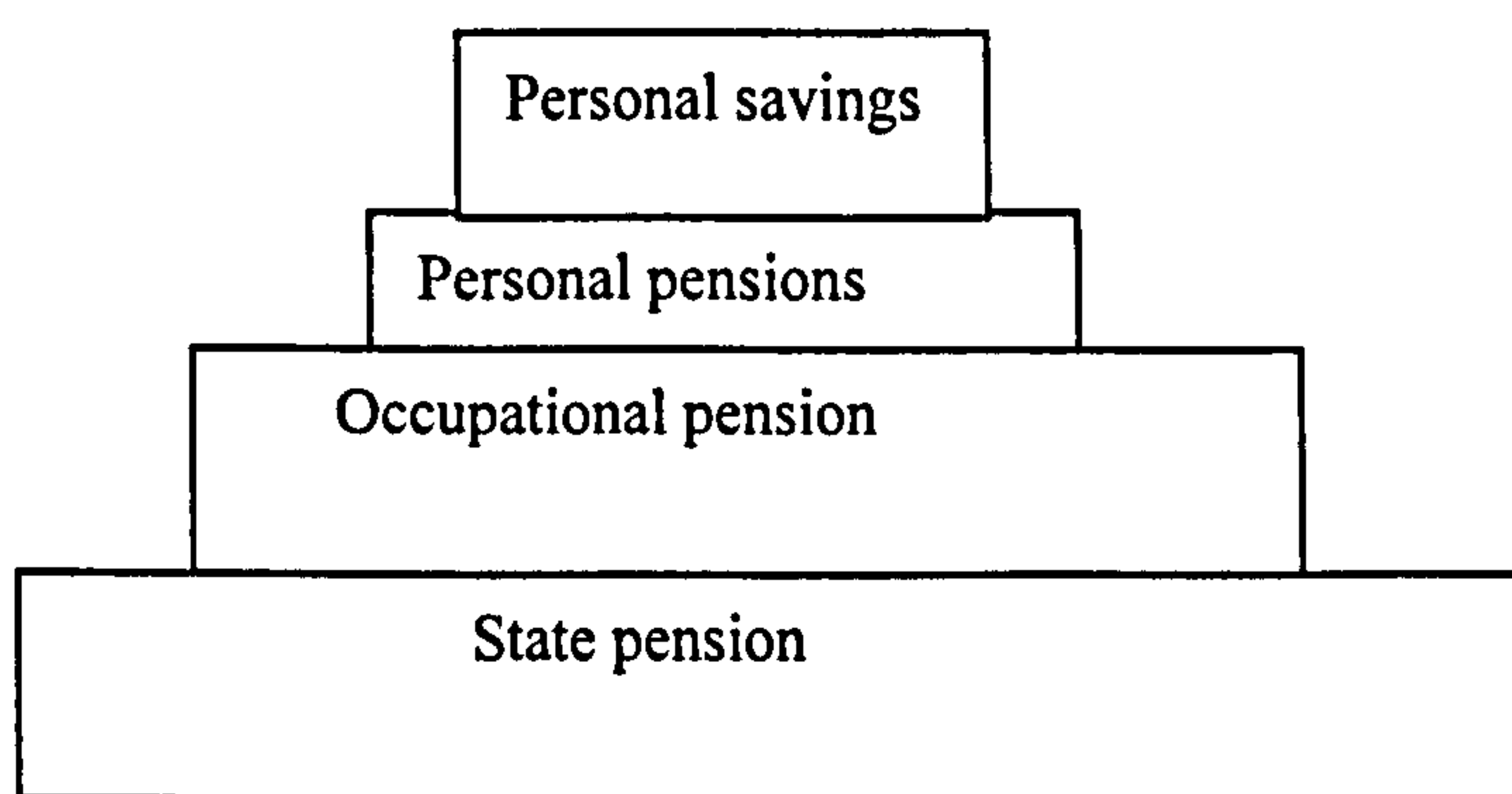


Figure 4.1

4.3.1.1 Basic state pension

The basic state pension is a flat rate pension payable to all those who have attained state pension age irrespective of their financial wealth and satisfy the minimum contribution requirements as may be specified from time to time by the department of social security. Presently it is payable at the ages of sixty and sixty-five for women and men respectively. The basic state pension is currently pegged against the Retail Price Index (RPI). It is at the moment approximately equivalent to nineteen percent of the British national average earnings. It is expected to go down as a percentage of national average earnings as the earnings inflation index is almost certain to continue to grow at a faster rate than the retail price index.

4.3.1.2 The State Earnings Related Pension Schemes

That this is an emolument related pension payable to all those who have attained the state pension age must be obvious from the name of the scheme. The original aim of this scheme was to provide a pension of twenty-five percent of the earnings between the lower and upper earnings limit.⁵

⁵ The lower earnings limit is just above the basic state pension while the upper earnings limit is almost seven times the former.

Following the 1986 Social Security Act the target of 25% has been reduced to 20% of Upper Band Earnings. The reduction is a gradual process and will apply fully to those that attain the state pension age after the year 2009. The pension under the 1986 Act is based on the individual's working life time with yearly revaluation done up to SPA in line with the national average earnings AES (1994).

The SERPS is not compulsory, the employees and employers alike can opt to contract out of this state scheme in exchange for a reduced National Insurance contributions by both parties. However the opt out option is on condition that the employee so opting out would be a member of any of the following schemes: a contracted out occupational scheme, which guarantees a minimum pension or a contracted- out money purchase scheme. Alternatively the employee may take out an appropriate personal pension or use a free- standing additional voluntary contribution⁶.

4.3.1.3 Occupational pension schemes

The employer- sponsored arrangement by which a scheme is set up for the benefit of the employees when they retire by reason of old age is generally known as an occupational pension scheme. Occupational pension schemes have a wider scope than other wise the name suggests as they provide in general other additional benefits such as: the death in service benefits payable to the spouse or other such beneficiaries as may be specified in the scheme. The injury and sickness benefits and early leavers' benefits are a common feature in most if not all of the occupational pension schemes. Hannah (1986) scintillatingly traces the development and forces that have affected the British occupational pension schemes and would certainly make an interesting reading

⁶ Ibid.

for an understanding of the UK pensions systems. The intertwined forces of business, political and social nature are scrutinised well by Professor Hannah and so much that they contrast so well with the forces that have helped shape the Zimbabwean schemes discussed later in this chapter.

4.3.1.4 Personal pension schemes

These are basically individual retirement provisions of defined contribution nature. Following the abolition of making occupational pension schemes compulsory, the British had at least in theory, increased the potential market for the personal pensions. The personal pensions are financed by contributions from individuals since they are essentially matters of individual arrangement. There is no law that bars employers from contributing on behalf of the individual employees that opt for a personal pension arrangement. However, the law as it stands, imposes a limit that these contributions can be tax exempted by the Inland Revenue. The contribution limits are such that the minimum is 17.5% and the maximum is 40%.

4.3.1.5 Other Personal Saving Schemes

There are many various forms of personal savings that an individual can use in the UK to provide for his retirement. The personal equity plans, otherwise commonly known as the PEPS, are amongst the most tax efficient vehicles of saving. There are also other forms of savings that are offered by insurance firms, banks, building societies and unity trusts⁷.

⁷ See for example Taylor (1971) Saving out of different types of income, Brookings Papers on Economic Activity 2.

Now that we have given an insight into the development and structure of the British occupational retirement provision, we will in the next section of this chapter consider the Zimbabwean experience and structure. Most importantly we endeavour to explain how the issues we noted in chapter two have applied in the Zimbabwean development and subsequent formation of the National Social Security Scheme.

4.4 Development of occupational pensions in Zimbabwe

The concept of occupational pensions in Zimbabwe was borrowed and in fact, brought by the colonial settlers in the early twentieth century. As with other segregationist policies, the pension funds that were set up generally prohibited black membership. The early pension funds that were set up were basically for the whites that were either settlers or descendants of settlers. Black employees that were entitled to retirement benefits were those that were employed in the public sector. When we talk of employees in the rest of this section we are referring to the white employees unless otherwise.

The rise of pension funds in the then Rhodesia (now Zimbabwe since 1980) was influenced and propelled by various factors. Table 3.1 shows a summary of the different factors that have helped shape the pension fund development in Zimbabwe.

Table 4.1 Factors that have shaped the pensions development in Zimbabwe

Factors	Segregationist capitalism	Improvements in medicine	Economic challenges	Legislative
Major effect	Biased awareness of old age problem	Increased longevity, in particular to whites	Recruitment and retention	Tax incentives
Period most felt	Late 19 th to late 20 th century	1930s to date	1950s to date	1950s to date

4.4.1 Segregationist Capitalism

The segregationist Rhodesia was the second most prosperous economic area in Africa, after South Africa for a good part of the twentieth century. The influx of capitalists with investment capital saw the coming into Rhodesia of such professionals, as are chemists, geologists, surveyors and other professional gold diggers. This development created a new large class of foreigners used to European living standards and culture. As these people became a social force within themselves, they began to draw the attention of their fellow capitalist kinsmen to the need of descent retirement lives.

The discovery of gold and other valuable minerals together with a new flourishing agricultural sector led to an influx of immigrant workers. The numbers of foreigners coming into the country increased forth fold following the formation of Rhodesia and Nyasaland in the nineteen fifties. Cheap labour from Zambia and present day Malawi led to the creation of a new class of black immigrant workers that depended solely on

selling their labour to the white employers for survival. Most of the black immigrant workers were employed in the construction of railways and roads and mines. The Zimbabwean natives unlike the foreign legion could resort to indigenous economy for survival and in particular subsistence farming. As a result of that the foreign employees were dependable and loyal to their employers. It was not long before the colonial government realised that in the long run as this new wave of black labour began to age, there would be social crisis caused by the welfare needs of these people who could not retire into the communal lands and be looked after by their own siblings. That led the colonial government to adopt a more positive approach towards making retirement provisions for the black employees.

In the meanwhile, the predominantly white employers and other quasi-government public corporations had also come to recognise the need for the provision of pensions to the loyal and more generously to the long-serving employees. Seeing the old former workers live deplorable lives after retirement lifted the profile and cause of retirement provisions across the entire social and political spectrum of the country in general and more specifically to the immigrant community. That itself led to the increase in demand for the provision of occupational pension schemes.

4.4.2 Improvement in medical sciences

The improvement of medicinal science coming mostly from Europe, led to improved life spans for many people and in particular the African white communities that could afford the cost and access to medical care. Most significantly this meant that the employees who would have died in employment or soon after retirement now survived and lived many more years after retiring. Partly propelled by the desire to

maintain the flame of segregation that saw the white settlers and their descendants living a far higher standard of living compared to that of the indigenous Africans, the rights to pension fund membership were seen as the most cost efficient ways of maintaining the social status quo. That in it-self led to a further increase in demand and growth of pension schemes.

4.4.3 Economic challenges

The economic diversity in Rhodesia was so sophisticated and dynamic that it required people well read in their various discipline specialities. The change in technology has been dynamic almost through out the world and Rhodesia had not been an exception in that regard. To attract and retain qualified and competent employees, the new capitalists in what is now Zimbabwe, saw the use of pension benefits as one of the best baits to lure their target employees at the same time using the carrot approach to retire the obsolete. There was an influx in the nineteen fifties to early sixties of foreigners skilled in various areas, apart from generous salaries that were paid to geologists and other professionals, the prospect of lucrative pension benefits attracted many to come into the country.

4.4.4 Legislative forces

The tax concessions that the law gives to pension contributions and to some extent on the capital gains and benefits payable has been a positive factor in promoting pension funds growth. Zimbabwean pension funds like many other pension funds in other countries have enjoyed positive demand and growth as a result of the special tax treatment that they get from the taxman's hand.

Having said all this so far, it suffice to mention that the same positive factors that have seen the rapid growth in pension funds growth in colonial Rhodesia, continue to this date to be major market forces in shaping the pensions development. Despite that, there were some white settlers or their dependants who found themselves unable to save for their retirement using the conventional pension fund sources. The state through the welfare department paid benefits to these otherwise out-cast members of the white community. There are some new challenges different from these as we show later in this report. In the next section, we look at the present pensions structure in Zimbabwe, a structure that was largely developed by the settlers and their descendants.

4.5.Retirement provision structure in Zimbabwe

To a large extent the Zimbabwean retirement provision structure mirrors that of the British. That is true for all structures save that there is no basic state pension. The other fundamental difference is the second home ownership that most of the native Zimbabweans use as a social security in the aftermath of post urban life were the majority work as middle white collar workers and labourers. The second home is usually in the communal areas where the inhabitants do not have title deeds whereas the first home is usually in the urban set up, rented or council owned or mortgaged.

While it is true that the pension funds are very significant both in magnitude and influence in the economy, the number of ordinary Zimbabweans that are members of such schemes is disappointingly low. The average unskilled worker not employed in the public sector relies to a large extent on the second home ownership for his life after retirement.

The occupational schemes, most run by insurance firms on behalf of private employers, have a history of excluding the majority of the lowly paid black workers. This exclusion is a result of both political and economic past of Zimbabwe. By virtue of the small wages and salaries paid to most working-class workers, it was and still is uneconomically sound to arrange pension pots for such workers in the private markets. On the political aspect of this inherent social crisis has been the continued exclusion of the working-class from participating and sharing in the growing prosperous pension industry.

4.6 Emergence of the forces for state insurance in Zimbabwe

In Zimbabwe prior to the urbanisation part though and resulting from foreign investment into the industrial and mining corporations, mankind had survived as close units dependent on the soil and each other. The old aged and the infirm were certainly the responsibility of the state and the immediate family members. The new industrial activity that the foreigners brought with them notably in the late 19th century marked the beginning of formal paid labour in Zimbabwe. The new culture borne from this new survival technique undoubtedly came with it the spirit of individual thrift.

The attempts to model Zimbabwe then a British colony to colonial mother led to a new format of dependence where the rural folks depended on those in new urban centres. The immediate victims of the new life were unsurprisingly the infirm, the old aged and those other groups that could not provide for themselves as individuals without the assistance of the able-bodied. The long-term problem was how ever, to be seen some years later when those previously dubbed the providers could not provide

for themselves and their dependants by reason of old age or injuries. It is this problem and how the state has sought to solve it through a system of compulsory occupational pension scheme that is of interest to us in this report.

At first, as early as 1981, the government of Zimbabwe believing to be in line with its then controversial Marxist policy, encouraged, facilitated and financed the system of co-operatives for the rural peasantry and retrenched employees. That this system of co-operatives was bound to collapse was almost obvious. But that the poor people so targeted by this scheme knew it, is not so obvious. The political naivety at the time certainly gave a false hope to the electorate and more so the old and those that had lost their jobs when the new independent government of Zimbabwe came to power.

Apart from the fact that the co-operative system did not address the problem of old age as a specific social and economic issue the Marxist tainted policy did little to address other inherent issues that go with old age such as that of the disintegration of the extended families dependency. The lack of sound managerial skills and financial discipline certainly had a contribution to the failure of the co-operatives venture.

The failure of adequate and exhaustive research coupled with clumsy rent seeking did not help the co-operatives adventure. The information at hand suggests that the co-operatives system had little, if ever there was, positive contribution to the lives of the elderly Zimbabweans. The economic sustainability of this programme was certainly beyond the capacity of the economy.

It thus came as no surprise when co-operative after co-operative began to collapse. Before long the notion of increased national economic output through higher labour force activity in co-operatives was gone. The government without conceding that a system of co-operatives had been a flop and presumably in line with the populist philosophy adopted by the ruling party changed strategy. That a system of National service emerged is not surprising and unsurprisingly is the short life that it lived. It is no coincidence that the idea of a national service was met with criticism from backbenchers, opposition and other pressure groups and that it soon wound up. The overall cost to the economy has never before been fully investigated. As if to add salt to the wound the misery of the retrenched and the aged continued to grow as the economic hardships began to hit hard in the 1980s.

With the concept of co-operatives and national service having failed, the first black government was certainly under considerable pressure to address the problem of unemployment and menace of old age. A quick solution seemed to lie on the formation of an insurance fund to deal with these social security problems.

4.7 Emergence of the National Social Security Authority

In 1983 the first debate on the subject of a national social security insurance fund was fierce. The then director of the Workers Compensation Insurance Fund was given ministerial mandate to source international recommendations from the International Labour Office (ILO). The scheme to be so established was to have occupational retirements, permanent health and unemployment benefits insurance schemes. The report from the ILO made various recommendations and alternatives that took into account that Zimbabwe was a small, newly independent and developing economy.

The idea of establishing a National Insurance scheme and in particular the one with occupational pension benefits was opposed by various groups. The Zimbabwe Association of Pension Funds was particularly vocal as it undoubtedly construed the proposed scheme as a threat to the long- term viability of private occupational schemes. The practical reality of the interaction between private and mandatory state pension provisions is discussed together with empirical testing in chapters six and seven of this thesis.

Following the otherwise exclusive but substantive consultation between the labour ministry and finance and economic planning ministries the enabling Act was passed in the Zimbabwean parliament in 1989. It was not after a further five years before the first implementation of the Act took place. And in between those years the vast majority of the would-be stakeholders were kept in the dark about the future developments in this new venture by the government.

4.7.1 Formation of the National Social Security Scheme

The present National Social Security Scheme (NSSS) is borne of the National Social Security Authority Act (1989) number 12. It came into effect by virtue of Statutory Instrument Number 393 of 1993 (SI 393 of 1993). The present structure of the state pensions insurance scheme comprises of short term and long- term benefits as is shown in table 4.2.

Table 4.2: The NSSS benefit structure

Type of benefit	Invalidity		Retirement		Survivors		Funeral grant
	Pension	Grant	Retirement	Grant	Pension	Grant	
Risks covered	Longevity- by members who were about to reach the SPA		Longevity –by members who have attained state pension age		Loss of income to dependants due to death of a bread-winner.		Burial and other ancillary costs
Beneficiaries	The insured members		The insured members		Dependants, spouses and parents		Who ever is responsible for the funeral costs

The NSSS benefits as is summarised in table 4.2 are classifiable under four broad categories. These are Invalidity, Retirement and Survivors’ benefits and Funeral Grant. The aim of the scheme benefit structure is certainly one to ensure the extensive protection from as many as possible risks that may cripple or worsen the financial position of member employee or that of his dependants.

4.7.1.1 Invalidity Benefit

An invalidity benefit is the benefit payable to the insured member or other such beneficiary as a result of temporary or permanent disablement of the insured member. The invalidity benefit comprises of a pension and a grant. The invalidity benefit is payable to the beneficiary from the date of incapacitation subject to the standard seven days excess period. This benefit is receivable continuously for as long as the incapacitated person continues to be an invalid.

An invalidity pension which is an annuity payable to a member who is permanently disabled is payable to those members that have attained the age of fifty years. In addition to the age qualification requirement the members must contribute for at least five years to the scheme of which not less than two years of the contributions should have been paid to the scheme in the past three years preceding the month of incapacitation.

An invalidity grant is payable to persons who are permanently disabled and have not attained the age of fifty years, provided that they have contributed for a period of at least six months but less than five years. The concept of invalidity insurance is the same as that of group personal accident and injury insurance that a firm will normally take in the private markets on behalf of the employees. It is as such a short-term insurance that has been included under the scope of NSSS like funeral grants, a point worth noting and discussed below.

4.7.1.2 Retirement Benefits

The retirement benefits are payable to members who retire from active employment by reason of old age. Retirement benefits are of two kinds; that is retirement pension and retirement grant. The former is in the form of an annuity and is payable to retirees who would have attained the age of sixty years provided their contribution record spans for a period not less than ten years.

Notwithstanding what has been said above, persons engaged in hazardous work may, if they wish retire at the age of sixty years (fifty -five years for females) and be deemed to have retired on the normal state retirement ages of sixty -five and sixty

years respectively. At the time of compiling this report there is no evidence of any moves towards the equalisation of the retirement ages of men and women. A point we will discuss later.

The retirement grant is a lump sum benefit paid to retirees who have attained the normal state pension age. The beneficiaries so covered under this benefit must have contributed or had contributions paid on their behalf for a period of not less than twelve months but not more than ten years. In addition to that the retirees should have retired from gainful employment or show to the satisfaction of the scheme that they are no longer employed.

Not with standing what has been said above, an employee may opt to cash on his contributions plus interest earned. This is so for employees who would have contributed to the scheme for a period of not less than ten years but not attained the state pension age. The minister of Finance is responsible for fixing the rate of interest to be applied to the contributions⁸.

4.7.1.3 Survivors' Benefits

As the name suggests, survivors' benefits benefit the widow or widower or any other dependant of the deceased employee. The survivors' benefits are in the form of pensions and grants. In order to qualify for this benefit the deceased employee must satisfy some general conditions that we may not discuss exhaustively in this report. Below are some of the salient conditions.

⁸ There is no rigidity on this as the ministry responsible for finance may use different names from time to time.

The survivor's pension in the form of an immediate annuity following the death of an employee is payable to the beneficiary provided the former would have qualified for a normal retirement pension or was entitled to an invalidity pension at the time of his death. If the deceased does not leave behind any spouse or dependant the pension so payable forms part of the deceased's estate. The survivor's pension is not payable in respect of a widow or widower where marriage contracted after the date of disability or retirement of the deceased.

The survivors' pension is normally receivable by the widow or widower until her or his death. In the case of minors that are mentally or physically disabled, this benefit is payable for as long as such dependant child continues to be so incapacitated. To avoid doubt of any kind, a widow or widower entitled to a survivor's pension receives such benefit in preference to all other claimants. In the like manner, a child who becomes any orphan should, in preference to all other claimants, be entitled to a survivor's pension after the death of his surviving parent.

The total amount of pension payable to any beneficiary of a survivor's pension does not as a generality exceed the pension that would otherwise be, or was payable to the deceased employee. There are three different rates that apply here. The scheme offers a 40% of the deceased's pension in respect of a widow or widower or child. But however, if the deceased employee leaves behind two or more wives or children, such widows or children, should share between themselves the pension as would be payable to a single widow or child equally⁹. The general manner of the pension

⁹ Please note that polygamy is lawful in Zimbabwe

scheme has the explicit power to vary the proportions upon which such pension benefit can be best apportioned in the interest of all the interested parties.

A 12% of the pension that the deceased employee would otherwise have received is payable to either of the parents if the latter are beneficiaries. An 8% of the pension as described above would be payable to any other dependant or dependants other than those already mentioned above if they were beneficiaries in accordance with the rules of the scheme. That is in the event of there being more than two such beneficiaries, this 8% would be shared in equal proportions. The general manager of the scheme has, however, the powers to vary the proportions upon which the pension can be divided amongst the beneficiaries.

The survivor's grant is in the form of a cash lump sum payable to the beneficiary where at the time of his death a deceased employee would have been entitled to an invalidity grant or retirement grant. The conditions described with respect to a survivor's pension apply mutatis mutandis with regard to the disposition of a survivor's grant.

4.7.1.4 Funeral Grant

The NSSS offers a funeral grant in the form of a cash lump sum. It is payable to the person who in the opinion of the general manager, has met or is liable to meet the funeral costs of the deceased employee. However, when a deceased employee qualified for a funeral grant in terms of the National Social Security Authority (Accident Prevention and Workers' Compensation Scheme) Notice 1990, the person

who would have met the funeral costs would be advised to seek compensation from this latter scheme rather than the NSSS.

In order to qualify for a funeral grant, a deceased employee should be one in receipt of invalidity or retirement pension or one whose insurance contributions have been paid or credited on his behalf for a period not less than five years.

4.7.1.5 Disqualification from Receiving Benefits

The general manager of the scheme has the power to disqualify an employee entitled to an invalidity benefit or retirement benefit for a varied reasons of which the most salient are discussed briefly in this report. If a member becomes incapable of work through his own deliberate negligence such as operating the machinery while under the influence of alcohol or drugs he can lose his benefits. Secondly failure without good cause to submit oneself to a medical examination directed by NSSS may result in loss of entitlement to benefits.

To reduce and deter the risk of moral hazard the scheme considers moonlighting punishable by loss of entitlement to benefits. That is, for example, if a member performs work for which remuneration is ordinarily payable, the scheme may terminate his benefits or refuse to pay if an application is made for a benefit.

Lastly if a member fails, without good cause, to answer any reasonable questions directed to him by NSSS authority for the purposes of fulfilling the statutory instruments governing the scheme, may also lead to loss of benefits.

The disqualification rules do not apply to pension benefits payable to those that would have attained state pension age. As is evident above the disqualification can be short or long term. The general manager has the sole discretion as to the length of such disqualification.

4.8 Contribution rates of the NSSS

The present state pensions and related benefits scheme, covers a section of employees and their employers. Conspicuously exempt from membership is the government and its employees. And so are the National Railways of Zimbabwe NRZ and its employees. The government and the NRZ are without any reasonable doubt two of the single major employers in Zimbabwe. Also excluded are the farm labourers and contract workers and many others who in our opinion would have benefited from a national scheme.¹⁰

The employers and the employees make the NSSS contributions alike. The employer and the employee share a total of 6% of an employee's salary equally as a monthly contribution to the national scheme. There is a maximum cap, set as a fixed sum expressed in dollars that is set from time to time that an employee's contributions cannot exceed. The maximum cap has in fact remained unchanged at \$1440 per annum since the inception of the national scheme.

Unlike the other conventional pension contributions to the privately managed schemes, the NSSS contributions are not a tax deductible. There is no tax rebate that can be claimed from the government Taxes department arising from expenses

¹⁰ See the Zimbabwean SI 393 OF 1993 for a fuller list of those exempt from contributing

incurred as pension contributions to the NSSS. That is so for the employees but employers. The employers are free to pay the total cost of contributions on behalf of their employees though there is no tax incentive to do so.

4.9 Forces behind the evolution and development of NSSS

Having noted what has been said above about the national scheme, the interesting conceptual questions of the forces that have helped bring about the national scheme in its format arise. The complex blend of Western type of free market and Marxism that the ZANU PF once attempted in Zimbabwe explains to a large extent the general political and economic perspective upon which the emergence and formation of the NSSS must be understood. It is not so clear as to what extent the forces of Marxism influenced the come about of the NSSS nor is it clear the extent of influence the forces of a free market had in this venture. What can be safely stated is that it was during the mist of disguise under both that the government came with the idea of a national occupational pension scheme. In fact, it suffices to mention that the president of Zimbabwe, an ardent Marxist scholar, boasts that the NSSS is founded on socialistic principles and shall be managed as such. These are the views and promulgations that are bound to haunt the reputation and concise culture of the NSSS as a corporate organisation operating in a market that is widely becoming laissez-faire. Below we discuss, briefly of course, the various schools of philosophy that manifest and reflect themselves, otherwise undoubtedly, in the scars of development and formation of NSSS.

4.9.1 The Marxist influence

The first independent black government led by a self proclaimed Marxist teacher perhaps as expected showed an un wavering determination to introduce a scheme that would reflect some of the features of Marxist school. The generosity of the benefits proposed vis-à-vis the proposed contribution not to talk of the management style, is evident of that. The magnitude and ambition of the spirit of the NSSS characterises though not so obviously the epitomise otherwise common in most socialist driven economic ventures.

That the government chose a scheme with barely freedom from ministerial leverage is evidence of the socialist forces that call for such strong central command of the institutions of production. The concepts of equality, freedom and fraternity that are the ultimate goals of the socialist scholars are embraced, at least in paper, in the NSSS whose other objective aim is to establish worker solidarity and equitable distribution of income. The fact that the workers' movement was once run as a wing of the ruling party or a government agency partly explains the spirit behind the philosophy that fuelled the drive towards the creation of the social security system in its entirety as we see it in Zimbabwe.

4.9.2 Demands for Libertarians

With the British public institutions undergoing revolutionising under the Thatcher government¹¹ the wave of envy by which such change was admired did not exclude the Zimbabwean political and economic circles. There were some prominent figures, both from the remnants of the colonial administration and the returning exiles that

¹¹ The British conservative government led by Margaret Thatcher in the 1980s to 1990s

have been poisoned by the British style of doing business, that believed that the pensions markets was better off left alone to develop and prosper within the demands of the market mechanism. A behind the scene support from the private insurance and pensions firms has never before been doubted.

The libertarians so concerned with individual freedom and rule of market mechanism were so determined to oppose any moves aimed at establishing a monumental pension scheme run by a central government. They, justifiably to some extent, thought that such an enterprise would distort the market equilibrium and lead to a further unnecessary increase in market regulation. On the other hand the new regime, of course being the first independent black administration, believed and times wrongly, that as a way of affixing political control such radical moves had to be done irrespective of what the predominantly white Chamber of Commerce thought of such developments. That was part of the struggle for supremacy in the post- independent Zimbabwe.

4.9.3 Triumph of the liberals

If the diversity of backgrounds of the Zimbabwean government ministers and their advisors has ever reflected itself in any government policy then it was certainly at the creation of the NSSS. That the advocates of capitalism with government involvement managed to influence the final shape of the NSSS cannot be doubted. The defeat of the advocates for an absolute independent and privately run national occupational scheme is evidence of a deal of compromise between the extremist socialists and the libertarians. It would appear that the desire to maximise efficiency and equity within

the framework of capitalism thrived over the desire for an independent market mechanism.

The balance aimed at pleasing the socialist advocates most that had inclination toward creating systems modelled along the former communist block economies led to the creation of a quasi- independent NSSS. That this quasi-independent national scheme would compete, albeit with unfair advantage, for business with private firms seems to have been of little deterrent at the time the scheme was formed. Of importance it would seem was that both extremes had been accommodated.

To date the legacy of the socialist taints in the NSSS continue to haunt the efficient and professional operation of the scheme with central government ministers exerting undue influence in the administration of the scheme. The negative impact of the scheme to the private schemes is not so obvious hence the need to do some empirical work as we have done in chapters six and seven.

4.10 Operation of the NSSS

The NSSS, the new entrant variable to the pensions markets in Zimbabwe operates as a quasi-independent government agency. It operates within the market that has developed over a long period of time modelled along the British open market system. The general manager of the scheme runs the NSSS on a day to day. That the government retains a firm arm on the scheme has already been said. Yet it still enjoys relative freedom when it comes to those areas that the government perceives as being of less national interest. The concept of national interest is ambiguously, and is in fact

required under section 27 of the Act¹², yet the fear of manipulating the scheme for the benefit of the government seems to be an issue for many in the years to come. Figure.4.2 below is a diagrammatical flow chart of the NSSS.

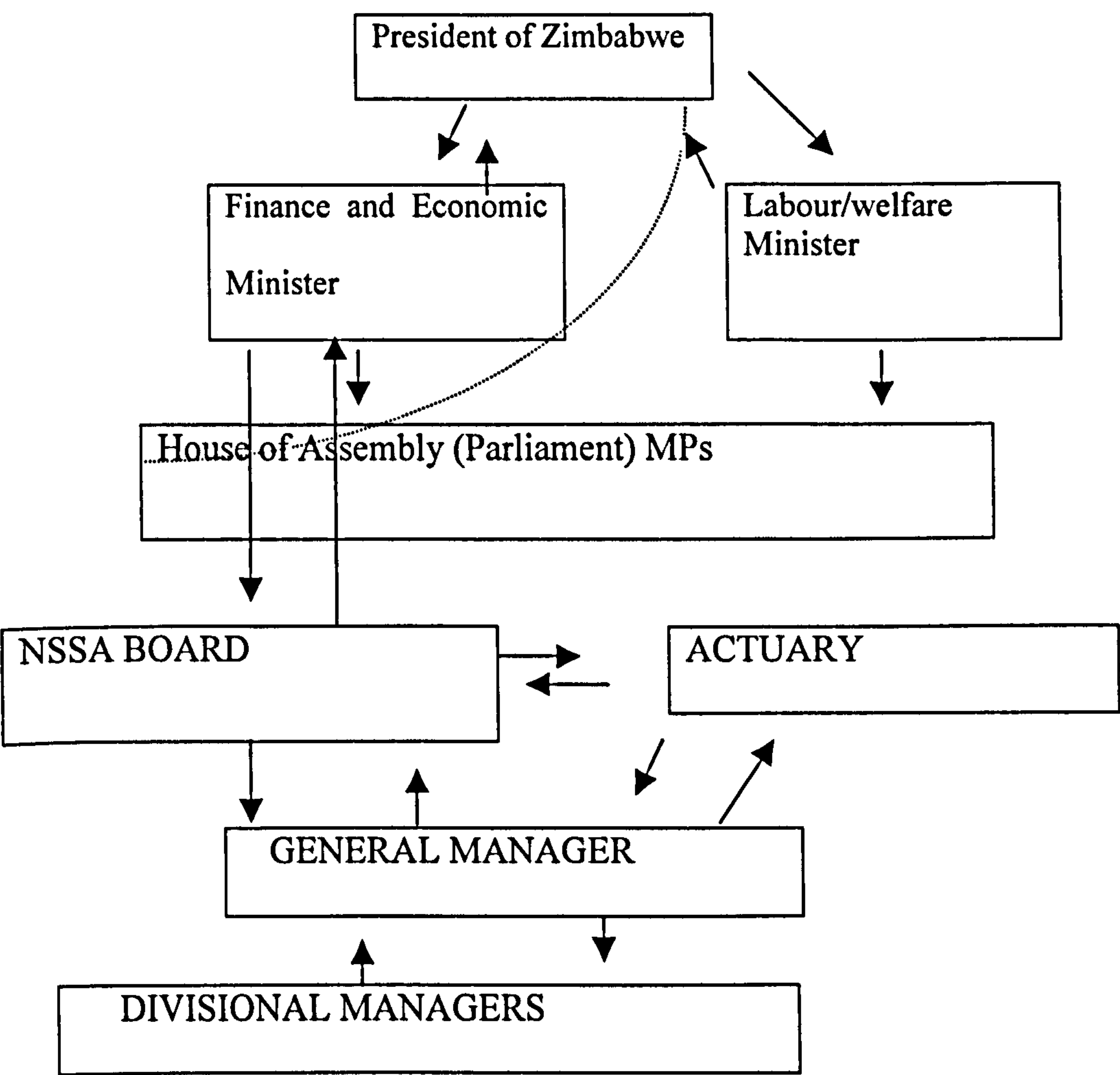


Figure 4.2

The NSSS through NASA has a varied diversity of investment portfolios both short and long-term. It has an unlimited, as is the private pension funds, to both short and long- term securities in the form of government stocks, bonds and so on. The present

¹² The National Social Security Authority Act (1989) no.12

asset portfolio owned by NASA includes both physical and financial securities property.

The compulsory requirement that a certain percentage of the private pension funds' premiums be invested in government approved stocks extends to the NSSS albeit in that the minister can direct that a certain percentage of the funds be invested in socially acceptable ventures and has the prerogative to give the scheme management direction of general character where national interest is concerned. The British pension funds following the regulations that came into force in July 2000 have a moral obligation to invest in the socially needy ventures.

The opaque transparency and accountability of the present regime has had in the short run a knock on effect on the public perceptions in so far as the operations of the NSSS are concerned. This is further confirmed by the results from our questionnaire where in more than sixty five percent of the respondents said they did not trust the present government with running a national occupational pension scheme.

4.10.1 Funds and reserves

In accordance with the requirements of the enabling Act, the scheme has set an operational fund to which all the qualifying employees and employers alike pay their monthly contributions. The scheme as a body corporate that can sue and be sued in its name can, using the fund name, raise and invest funds as may be necessary provided such moneys and interest accrued upon is lawful.

The scheme through the body of governors is required to hold a certain percentage of the monthly contributions in liquid form such as a bank, building society or the government treasury bills¹³. The minister of Labour, Manpower Planning and Social Welfare, in consultation with the minister responsible for finance approves the investments to which the rest of the fund goes. The former after consulting the latter sets from time to time the proportion of funds to be kept in liquid form and that to be invested in other areas.

The scheme as required by the Act¹⁴ is advised by an actuary on the level of reserves to be held at any given time. It is responsibility of the board of governors to ensure that the required margins of solvency of the scheme are maintained. The reduction of the reserve levels or use of reserves can only be done after a ministerial approval. This set up raises some interesting questions of accountability in the event of investments going wrong or the fund experiencing some unforeseen financial difficulties. Is the board of governors to be blamed or the ministers? Are political driven directives compatible with conventional investment decision-making process? There are many questions that arise than could be answered. Some of these pertinent questions are discussed in the next chapter.

In spite of what we have said above with regard to the NSSS there is little evidence per se to suggest that the national scheme has influenced the everyday operations of other established schemes. That does not however suffice to imply that it has had no effect on long term strategies for the planning and provision of retirement benefits. The resolute by which the private institutions and press alike have shown in the

¹³ The Treasury Bills referred to here must be those tendered by the Government of Zimbabwe.

¹⁴ The National Social Security Authority Act (1989) No.12 Government of Zimbabwe printers

operations of the national scheme is evidence of the influence, real or imagined that the NSSS has in the pensions markets. That the independent financial economists and academics continue to follow the developments and operations of the scheme with so much zeal shows the level of anxiety that is generated by the scheme in the markets.

4.11 Conclusion

In this chapter we have discussed in general, both the origin and development of the subject of social insurance. We have considered the specific developments of the NSSS and shown that the processes have been a product of a cluster of complex political and economic factors. The related developments in other countries that are of interest to this study have been discussed and carefully noted. We have further noted how the NSSS has been influenced by the developments in other parts of the world. The contribution and benefit structure of the NSSS has been stated clearly. The development and structure of the British retirement provision structure has been explained. The operation and relative position of the national scheme in the pensions markets has been carefully noted.

CHAPTER FIVE

A review of the NSSS in light of the wider economic, political and social environment

5.1 Introduction

In this chapter we look into the NSSS from an analytic and critical view. We look into the NSSS in the light of the wider economic, political and social perspective. An Analysis of the scheme design and benefit structure is also made. Issues of both actuarial consideration and qualitative economic importance are given a careful review. The government's economic and social development programme is reviewed in light of the emergence of the NSSS. The areas of potential conflict between the aims of the NSSS and the economic and social development programme are highlighted and commented upon.

5.2 The NSSS Design

The design of a pension plan is the foundation upon which a superstructure of administration and performance is erected Marples (1965). It is with a sound pension plan that the administrators of the pension fund can ensure growth and development of a security plan adopted. As a generality, the onus of running a scheme is placed with the trustees whose appointment to the board of trustees is normally spelt out in the rules of the scheme. The trustees will as a matter of practice appoint professional people such as the actuaries and underwriters to do the everyday running of a pension scheme. And the trustees as such formulate broad policies for implementation and administration by the specialists in the various aspects of the fund management.

The NSSS by virtue of its design mirrors the conventional private occupational pension schemes in many respects. First and foremost it is a quasi-government occupational scheme whose operations have been entrusted to a board of trustees appointed by the government. While the employers' organisations and employees' organisations submit names of possible board members, the final decision lies with the government through the minister for Public works and Social services. From a distant observation it may look as though the powers of running the national scheme are vested with the employers and employees alike. A closer look however, creates a different view as the members so appointed from employers and employees' interest organisations could have their appointment terminated by the minister. The enabling Act¹ in fact gives too wide a scope for the minister to exercise his discretion in appointing and firing board members. Section 10(b) of the Act for example says that a board member may be asked to vacate office by the minister if such a member has

“ Failed to comply with the conditions of his office fixed by the minister in terms of subsection (1) of section seven.”

The drafting and interpretation of the terms that have to be complied with is the prerogative of a government minister and could as such be abused to achieve short-term political goals. A member acting in the interest of the employees could become a victim if say for example, a particular opinion he has is not compatible with the political interests of the sitting government. More over, the Act is not clear as to whether the employers and employees' interest organisations ought to submit fresh names for consideration by the minister in the event of a member having to vacate

¹ The National Social Security Authority Act (1989) No. 12 Government Printers Zimbabwe

office prematurely. The essence of all these examples is that the NSSS despite its having a board of trustees that in theory is meant to be representative of the interest of employers and employees alike, is far from being a government partisan group in actual life. It is with that background that the true objectivity of the running of the national scheme can be brought to question.

5.2.1 Stakeholders' rights and obligations

With private pension schemes and particularly the employer-sponsored occupational pension plans, the pension plan is the single most important document. That is so, for the pension plan sets forth with the details of the rights and obligations of the scheme member-what benefits he may claim and when, how the amount of the benefit is calculated and what information has to be furnished with the claim, and whether he has to make contributions during his participation.² The pension plan as a matter of general practice is produced as a booklet and made available to all members and members recently joining the scheme.

The NSSS as a scheme modelled along the funded employer-sponsored pension plans should have endeavoured to produce informative booklets for circulation to all employees contributing to the national scheme. The available documents are statutory publications such as the Act itself and the statutory instruments detailing specific issues in pursuance of the spirit and objects of the 1989 Act. We need not emphasise the fact that statutory publications are fraught with complex legal jargon perplexing to legal professionals at times. The plainly written documents from the NSSA are basically promotional publications aimed at the general public and not specific on real

² Ibid

crucial areas of interest in so far as the average employees are concerned. Because of that the benefits and obligations of each part to the national scheme are very cloudy and at times subject of speculation and uncertainty. The unavailability of the scheme booklet makes the legal relationship of the employees and the national scheme uneven. There is as such, a need to improve communication and more crucially in so far as the obligations and rights of each of the parties to the NSSS is concerned.

5.2.2 Actuarial Management of the NSSS

All pension schemes as a matter of generality and practice require at one time or the other the services of an actuary. The actuarial cost estimate is crucial in the initial determination of benefits and cost. It becomes even more important when a scheme is running where periodical actuarial evaluations of the fund makes it imperative that the sponsors of the scheme are within the projected estimations of the cost of running the fund and where fall outs have occurred remedial action is taken. The basic concept of making actuarial valuations is to make known the present values of such benefit considerations as are death benefits, refunds and so on.

Notwithstanding what we have said above it needs not much emphasis that the NSSS requires the constant services of an actuary no less than any other occupational pension fund in Zimbabwe. The prescriptive statutory instrument upon which the NSSS is founded requires that the national scheme fund be subject to valuation at least every three years. One need not be a specialist to note with great concern that the minimum periodic valuation is inconsistent with the otherwise turbulent political and economic environment in Zimbabwe. The interest rates and inflation rates alike have been very volatile and fluctuating between fifty percent and eighty percent for the

good part of the last eighteen months yet the actuary has not only revised the contribution rates but the reserves and projected benefits have also remained unchanged. The salary indexes have been adjusted several times of which a proportionate adjustment of the contribution rates would have been the most reasonable response to this vibrant economic development in Zimbabwe.

There are many and varied actuarial areas that are worth noting with regard to the NSSS. We look into these issues under the headings, “membership participation, mortality, salary progression, interest, disablement and post disablement mortality and normal retirement rates”. In addition to that we consider the general expenses that are relevant in the efficient management of a scheme to ensure that it meets the financial obligations in the form of benefits and refunds to the members.

5.2.2.1 Membership participation rate

The NSSS is at the time of writing this report using old participation rates that were assumed more than half a decade to this date. Not only that the employment trends have changed but more importantly the labour participation rates have for a good part of the last twenty-four months been subject of every man’s guess. The employers’ confederation and the workers’ unions estimate the fall in rate at well over forty percent while the government figures are somehow conservative at twenty or so percent. The importance of keeping track with employment fluctuations is core to the actuarial needs in so far as determining the employment survival rate that is itself crucial for purposes of determining the probabilities of the scheme making premature benefit payments and funding reductions in contributory schemes as is the case with the NSSS. The significance of higher withdrawal rates than was assumed at inception

of the policy is that it affects the magnitude of contributions flowing to the scheme funds from employees and employers alike. That is to say in the event of the scheme experiencing more than expected withdrawal rates, the fund's ability to sustain promised benefits becomes squeezed of which there being sound actuarial management would certainly lead to revision of the assumed withdrawal rates.

The other area worth noting with regard to the withdrawal rates currently in place and used by the NSSS is that the government actuary assumed an economic growth rate of 4.5% to 5.5% yet the experience on the ground is proving to the contrary and very far from the NSSS' projections. In the last three years the economic growth has been a staggering average of between 0.8% and 1% and international experts expect it to go further down in the coming years before it picks up again. That change of direction will depend to a large extent on the political and economic reforms that are more than needed in Zimbabwe at the moment. The fall in economic growth rate implies that there is an inevitable fall in people getting formal employment in the sectors targeted by the NSSS for the funding. In theory what this entails is that the assumed growth rate of the fund is failed while on the other hand the liabilities emanating from NSSS contribution refunds and deferred pension rights increase.

5.2.2.2 Mortality rates

Mortality rates are important in the administration of any occupational pension scheme. The relevancy of mortality tables is twofold, first during the period before normal retirement age and secondly with regard to post retirement period. In the first significance, that is before the employee reaches normal retirement age, though generally small by comparison to withdrawal rates the mortality rates just like the

former reduce the estimate of the survivors to pension age and thus diminish the factor “probability of payment” Marples (1965). In the second part, after retirement, the mortality rates are important in that they are the core factors reducing the probability of payment to less than one. High mortality rates produce a large reduction and lower mortality rates produce a lesser reduction. It is the pensioners’ mortality rates that determine the annuity values of the benefits.³

Turning to the Zimbabwean experience and the NSSS we need not emphasise that the AIDS epidemic and the general fall in living standards have changed the look of the mortality tables. While there is no evidence of robust study into the effect of the AIDS on the Zimbabwean mortality tables, there is a general consensus across the entire international and domestic spectrums that the rates have substantially increased. Judging by number of deaths and United Nations estimates and projections there is urgent need to apply instantaneous flashlight into the old rates assumed by the government when the national scheme was designed. From a qualitative point of assessment there is no doubt what so ever that the current latency in reviewing rates more regularly as reflective of the turbulent nature of mortality statistics in Zimbabwe is a “debt risk bomb” that will explode in the years to come with far reaching consequences for the state finances.

As a new and young scheme the NSSS requires the constant watch of an actuary if it is to meet the expectations of both the workers and the government. The NSSS enabling Act requires that the rates be reviewed and evaluated at least once every three years. The bureaucratic process inherent in most public services makes the

³ Ibid

submission and implementation of the actuary's recommendations of the reviews and evaluations a much longer process than otherwise sought by the spirit of the legislation itself.

Because the NSSS is still at its infancy and will continue to be so for up to the next twenty five years or so, it is important that it has constant and increasing cash flow that is distinct from interest and capital gains for it is this cash received from employers as national insurance contributions that is essential for the purchasing and building up of property assets that will eventually entitle the scheme to further income gains. It is thus very imperative that the national scheme must endeavour to keep as up to date as is reasonable possible, the mortality and withdrawal rates.

5.2.2.3 Salary progression rates

Since the NSSS and in particular pension benefits are salary-linked, it means that there is great need to keep track of salary developments by the scheme's actuary. The salary progression scale that the actuary must adopt in the cost-benefit design of the scheme is generally a case of compromise between employees and the sponsors of the scheme, usually though generally not always employers. In the case of the NSSS the government is the ultimate sponsor of the scheme and bears the risk of scheme projections "ballooning" out of proportion including new salary scales on immediate benefits payable to scheme members.

The statistics at hand suggests that the salaries for middle- income earners have increased by disproportionately huge percentages ranging from two hundred fifty to five hundred percent in the past seven years. If that trend is to continue and the

contribution rates continue not to be reviewed as often as we would have expected there is absolute danger and risk that the national scheme would face financial crisis in the near future when substantial pension benefits become payable.

5.2.2.4 Interest rates

The interest rates assumption is one of the crucial decisions that an actuary has to make when a pension scheme like the NSSS is set up. As a generality, it is true that the realistic rate would be earned from the assets of the fund over the entire lifespan of a member. The interest earned from the scheme assets helps bring down the contribution rate by employers and employees. It is as such crucial that the national scheme keeps a sound investment portfolio that takes cognisance of the assumed interest rate in the scheme design.

Of particular concern to us is the independence of the scheme from government whips in making investment choices. It would be particularly difficult for the national scheme to make investment mixes that take into account the dynamic effects of interest rate volatility bearing in mind that the NSSS rules have a provision that states that the government through the minister responsible for the running of the scheme may “ give to the Authority such directions of a general character relating to the exercise by it of its functions as appear to the Minister to be requisite in the national interest.” Such a provision makes it easy for politicians to use political muscles to force through certain investment programmes that would in the absence of this loophole not go through.

5.2.2.5 Disablement and post disablement mortality rates

These are used to interpolate the number of employees that are expected to retire by reason of invalidity, physical or mental occurrence. The mortality rates are then used to estimate the annuity value for incorporation in the calculation of the present value of the pension after invalidation Marples (1965). As a general practice there is no standard assumption rate. There is however, usually an applicable range of rates within certain classes of employees so insured under a pension fund.

Turning to the Zimbabwean national scheme there is need for the authorities to set up or cause to be set up an independent statistical data bank to collate the relevant data for future use by the national scheme's actuary. We realise that the record keeping of accidents and deaths of employees is not co-ordinated so as to reflect the true across the sectors statistical picture. There is thus need to have a professional agency with expertise in statistical science that will collect and collate data on behalf of the national scheme. The statistics from the Central Statistical Office is unreliable in many respects and more fundamentally lacks detail.

5.2.2.6 Normal retirement rates

Strictly speaking normal retirement ages are a matter of individual professions. University lecturers may afford to work beyond the age of seventy- five years and excel in the profession at that old age. On the other hand for manual mechanics, it would generally be unrealistic to work without absolute strain to the age of say seventy years. The essence however of the normal retirement rates is that they impact directly to the cost estimations of the pension scheme. In the absence of other benefits in a pension scheme, the only risk becomes that of longevity. That is the risk of an

employee surviving to normal retirement age and thereafter surviving many more years during pension period.

The NSSS has an absolutely low normal retirement age. While the state pension age in most if not all the industrialised countries is sixty-five years⁴, a trend common in the developing Latin American countries, the NSSS has age sixty as the normal retirement age. In view of the advent of the AIDS epidemic whose actuarial cost to the pensions insurance has not been quantified exhaustively, it may be justifiable that the normal retirement in the national scheme has been set at the relatively lower figure of sixty years. The general economic and academic debate in this area of retirement provision has lately centred on the theoretical need to increase the normal state pension age from sixty-five to say seventy or so years in view of the fact that pensioners are increasingly living longer than say in the sixties and seventies. The improved medical and other factors ranging from standards of living to environmental factors justify the need for an increase in the state pension age in most of the developed countries. The customary sixty-five years used in most if not all the private pension schemes in Zimbabwe is now more of a tradition than a true actuarial reflection of the longevity cost determinant.

In the long run, assuming that the AIDS epidemic and current political-economic disturbances are a mere market general shock wave that will surpass with time, there would be a need to adjust the state pension age to conform with other international

⁴ There is however a difference in retirement ages for females and males, an anomaly that is in the process of correction in many countries.

practices where it is much higher and is scheduled to be increased in the years to come. If the cost effect of doing that is not considered now, there may be some unsustainable adjustment costs when that need eventually becomes an absolute necessity.

5.2.2.7 Administrative expenses relevant to the NSSS

In private markets these administrative expenses are treated differently by different employers and pension fund managers. The normal practice is for the sponsors of the scheme, the employers in general, to bear the cost of such expenses as statistical gathering, cost of disbursement of pensions and so on. There is no reserve fund set in respect of such expenses. The actuary of the scheme though would in most cases apply a loading factor to the initial contribution rates to cover part of these costs.

Looking at this issue from the perspective of the NSSS and the current fiscal constraints that the Zimbabwean treasury is going through, it is difficult to envisage how the NSSS will manage to deliver efficiently without having to cause further financial constraints to the treasury already operating a knife- edge budget line. The national scheme as a board corporate that can sue and be sued in its corporate name is, at least judging by the spirit of the enabling Act, expected to meet the full cost of most of all the expenses falling under this category. In practice and more so when the national scheme begins to have more pensions in payment, it is bound to find it difficult to meet all its financial obligations without having to increase its debt or borrowing from the Central treasury. We are not being judgemental in our prognosis but are merely using the logic of events to extrapolate this aspect of both economic and fiscal speculation.

There are various other actuarial management cost variants that will undoubtedly be of much interest and debate in so far as the NSSS is concerned. We cannot however, discuss every actuarial consideration in a report of this nature and size. The report from the Zimbabwe Actuaries Society and other commentary publications by this group on certain specific issues within the NSSS would certainly make an interesting further reading in this area.

5.2.3 National Social Security Scheme Contributions

With private occupational pension schemes the employers are generally the heavier contributors and hence the major source of pension security. It is difficult to envisage a pension plan without employer contributions that are paid regularly and in substantial volumes. The employee contributions on the other hand merely promote the security that would have been established by employer's contributions. The debt as such that may accumulate as a result of inadequate funding of a pension scheme is the responsibility of the employer. The other general international practice is that the employee contributions can be withdrawn and paid to the leaving employee together with interest that would have been pre-fixed.

Looking at the NSSS from a pension funding perspective, it is difficult to make a robust judgement about the adequacy or inadequacy of the rate that is used to determine each member's contribution from both his salary and employer's contribution. What is however certain is that for as long as the NSSS continues to have a contribution cap that is not reviewed regularly and frequent enough, there would always be a prima-facie case that the risk is high that when the scheme matures it would have to do with large sums of pension deficit. As if that is not enough, there

is an even more compelling worry from a worker perspective that to finance the ensuing deficit the government may have to resort to sharp increases in contributions thereby leading to a sudden drop in households disposable incomes. These are just speculative analysis scenarios that can be abated by the NSSS if it can take immediate cognisance of the effects of the policy currently in place with regard to pension contributions to the national scheme.

Another important angle upon which to view the NSSS contribution policy is to put in the perspective of related other schemes elsewhere in the world. As comparing the volumes of currency spent as national insurance contributions would not be comparing like with like across borders, we see it fit to use the gross domestic product ratios calculated from the figures provided by the central banks, to build a picture of the NSSS contributions policy within the international context. We also use the average of national insurance contributions as a percentage of gross salary to create a reflection of the NSSS within the international framework. This comparison is essential not least that the NSSS has the establishment of reciprocal arrangements with other countries' schemes as one of its crucial international objects.

In table 5.1 we show the contribution levels from selected countries into the national insurance schemes. Table 5.2 shows the annual expenditure on old-age state pensions from a selection of countries. As can be seen the Zimbabwean contribution rates to the national scheme are per ser smaller than those from the rest of the sample. To make a direct comparison just like that is, how ever, very misleading as it is not realistically comparing like with like, but does give a general picture of the NSSS policy within the light of the international context. There are various economic and

social aspirations in each of the economies and need not emphasise the varying standards of living. And most importantly there are various economic and political constraints determining the domains of state expenditure on old age pensions and contributions hitherto by the employees and employers alike.

Table 5.1: State pension contributions as a % of salary and GDP: a selection of states

Country	Zimbabwe	UK	Sweden	Chile	USA
Social assistance	No	Yes	Yes	Yes	Yes
SPC as a % of salary	4%	3%-10.2%	9.25%	10%	5.9%
	4%*	10%*	9.25*	0*% 3%**	
Pension Type	Funded	PAYG	PAYG	Funded	PAYG
State pension age	60	65/60	65/60	65/60	65

* Indicates the employers’ contribution rate and ** indicates the administration charges.

Source: Various World Bank computations

Table 5.2 State pension as a % of GDP

Country	Period					
	1993	1994	1995	1996	1997	1998
Estonia	5.5	6.4	6	5.7	6.6	6.9
Poland	15.1	14.3	13.6	14.5	N/a	13.3
Czech Republic	8.1	8.2	7.4	N/a	N/a	7.7
Ukraine	8.9	8.5	8	N/a	N/a	N/a
Bulgaria	8.7	N/a	8.8	8.7	8.5	8.4
Hungary	9.8	10.4	9.7	N/a	9.4	N/a
Zimbabwe	5	12.4	13.5	14.6	15.4	16

Source: Computed using World Bank and other experts’ estimates

5.2.4 Retirement and eligibility for pension

The eligibility or otherwise a right to a pension benefit is not a complicated issue with private schemes for such a right would normally be clearly spelt out in the rules of the pension scheme. When an employee changes employers he is usually entitled to his contributions or a right to transfer his pension pot to another pension plan, usually that sponsored by his new employers. When the scheme is a defined contribution plan, there would be no hassles with regard to benefit calculations. On the other hand when it is a defined benefit and final salary determined scheme, the employee who would have taken a big knock down during employment move may receive a substantially reduced pension. Private schemes would normally have measures in place to curb this eventuality whereby an employee may end up being penalised for moving from one employer to the other.

Now looking into the NSSS and eligibility for a pension, it is clear that the national scheme as is in fact the spirit of the enabling Act, was designed with a view to having near full employment rate in the economy. That is itself a flawed assumption judging by the past precedence of economies in the same class as Zimbabwe and the employment patterns of Zimbabwe herself. The NSSS rules do not specify how the workers who move to inferior paying jobs would be treated in calculating their final pension benefits. It would be absurd to penalise for instance an employee who would have contributed on a higher scale for say three quarters of his working life before moving to a lower paying job during his last quarter of working life before normal retirement age.

That the normal state pension as provided by the NSSS is worked as a percentage of the final salary, where the final salary is defined as the five year average of the emoluments before normal retirement age, makes interesting reading. And emphatically so not least that that works as a disincentive for workers that would be so affected to continue working after attaining the ages of fifty years. There is in fact a clear inducement for relatively high-earning people in the middle fifties category not to look for alternative work in the eventualities of them losing their jobs. This is so because they would be mathematically better off having the NSSS use the immediate past salaries for computing their pension benefits. Such a development would certainly have adverse impact in other areas of the economy such as personal saving, mortgage insurances and so on. We cannot discuss the nitty-gritty of every aspect of it in a report of this size. But however, other related arguments are discussed in chapters six and seven of this report.

The general practice of the private schemes is to specify in the rules of the fund the relevant years by which a member becomes entitled to a benefit under the scheme. There is for instance a minimum age by which a member can qualify for an early retirement, qualify for an invalidity pension, qualify for a normal pension and so on. Technically there is nothing amiss in having varying retirement ages, invalidity retirement age and so forth for each class of employees. In addition to minimum ages, there is normally the minimum service of contribution or membership that has to be satisfied before an employee qualifies for a particular benefit.

The NSSS as a scheme modelled alongside the private pension scheme to a very large extent, borrows heavily on some of these private pension scheme principles. The issues that are of concern with the NSSS are in fact, that there is no actuarial adjustment in contributions to cater for such variances. The members employed in so-called hazardous professions are allowed to retire on full benefits payable to members on average five years earlier than those employees engaged in other normal jobs. Because the contributions by the employers and employees alike do not recognise this variance, there is likely to be a funding debt that may become financially intolerable as the scheme grows towards maturity. If that eventuality happens, the national scheme does not provide how that debt would be financed. Will the state reduce pension and other benefits levels? Or will it increase national insurance contributions by employers and employees? Or will it use the state treasury resources to finance the resulting debt? Questions of this nature need full consideration before one can make a sound judgement of the development of the NSSS. It is the future insecurity with the old-age state security system that is likely to be worrying to the average employees

who naturally would be inclined to cherish state pension security. That sense of insecurity is bound to increase with uncertainties revolving around these questions.

5.2.5 Termination of the plan

With private occupational pension schemes, the rules will, as a matter of general practice, have a dissolution clause that spells out the action to be taken in the event of a fund winding up. If the pension fund is rich enough, the assets of the fund could be disposed through paying pensions or distributed immediately, in cash or annuity contracts with life assurance companies or other such financial arrangement as may be found to be suitable within the financial markets. The Act upon which the NSSS is founded upon and the Statutory 393 of 1993 that essentially spells out all the legal technical details of the national scheme do not point out the exact method by which this scheme would be wound up should this eventuality become necessary. Instead the Act merely states that:

“The Minister may, by notice in the Gazette, establish one or more schemes for classes of employees as may be specified in the notice, and may in like manner amend or abolish any such scheme.”

As is clear from the above statutory clause the winding up of the scheme is very vague and discretionary to the Minister tasked with administration of the scheme. The rules do not specify the circumstances under which the national occupational pension scheme can be wound up. And most importantly, the rules are silent on the circumstances that can lead to the necessitation of such a move by the government. Disclosure and specification of such details would be crucial in the risk judgement of the fund by the contributing employees and beneficiaries alike.

The state scheme's commitment to fulfilling its contractual obligations is unquestionable just like the state's undertaking that in the event of the scheme being wound up, all the financial obligations and rights accruing to members and beneficiaries would be honoured fully by the government. What is however uncertain is the financing of the debt that is likely to have accumulated when the NSSS is wound up. The inverse of the scenario is also unclear. What would happen to excess assets in the event of the scheme having such assets at wind up time? Such uncertainties would certainly haunt the future development of the national scheme particularly that worldwide there is a general trend of privatising state utilities and other such public bodies. We are convinced that the NSSS would be subject of privatisation programme at some later stage. The distribution of windfall or ensuing debts would be an interesting subject of both economic and political debate at that stage.

5.3 Benefits

It need not be emphasised that the ultimate goal of any pension plan is to provide a retiree with a decent lifetime income. As we have already said before, it is quite essential just like in any other assurance contract for the pension scheme to specify all the circumstances and conditions under which a claim may become payable to a member or any other claimant in accordance with the provisions of the scheme. The method of calculating any benefit should as such be unambiguous and in fact, must be clearly spelt out in the scheme rules. The benefit formulae used is basically an actuarial management issue that has to be discussed by the actuary and the sponsors of the relevant pension scheme. Broadly speaking the benefit formulae lie into two broad categories, namely the defined contribution and defined benefit plans. In the latter

schemes the chief primary consideration is the level of benefits whereas in the first schemes the contributions per employee or each member are the most important considerations. Money purchase schemes are the most common defined contribution schemes while the career average and final salary schemes are generally the most common of the defined benefit plans.

5.3.1 Defined Benefit Schemes

With these types of schemes the pension benefits are predetermined while the cost of the scheme is worked out. An employee contributes a fixed percentage of his salary say 6% to the occupational pension scheme. The employer's subsidy in respect of individual employees is a matter for the employer. Some employees, particularly the senior management employees, would be subject of heavy pension contribution subsidies from the employers. In short, the employer's pension liability in so far as the funding of the plan under defined benefit schemes is concerned is unlimited per se. These defined benefit schemes are many and of various mathematical specifications. They are however, classifiable under three broad categories, namely the flat rate, the career average and the final salary schemes. It must be pointed out that there are no strict and fast rules on these formulae as the determination and application is a matter of actuarial science assessment. More over these schemes can apply differential rates such as for example, in cases where a final salary can be used to work out the first fifty percent of the total pension while the defined contribution formulae is used to calculate the other fifty percent of the total pension.

5.3.1.1 Flat rate schemes

Under such a scheme the rules provide for a flat rate pension defined as so many pounds or dollars per month. Though almost obsolete the practice with such schemes across the developed world was that the pension formula would provide a fixed monthly pension subject to minimum qualification period. In simple terms what these schemes usually entailed was that the benefits are payable to all those that qualify at a flat rate irrespective of service or salary. They guarantee a general certain standard of living for all in the old socialistic ways.

With flat rate benefit schemes, there is an inherent problem in that a retiree cannot be guaranteed of a continued enjoyment of the standard of living otherwise enjoyed prior to retirement. They as such fail to meet one of the occupational pension schemes' key test, that of income replacement ratio since they do not take cognisance of earnings prior to retirement. More crucially and reflecting from what we discussed earlier on in chapter two, fails to address the redistribution of income from the rich to the needy.

5.3.1.2 Career average schemes

These are sometimes known as the credit benefit formulae schemes primarily because the benefit percentages are applied each year to the salary of that year and the total pension is the aggregate of the calculated figures of each year.⁵ The mathematical effect of such schemes is the same as multiplying the benefit rate by the years in service and the average salary through out the period of employment. Amongst its most distinct features is that for each year that passes by, there is a definite and exact portion of total pension that accrues to the member. And as such, the subsequent

⁵ Ibid

increases in salaries for what- ever reason would not affect the portion of pension already earned in the years prior to promotion.

The strength of the career average schemes is that the pension benefits are linked to the salary in a stable and logical manner that is payroll friendly. That is particularly so taking into consideration that the cost of pension provision would not be sensitive to salary increases during the years the employee is promoted or salary rewarded for what-so ever reason. That marks a big and substantive difference with the final salary schemes that we discuss below. The sponsors of the scheme, the employers as is often the case would under this type of scheme experience a stable finance budget in terms of pension financing. Most strategically to the employers, the onus is on them to determine whether or not to increase the pension rates. During times of prosperity and financial stability, the employers would normally have no problems in taking steps to make for the shortfall in pensions expectations.

The major short fall with the career average schemes is that, and in particular unpredictable economies, the sudden sharp increases in salaries cannot be fully compensated of in this kind of arrangement. The employers may as such have to supplement the inadequate pensions through some other means if there is absolute need to do so. In most countries the pensions industries have substantially moved away from these career average defined benefit schemes towards the revalued career average and final salary. The concept of revalued career average earnings is essentially to convert previous years' earnings into today's table of earnings. While the strategy of such schemes is almost certainly one, that is to take cognisance of the effect of promotional and inflationary salary increments into account when working a

pension, the indexing and rates used is up to individual schemes. The rules may for example provide that the revaluation of the previous years' salaries would be done in line with the commodities price index or earnings indexed or what ever appropriate indexation that the employers and the actuary can agree upon.

5.3.1.3 Final salary schemes

A pension benefit worked out using a final salary approach takes into account the years in service contributing to the scheme, final salary and accrual rate. The final salary is usually not the exact final salary in the year of retirement. To speak of final salary is probably misleading as the phrase "final pensionable earnings" sounds more appropriate. It is so primarily that these final salary schemes use a predetermined number of years to work out the average salary that will constitute the final salary used to calculate the pension benefit. The mathematical specification of final salary pension benefits is as follows: $b = \frac{ps}{ar} * fps$ where the letters stand for pension benefit, pensionable service, accrual rate and final pensionable salary in that order. The accrual rate is determined by the desired net replacement ratio. Most schemes use $\frac{1}{60}$ or $\frac{1}{50}$ accrual rates in working out the retirement pension. There are many advantages of using a final salary scheme as we explain below. However, there are also some costs and funding disadvantages that need careful consideration before a decision is made to use the final salary benefit method to work out pension entitlement.

The major strength of the final salary schemes is in that the retiree's pension is directly linked to both his service and salary just before retirement. In a way the employers can use the pension scheme to reward loyal and long-serving members of

the scheme. And more relevantly to the retirees, a standard of life enjoyed before retirement can still be enjoyed.

There are some instances however, where under the final salary schemes, benefits are not linked to years that a particular employee would have spent contributing to the relevant pension scheme. That usually happens with specialised or high-demand employees where the new employers may be willing to buy the past service of a new arrival employee and incorporate it as a credit in pensionable service. That is to say for example, if a highly skilled employee whose age next birth is say forty years, decides to join a new firm, his new employers may be willing to buy his past service and guarantee him that his final pension would be worked as though he had joined the firm some fifteen years earlier than the actual date he started contributing to the new employer's scheme. That is done as a bait and inducement for prospective employees to quit their current contracts and join the new firms.

5.3.2 Defined Contribution Schemes

With these types of schemes the employee and employer contribute a fixed percentage of the member's salary though in some instances the employer may have to contribute a certain desired balance to make up for the difference required to get up to the target pension levels. An employee may contribute say 5.5% of his monthly salary to the scheme and the employer pay what ever balance would be required to get to the required pension. The pension payable to the member upon retirement would generally be determined by the formula $\frac{m}{c} * f = b$ where m is the member's contribution to the pension fund, c the total contributions of all employees, f the value of the fund and b is the pension benefit. The value of the pension benefit is

usually used to buy an annuity that could be immediate or deferred. In the next section, below we make a dichotomous analysis of the defined contribution and defined benefit (final) salary schemes with a view to ascertaining whether the decision by the government to adopt a defined benefit was the better of the two options.

5.3.3 Defined contribution or Defined benefit, what was best for the NSSS?

In defined contribution schemes, as we have already said, the contributions by the employee are worked as a fixed percentage of the earnings. The subsequent pension that the retiree gets upon retirement depends on the total contributions that a retiree would have made into the fund during his entire career while contributing to the scheme and the value of the fund to which all the employees have been contributing to. The major advantages and disadvantages from an employee and employers' perspective between the defined contribution and defined benefit schemes are summarised in table 5.3. We will not discuss the individual points mentioned in table 5.3. However, we apply the principles derived from the strengths and weaknesses of the two types to the NSSS framework and make our conclusions on that strength.

Table 5.3: Strengths and weaknesses of the Defined contribution and Defined benefits

	Defined contribution		Defined benefit schemes	
	Advantages	Disadvantages	Advantages	Disadvantages
Employers	Minimal investment risks Easy to manage Direct control	Contribution inflexibility Vulnerable if resulting benefits are poor	Contribution flexibility	Pension debt trap Complex to administer Costs control difficult
Employees	Flexible benefits Comprehensible Investment choice and control	Inflation risk Uncertainty about benefit level Poor security to long-serving employees	Predictable benefits Bigger benefits and security to loyal staff Inflation risk borne by employers	Poor benefits to early leavers Complex Inflexible in benefits provided

Since the NSSS is funded by the contributions of the employers and employees with an obscure and rather unknown commitment to participation in the financing of benefits that the national scheme offers by the government, it would have been very logical for the government to adopt an occupational scheme that has minimal investment risk. To the contrary the NSSS is a defined benefit scheme run as a quasi-government agency that seeks to get the best of all worlds. Unlike private schemes sponsored by employers engaged in active production in the economy and essentially

in the business of making profits, the guarantee in NSSS investment risks is uncertain. The NSSS is silent on how it will make good the short fall in the funding of the pension benefits should the investment returns be poor and thus fail to match the benefit requirements. As we have said before with private schemes that risk is borne by the employers, but with the national scheme that ultimate risk may end up being the tax- payers' responsibility. In the worst of scenarios the NSSS benefits may be cut to the disappointment of many people particularly the poorly paid.

It would have been a wise strategic risk management if the NSSS had split the funding cost risk into two by employing both the defined contribution and defined benefit salary methods in its benefit calculation. The inflationary and poor investment returns of the fund risk would be greatly mitigated if say the employers' contributions could be used for defined contribution benefits while the employees' contributions go towards a defined benefit based on a stringent final salary method. In essence what that would have meant is that for at least fifty percent of the total pension benefit, the employees would have borne at least fifty percent of the cost of inflation risk. The NSSS under that arrangement would be faced with a flexible cost responsibility towards pension provision. For a scheme such as the NSSS that is at its infancy stage and build up stage in terms of asset and reserve built up, it is of paramount importance that a large percentage of contributions received are invested in long-term securities so as to build a strong financial base for growth and expansion.

From an employee perspective the NSSS is generally a very generous scheme in so far as the employees who would have contributed to the national fund for a short period are concerned. For those that would have contributed for periods above twenty

years the NSSS is not so generous compared to some of the best private schemes at that contribution rate as is shown in table 5.4 below. The estimates in table 5.4 were worked by the actuaries from the Zimbabwean Actuaries Society using present rules from the NSSS and randomly selected private pension schemes with the given accrual rates benefits. A final salary of \$5000 is being assumed through out the calculations.

Another point worth noting here is that for those employees earning low salaries the scheme will be less favourable to them for in contribution terms they would be contributing almost as much as everybody (because of the maximum cap) yet the pension benefits would be salary linked. As has already been said before the NSSS normal pension is payable from the age of sixty years and earlier for certain professions that are classified as hazardous trades by the government.

Table 5.4: NSSS pension benefit compared to private schemes; Source: ZAS

Years in service	NSSS	Private occupational schemes		
		$\frac{N}{60}$	$\frac{N}{55}$	$\frac{N}{50}$
10	\$1500	\$833	\$909	\$1000
20	\$1875	\$1666	\$1818	\$2000
30	\$2250	\$2250	\$2750	\$3000
40	\$2625	\$3333	\$3636	\$4000

5.4 The NSSS and Economic and Social Development Plan

The social security programme that Zimbabwe has committed itself into has to be interpreted and understood within the wider socio-political and economic framework.

It is a specific part of a general programme that the government is implementing to attain short-term and long-term goals. The NSSS as a form of social insurance can be seen as a crucial weapon through which a government and the country at large can achieve political, economic and social development. To understand the relationship of the NSSS to these three pillars of a society, it is important that we start by spelling out the objectives of each of the three under the government's social and economic transformation programme. We cannot discuss every detail of the Zimbabwean government's economic and social development in a document of this size, but however, we endeavour to capture the relevant salient components below.

5.4.1 Aims of the economic and social development plans

The aims and objectives of the government in this area are largely borne out of the economic reforms that were first introduced in Zimbabwe in 1990. The basic aims of economic reforms are to privatise state enterprises so as to raise revenue and increase efficiency in the delivery of certain utilities. The hope and in fact, the spirit behind privatisation being to reduce the national treasury burden on under performing public utility bodies and in the process to have greater participation of private enterprises and individual Zimbabweans in the economic growth and development in the country. In a nutshell, the programme is essentially about moving away from a tight regulation and having market forces playing a greater role within the government's economic and social programme. Today the programme of trade liberalisation and social empowerment is being managed and implemented under the government's new economic and social transformation programme.

The Economic, Political and Social Transformation Programme (ZIMPREST) supersede the Economic Structural Adjustment Programme (ESAP). The core aims and features of the two programmes are the same in many respects. Essentially the ZIMPREST is about economic liberalisation and social empowerment of the native people of Zimbabwe. For purposes of this report we discuss the broad aims of the ZIMPREST that are relevant to this report under three headings, namely economic liberalisation, regional development and co-operation under SADC⁶ and social empowerment of the people.

5.4.1.1 Economic liberalisation

As already said the economic liberalisation programme dates back to the year 1990 when the then minister of Finance, Economic Planning and Development introduced his “Economic Policy Statement-the Macro-Economic Adjustment and Trade Liberalisation” in the House of Assembly. Under the economic liberalisation programme the government seeks, amongst other things, to promote economic growth rate to at least 5% of the Gross Domestic Product in real terms in the short run. Reduction of budget deficit to sustainable levels below 4% in the long run is one of the key objectives of the liberalisation programme. Probably more crucially the government intends to use borrowed capital for productive investment rather than social services. Lastly the other major ambition of the economic liberalisation programme is to create an environment conducive to employment creation that is high enough to absorb a substantial number of those joining the labour market every year.

⁶ Southern African Development Community

5.4.1.2 Social empowerment

From the word go, the government envisaged that the economic reform programme will result in some social hardships particularly to those segments that are most vulnerable such as are the old-aged, poor, poorly paid workers and so on. With more investment targeted towards productive investment rather than social relief programmes, the prospects of a general disillusionment with the reforms has remained imminent ever since. However, the government in a bid to mitigate the social vulnerability of these groups following the implementation of these reforms has come up with several measures aimed at improving their financial positions. The most crucial steps that the government aims to take are reiterated here.

The promotion of the informal sector industries is one of the core aims that the government intends using to mitigate the financial plight of those likely to be victims of the economic reforms. It is however, not very clear how the promotion of the informal sectors would be financed. The potential growth of the informal sector is itself unclear as it has not been subject of serious investigation at a non- partisan level.

With the government committed to cutting subsidies on major utilities and social services in general, it is the government's hope that by promoting a culture of small-holder investment, a new breed of entrepreneurs will emerge with innovative ideas for the benefit of the general populace. The other area that the government hopes to use to hedge against the adverse effects of the reform programme is in the disposal of state utilities to private investors. By giving the locals a preferential consideration ahead of the foreign investors the government hopes to empower the local people economically. The exact modalities of that preferential treatment are not yet clear.

5.4.1.3 Regional development and co-operation

Opening the Zimbabwean frontiers to foreign investors in areas such as mining, manufacturing and financial services is seen by the government not only as a way of inviting foreign investment into the economy, but also as a means of furthering the objects of SADC in so far as regional co-operation and integration is concerned. Through active participation in the activities of the SADC and other international organisations, the government hopes that the Zimbabwean business firms will not be left out in the development of international trade and industry. The government's commitment to minimisation of boarder barriers in so far as the movement of goods and human beings is concerned, is an important move in terms of regional integration. However in the long run, with SADC social security systems not designed to conform to a certain set of minimum standards, there is a risk that the NSSS would be overwhelmed by the influx of pensioners from other parts of the region. It would not be surprising as such to find a more than disproportionate number of people about to retire in the SADC economies opting to retire in Zimbabwe where the old-age benefits would be relatively higher and generous in terms of contributions.

5.4.2 Conflict between the NSSS and the economic and social development aims?

There are potentially many areas of solidarity and conflict between the NSSS and the government's programme of economic and social transformation. First and most importantly the NSSS is about giving the workers and their dependants some social security through pensions or other such benefits as the invalidity benefits, retirement grants and so on. The paradox, however with the economic reform programme, is that it is envisaged that it will cause short run insecurity before the fruition of the entire programme come to reality and provide sustainable security. The short-run period is

vaguely defined. Now looking at the NSSS and the economic reforms, there are at least three clear areas where it is difficult to see how the objectives of the national scheme can be reconciled with the economic and social transformation programme that the government has put in place.

First and most crucially the concept of informal trading is likely to cause logistical problems to the Department of Taxes and the NSSS itself in terms of collecting tax contributions. Since the informal sectors that the government is encouraging would be generally under minimum or no regulation at all, then one is at loss finding the ways or means by which the new informal employers would be whipped into registering their employees with the NSSS so as to pay their national insurance contributions. Judging from the past experiences and the general displeasure that mankind has with paying taxes it would not be surprising if many of these informal sector employees evade paying national insurance contributions. The social insecurity that may result from such a programme is a matter of guess at the moment.

That the economic reforms would certainly result in some job losses has already been said but that such losses would certainly hit the very heart upon which the NSSS structure is based on has not been emphasised. Since there is no statistics or any projections of any kind as to the number of job losses or firms likely to close down following the introduction of the economic reforms, it is therefore difficult to say with reasonable accuracy the extent to which these envisaged mishaps will affect the actuarial cost projections that were assumed by the actuaries in drafting the NSSS. What is none the less certain is that should economic reforms lead to massive job losses or large scale closures of firms, the contributions, essential for the functioning

and development of the national scheme as has already been said, would be scaled down in terms of volume receivable by the NSSS. It is these uncertainties that raise potential and in fact conflict between the national economic and social development programme and the NSSS that are a cause for concern when the future of the national scheme and the ZIMPREST programme are considered simultaneously.

The government's decision to run the NSSS as a quasi-government agency rather than an independent private scheme conflicts with the government's ultimate aim to reduce its responsibility on public utilities and social services in general. If the national occupational pension scheme could be run by private pension fund consultants there would not be a need to worry about potential government responsibility in paying out the promised benefits. If history of public institutions is anything to go by in Zimbabwe, then certainly it is not going to be long before the NSSS start calling for subsidies from the central treasury department.

The South African system of old age is totally different from the NSSS since it is a PAYG mandatory scheme and the Namibian programme is not comprehensive though the preliminary evidence suggests it is most likely that it would be modelled along the South African scheme. In the other neighbouring countries there are no developed schemes worth talking about at the moment save for the expensive Zambian scheme that spends an average of 52% of GDP on old age pensions and other social security programmes. That essentially leaves the Zimbabwean and South African schemes as the two major financially relevant social security programmes.

5.5 The NSSS and the financial markets

The NSSS has a potential to provide the base for the development and further research into social and private insurance risk for the benefit of the entire insurance market in the country. With the convergence of the marketing of financial and insurance risk getting closer and closer, the NSSS may have to play a greater role in the entire financial markets than previously anticipated. The amount of resources at the disposal of the national scheme and the scope of operation gives the national scheme a theoretical foundation upon which to set the scale of research and development in the market. The success of such a programme of research would certainly depend on the extent to which the national scheme is to operate and remain non-partisan to the government. And in particular, the ruling party's "unofficial interventions" that have, of late tainted the image of the once flourishing public institutions such as the post and communications that are now making losses despite being monopolies.

The NSSS can potentially benefit from the establishment of the state's second university, the National University of Science and Technology that has introduced some insurance and other financial risk management programmes of study. Through joint research or other collaborations the two institutions can enjoy mutual benefit in both the short and long run. The NSSS can develop into being a reference point and market leader in the insurance and financial markets. The size and volume of its investment portfolios in fact, if projections are anything to go by, will make the national scheme the biggest financial security organisation in the country within the next two to five years time. Already in terms of currency contributions received by the NSSS, it is slightly above Old Mutual Life Assurance the country's biggest private financial institution.

5.6 NSSS and income redistribution

As said in chapter two, the social insurance schemes are viewed by many people as the mechanisms by which the national incomes can be redistributed, presumably evenly amongst the members of a particular society. Most importantly is the distribution of income from the rich to the poor. That argument of redistribution makes logic particularly with the pay as you go schemes, but since the NSSS is a funded pension fund modelled along side the private pension schemes, it is difficult to envisage how the state scheme aims to address that issue. In public the government ministers have claimed that the NSSS will help redistribute national income. Other than using the controversial Section 27 of the NSSA Act (1989) that says the minister may give the general manager of the national scheme directions of a general character relating to the exercise by it of its functions as appear to the minister to be requisite in the national interest, there is no other evident way that the scheme can use to direct redistribution of national income. Since the Act⁷ commands that the scheme authorities must, with all due expedition, comply with any direction given in terms of section 27(1), then certainly that is the only way that is apparent by which the state can channel certain resources of the NSSS into the needy areas without breaching law.

There are many other areas of income redistribution that can be solved by using the social insurance principles. The rules of the NSSS in explicit or implicit, do not address the need to redistribute income from the young to the old or from men to women. On the latter group, as if that is not enough, the national scheme does not provide family friendly benefits. For instance the national scheme does not credit the working- women for years spent bringing up a family. Because it is almost only

⁷ Ibid.

women who are likely to spend years at home looking after a young family, it is unfair that the NSSS as a social insurance scheme fails to balance the distribution of income between men and women.

One interesting but controversial area where the NSSS has failed the poor working-class workers is in the rate of contribution between employers and employees. Levying a higher national insurance rate on conglomerate and other big corporations would have been logical bearing in mind not only the size of the profits that they make relative to wages bills, but also crucially that these big companies have for many years exploited cheap black labour during the segregationist Rhodesia days. Rather than the mere 3% levied on employers across the board, a higher percentage of say 5% without an upper limit would be a reasonable contribution towards social insurance not least that such a move would reflect a positive role in income redistribution by the big multi- companies and other such employers.

5.7 Broader policy issues

First and most importantly there is a great need for the government to provide strong institutions that will support the principles of the NSSS and most importantly realise its ultimate goal, that of assuring descent and competitive pension and related benefits to Zimbabweans so insured under the national scheme. There are various ways upon which that could be achieved. The establishment of independent or promotion of charitable organisations with interest in the welfare of the adult population and employees in Zimbabwe is crucial for the respectability and involvement of all stakeholders in development and growth of the NSSS. To ensure that the NSSS develops into a viable occupational pension scheme that will deliver to the people of

Zimbabwe, there is need to tighten the accountability of the scheme. It could for instance be made accountable to an independent board of professionals representing all the major stakeholders in addition to the present accountability to the House of Assembly through a government cabinet minister.

The other crucial consideration that is worth recommending is the need for the scheme to expedite in establishing reciprocal agreements with other countries. This is not only important in that it would impact directly to one of the core aims of the NSSS, that of mobility of employees within the community, but more crucial it will help create a standard yard stick of measure to judge the NSSS against the other regional and international institutions instituted to provide social security to employees and retirees. Above all such a move would be great step towards meeting some of the international obligations that Zimbabwe is bound to by virtue of being a signatory to certain declarations on workers' social security guarantee. The International Labour Office's declarations to which Zimbabwe has committed itself are many⁸.

5.8 Conclusion

We have in this chapter of our report reviewed and analysed some salient issues that relate to structure, functions and operation of the NSSS within the context of the wider economic, political and social environment, both in the local and international perspective. We have highlighted and argued that the NSSS has some inherent defects that are both of economic and actuarial concern. The comparison between the defined benefit and contribution has been done within the perspective of the NSSS. Evidence

⁸ See Mchena et al (1989) The Zimbabwean Labour laws and the ILO requirements Conference paper to mark the workers' day in Zimbabwe 1989

from a qualitative perspective suggests that the option not to adopt a defined contribution was a serious oversight might return to haunt the authorities of the national scheme as the scheme matures with years. The areas of conflict between the state's social and economic development plans have also been carefully noted, as are the implications of such conflict. In the next chapter we look into the theoretical and practical economic issues that are germane to the understanding of occupational pension provision and retirement saving from an economic perspective.

CHAPTER SIX

The demand effect of state pensions insurance on the private retirement pension provision markets and retirement behaviour

“Under the pressure of rapidly expanding social security expenditures and along the lines of the deregulation movements, a restriction of statutory insurance requirements was proposed by politicians and economists. One might ask how the demand for (voluntary purchased) market insurance is influenced by the existence of compulsory insurance and how it and individual welfare will be affected by a decreasing level of compulsory insurance coverage.”¹

6 1 Introduction:

In this chapter we examine the effect of the compulsory state pension scheme on the demand for the privately provided schemes. We look at the state pension effect from a general lifecycle perspective. In this chapter we consider the role of the state pensions insurance, the NSSS, using the empirical data to determine amongst other things whether or not there is a direct relationship between state pensions and the private schemes. We also look at the effect of the state pensions on the retirement behaviour by using the retirement expectations and savings data. The Policy implications of the mechanical and philosophical relationship of the NSSS and private schemes are also discussed.

6.2 The basic life-cycle model

The basic life-cycle model inarguably simplifies the behaviour of human mankind and the way the latter conducts his affairs, more relevantly as it relates to the labour income and its disposability over the entire life- time. The rationality behind some of the assumptions of course does raise some complex economic questions. There is to date no other theory that best simulates the behaviour of mankind over his life cycle without attracting criticism. Seeking to extend the basic life-cycle theory to include many more variable contents simultaneously invariably leads to other problems, particularly those that relate to the interpretation of results.

The life cycle model in its simplest form entails the household planning its labour earnings and consumption over its entire expected life span. The individual household is assumed to know the expected duration of their working life². In the absence of other risks or were other risks are separately insured or provided for by the third parties, the rational household if risk-averse will seek to smooth its consumption over its entire expected life span. If the household knows with certainty its expected working life and has no immediate recourse to other sources of income other than that earned from working and borrowing from financial institutions at prevailing market rates, its ultimate dilemma is how to spread consumption over the entire lifecycle³.

¹ J.M. Grf v.d. Schulenburg (1986) Optimal Insurance Purchasing In the Presence of Compulsory Insurance and Uninsurable Risks The Geneva Papers on Risk and Insurance, 11(No. 38, January 1986)

² This argument is corroborated by the assumption that at least the information relating to these issues would be generally known or statistical workable.

³ See chapter three for a theoretical framework of the life cycle theory.

Figure 6.1 below illustrates a classical lifecycle pattern in a zero bequest model of occupational earnings by an ordinary employee as a function of his working life. In this simple lifecycle 0 is not the age at birth but the year by which an employee starts his working while E denotes the earnings and T is the age at the time of death.

We have decided to use this specific model in our case for principally three reasons. First and foremost the positive bequest model would be in all probabilities very irrelevant to the present Zimbabwean set up. It is irrelevant in that the present workforce that is the target of our investigation in this report has barely inherited any assets of meaningful economic value. The reasons for that being both political and economic in that the Zimbabwean economy in its modern form is barely a century old and the black work force constituting the bulk of the contingent has been in active participation of the descent urban jobs for scarcely fifty years. Because of the short time span it would be therefore very unrealistic to try to simulate the Zimbabwean savings market within a lifecycle with positive bequest model.

Secondly we have decided to use this model because it conforms to the general observations that the average household disposes its accumulated wealth rapidly toward the end of the life cycle. In Zimbabwe the disposed wealth is normally the value of the house were one in every three of the heads of the households sell their houses at retirement in order to spend the rest of the life hood in a rural home were there are presently no title deeds to property held there. The statistics is correct at least as per our surveys in preparation of this report. Lastly the zero bequest model suits the Zimbabwean scenario in that the average populace has low saving propensity as is

evidenced by previous research works into the saving trends of the Zimbabwean workforce. At the moment the expected net saving of ordinary workers in Zimbabwe over the entire life cycle of a worker is zero. This should not however, be confused with the positive aggregate fiscal saving that benefits the economy from year to year during the life cycle of a worker.

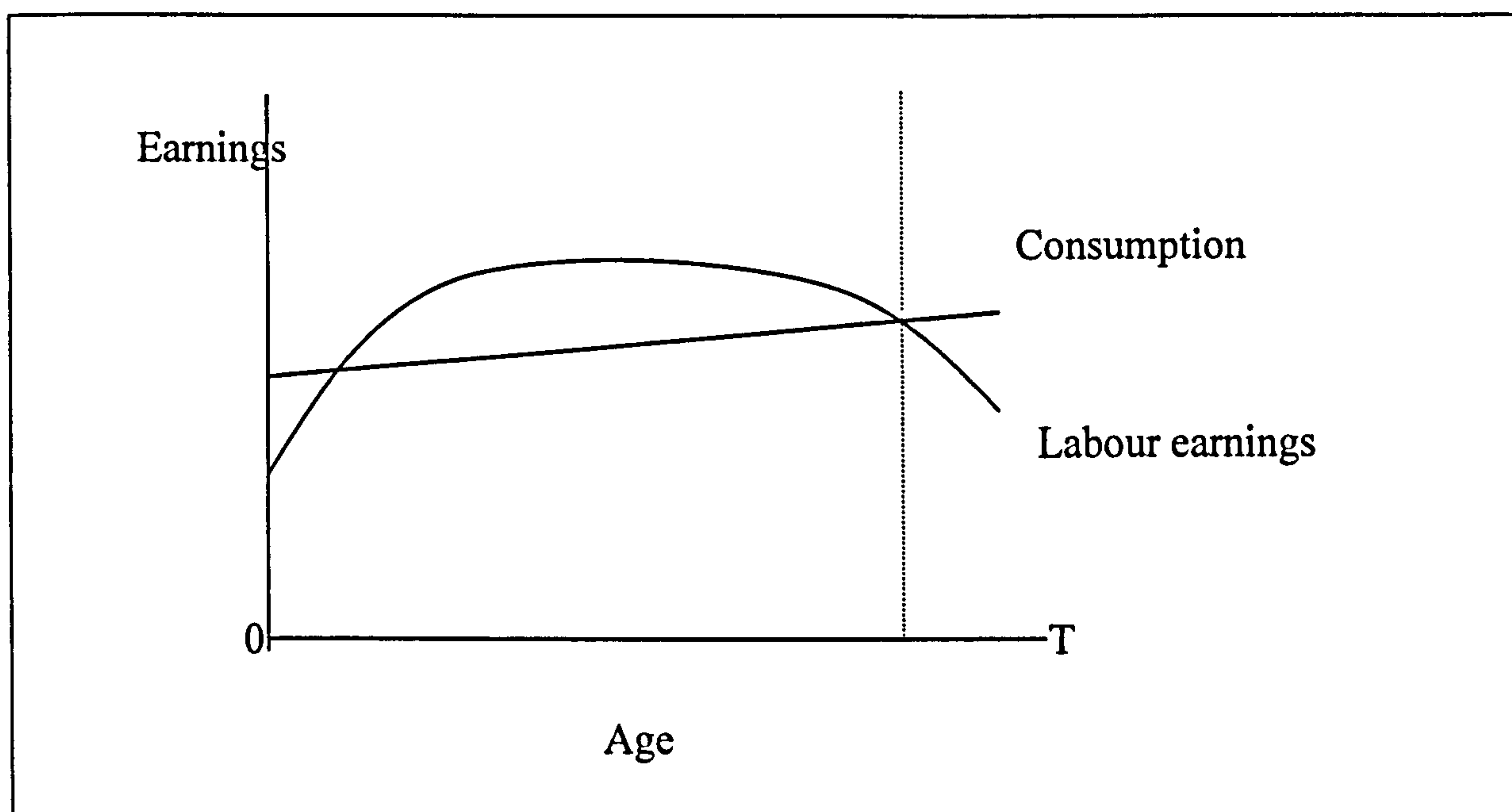


Figure 6.1

Schlesinger (1986) rightfully makes the following generalisation for a household in a perfect market with interest rates fixed at r and the expected working life- time given as T : The household's ultimate wish is to maximise lifetime utility that satisfies the

following identity; $U \equiv \int_0^T U(c(t))e^{-\delta t} dt$. In this identity U is the individual's utility

function and $c(t)$ is the consumption flow at time t with δ being the rate of time preference and $L(t)$ the leisure flow at time t . With the assumption that utility is

strictly concave this simple life-cycle model implies that there would be positive flow of consumption and leisure through out the life cycle⁴. In this model time not spent on leisure is spent working for a wage, the same wage that has to be allocated to the various unit periods of the household's entire life.

6.2.1 Demand for pensions within the lifecycle

The individual demand for a pension has been explained in detail in the previous chapters. There are some issues worth reiterating or elaboration or both to make this chapter meaningful particularly at this juncture. First, the risk of longevity is of concern not only to the individual but also to the state and those close to him or her. Without the involvement of the latter two the burden of ensuing a descent life after retirement would fall solely on the individual concerned. Thus the ultimate goal during one's working life would be to smooth consumption over their entire life. The breakdown of the extended family system in many economies for reasons beyond the scope of this report, have made individual provision rather a necessity.

The second issue worth noting is that the endogenous benefit so derived from a descent standard of living by a pensioner is a matter of individual satisfaction. The individual pensioner thus determines this level of satisfaction. Without other variables the level of anticipated satisfaction and other demand factors discussed in chapter three will determine the level of demand of pension provision.

⁴ Ibid.

In chapter three we have discussed the theoretical explanations as to the need, true or presumptuous, of the state involvement in the provision of otherwise services that are a matter of the individual financial markets. The controversy does not end there. The justifiability and/ or otherwise the practical effect of the state participation in the provision of services financial or otherwise alongside the private firms is an issue worth both economic and academic debate.

Lastly, the distortion caused by the introduction of the compulsory pension insurance to the retirement provision equation attracts a number of key issues that warrant discussion at this juncture. To start with the precise relationship between the demand for private pension and the state schemes has never before been subject to rigorous empirical testing. The available empirical results are not conclusive. There are however, very sound if not convincing theoretical formulations that explain this otherwise complex relationship. Schuleburg (1986) for example proposes an interesting though complex model function to explain the effect of compulsory insurance coverage on the demand for private market insurance.

Notwithstanding what we have said so far, the perception of state pensions as a tax or insurance contribution is not so obvious. Does the society have a general perception about state pensions? Do people consider state pension before they decide to purchase private retirement pension plans? After all, is the relationship between state pensions and private markets mechanical or philosophical? The framework bordering closely to these questions dictates the direction of the rest of this chapter of our report.

6.3 The effect of compulsory state pensions on the demand of private pension

When the simple lifecycle model discussed above is extended with its generalisation to the analysis of the effect of compulsory state pensions insurance to the market insurance demand, some intricate theoretical observations can invariably be deduced. To start with, it is probably rationale to start by viewing the private market insurance by extending the arm of assumptions already made to include the following; That the household is faced with one risk insurable by one policy and unlimited on the form and scope of cover. And that risk being the longevity risk. If the rational household is risk averse as already assumed then the following deductions are true with regard to pensions insurance purchase; if the premium exceeds the expected pension benefit by a proportional or risk dependant factor, it is sub- optimal to buy full insurance.

Secondly full insurance or no insurance at all will be bought if the loading factor is fixed. Thirdly if the loading factor is proportional to the expected insurance benefits the excess is the optimal cost sharing arrangement from the individual household point of view⁵. These generalisations attract some functionality criticisms in so far as the human behaviour is not so simplistic though of course rational in cases that merit analysis and reasoning. In the rest of the chapter we assume this rationality and observations hitherto to insurance buying behaviour.

⁵ These deductions have been made using observations by Schulenburg (1986) "Optimal insurance purchasing in the presence of compulsory insurance and uninsurable risks" The Geneva papers on risk and insurance, 11 (number 38, January 1986).

6.3.1 Effect of the state pensions on the middle class workers

We had a usable population sample size of two hundred and forty in this group of employees. The middle class workers are basically of two backgrounds, that is those that have risen through the ranks to become who they are and those learned and skilled workers, most with university degrees or other tertiary education qualification. We find that on average more than 70% of all respondents had a formal qualification while 30% reported that they did not have any formal or professional qualification. Of those with formal qualifications, at least 60% said had university degrees of which 20% said had post- graduate qualifications. The average starting age for full employment is found to be 24 years in this cohort. Table 6.1 below shows the basic information about the background of the middle class employees that were contacted as part of this research.

Table 6.1 Middle class employees background information

Key: OH = Own home, RH = Rent a home, M = married, S= Single, A20-30 = Age 20 to 30 years, A31-40 = Age 31 years to 40 years, A41-50 = Age 41 years to 50 years, A51 = Age 51 years and above, FQ = Formal qualification and NFQ = No formal qualification

	OH	RH	M	S	A20-30	A31-40	A41-50	A51+	FQ	NFQ
Males	97	47	105	39	38	32	39	35	98	46
Females	60	36	51	45	30	35	20	11	70	26
Total	157	83	156	84	68	67	59	46	168	72

A significant percentage of 24% of those with degrees report that they revisited their retirement plans soon after the introduction of the NSSS. They report that they did consult their pensions agents immediately after the national scheme was introduced. Of the 24 % that consulted their agents after the introduction of NSSS at least 69% revised their sums assured leading to higher monthly contributions to their private retirement schemes. Figure 6.2 shows the distribution of the immediate aftermath reaction of the middle class following the introduction of the NSSS. The long-term considerations show some slight variations from the intuitive reactions that the people did or thought of doing following the introduction of the compulsory national scheme. In the rest of this section we look at the perceptions that have been built over the entire life of the NSSS following its establishment in the Zimbabwean market.

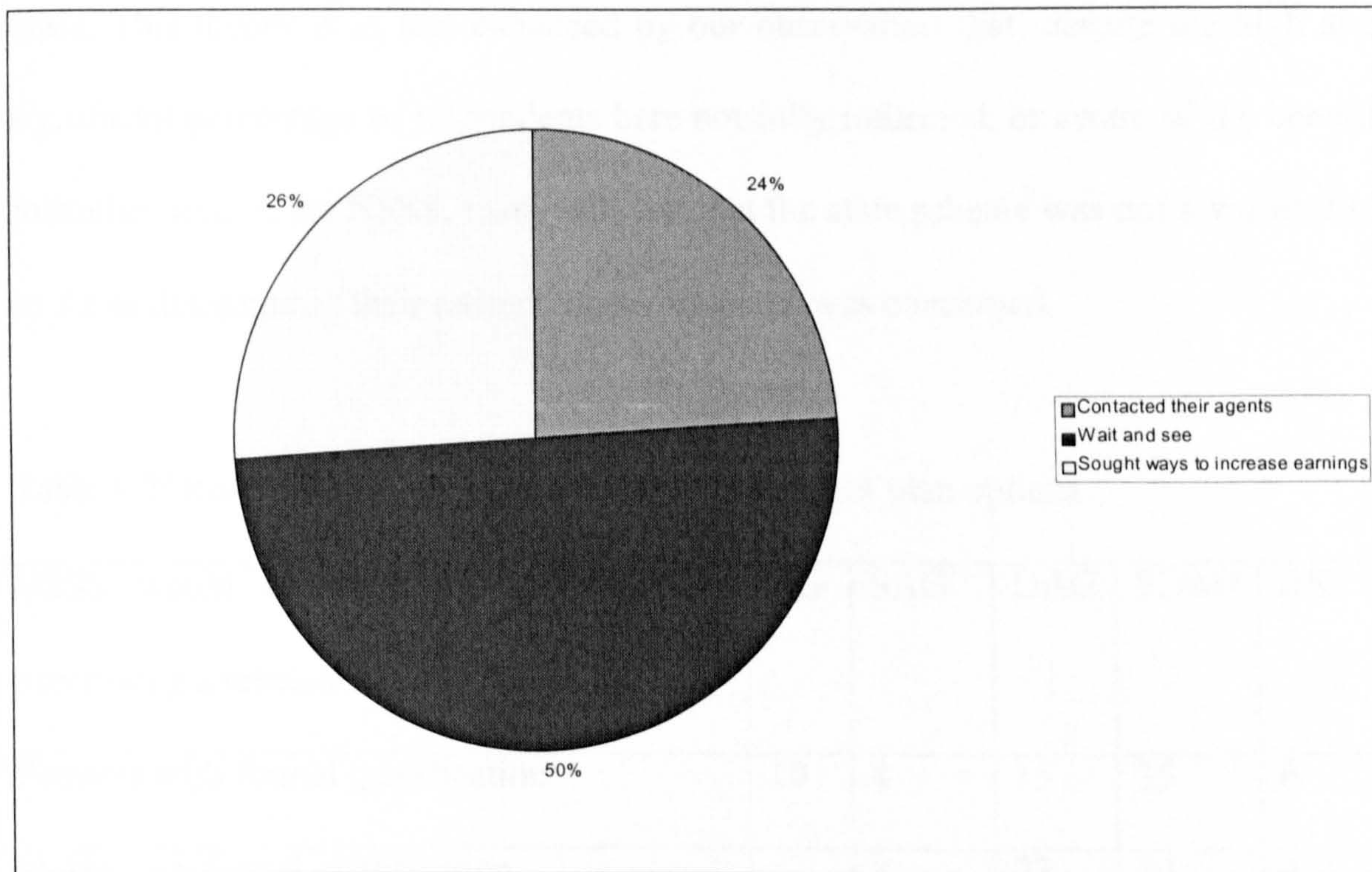


Figure 6.2

The level of educational qualification has a significant contribution effect to the overall perception conceived by all the respondents to the relevance of state pensions in making their retirement plans. We find that by excluding those respondents without graduate qualifications from our sample, the percentage of respondents disregarding state pensions before considering buying a retirement plan increased very significantly. Table 6.2 shows the statistical relation between having a formal qualification and disregarding the NSSS while planning for one's retirement. The results are drawn from the responses to question 1(c) of part two of the survey questionnaire sent to this cohort. The results are suggestive that the educated middle-class do not consider state retirement provision to be a significantly influential or relevant retirement plan. The general observation that the middle class is always critical of government plans may explain the adverse view that is held by the middle class. This theory is in fact enhanced by our observation that, despite the high and significant percentage of respondents here not fully informed, or aware of the benefit formulae used in the NSSS, many still felt that the state scheme was not a variable in so far as determining their retirement saving plans was concerned.

Table 6.2: Responses to NSSS as a factor to retirement plan options

NSSS would be a strong factor before purchasing a retirement plan	AG	SAG	DAG	SDAG	DK
Females with formal qualification	10	4	15	35	6
Males with formal qualification	13	8	23	50	4
Total from sample	23	12	38	85	10

Key: AG = Agree, SAG =Strongly agree, DAG = Disagree, SDAG = Strongly disagree, DK = don't know.

The most common comment made by the graduate respondents is that state pension insurance contributions is but one of the many forms of tax. This was mainly from responses to question 8(3) of the survey. The general conviction in this group is that there is no security perceived from being a member of a national scheme. The notion of the state pension scheme being a social relief fund was said by a significant number of respondents in this group. This could explain the low value that is being attached to the national scheme by this other wise prestigious and prosperous class in Zimbabwe. The class pride may partly explain the reasons as to why this cohort distinguishes itself by not appreciating national scheme membership.

Interesting enough, a very significant number of respondents in this cohort have never before bothered to work out how much state pension they would be entitled to in the event of them retiring at state pension age with rules unchanged. This total disregard of the state pension mystifies the argument that state pensions reduce positive demand for the private pensions. That is of course with regard to the educated middle class that feels more valued by the private providers of pension insurance. The generality does not hold for everybody as is discussed below. The observations to this pattern were largely drawn from responses to question 14(a) in part two of the questionnaire used in this target group. Table 6.3 below shows the breakdown of the responses to the question; "If you were to be entitled to a benefit payable under the NSSS, will you be able to calculate on your own how much benefit you are entitled to?"

Table 6.3: Workers' ability to calculate benefits payable under the NSSS

Able to calculate NSSS benefits?	Yes		No	
	FQ	NFQ	FQ	NFQ
Males	44	28	54	18
Females	18	10	52	16
Sample population	25.8%%	15.8%	44.2%%	14.2%

Key: FQ = Formal qualification, NFQ = No formal qualification

The content or high regard of state pension by those without graduate qualifications is not so obvious to explain but could be explained by some complex sociological factors beyond the scope of this report. Without offending intentions, one may not be wrong to suggest that amongst the reasons, it could be that the less academic inclined are more trusting of state or less critique of the state or both. Of the respondents with no graduate qualification, at least 6% reported that they had or would consider the value of state pensions before considering increasing their spending on old age provision.

The behaviour of the middle class employees without graduate qualification towards state pensions could also be explained by the close correlation that is there between the “ have no degree” and owning or intending to retire in a communal home. That most of the non- graduates intend to retire into the communal lands where the cost of living is comparatively very low could explain again why they, on marginal terms,

value state pension that is given modest appreciation by the more scholarly “have degrees” cohort. There is however no obvious explanation as to why the have not should prefer a rural retirement to urban retirement. Some other complex sociological models that are certainly beyond our study could explain this puzzle of retirement behaviour that we have observed.

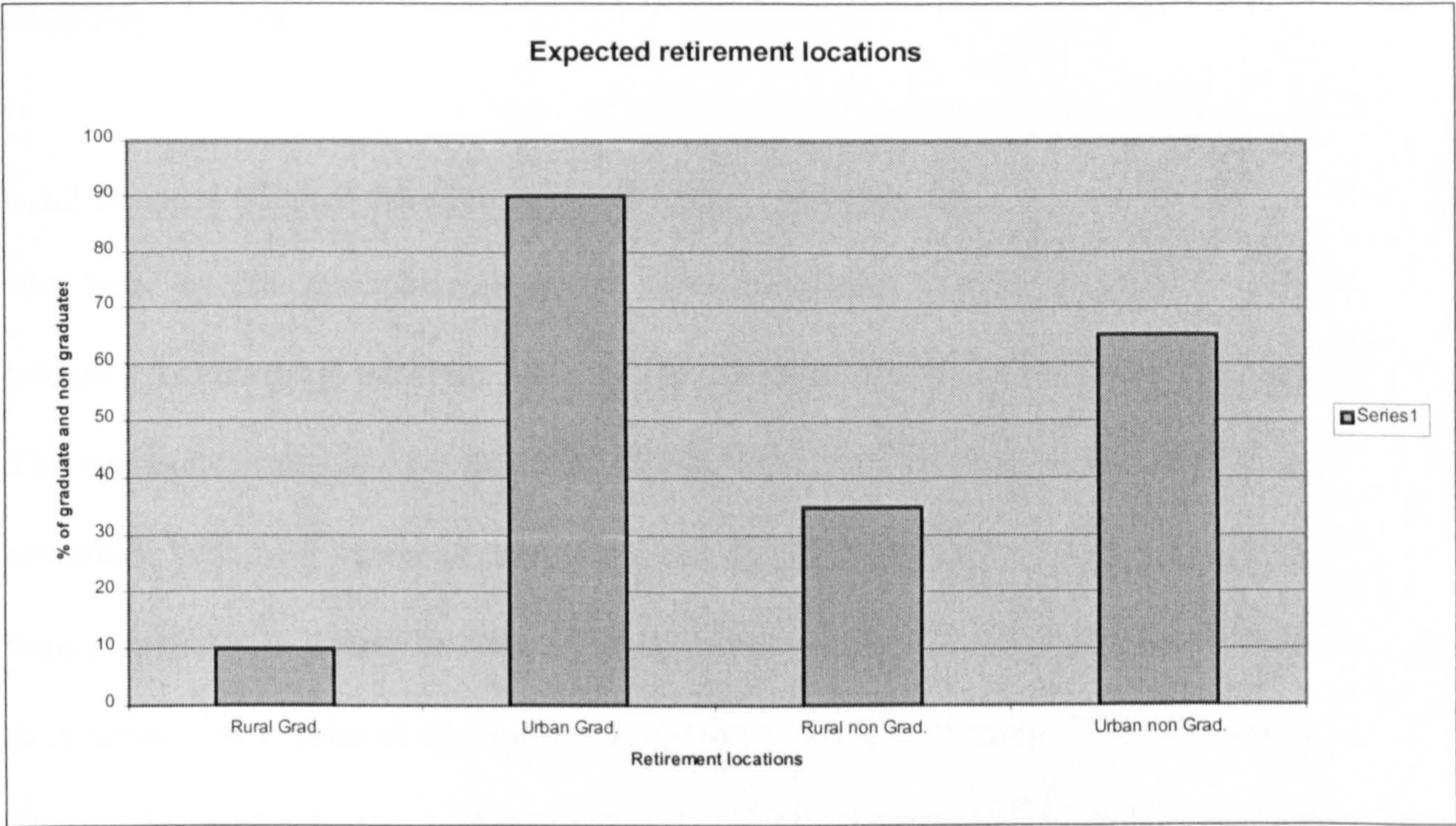


Fig.6.3

When the value of total real wealth, exclusive of the pensions wealth, is contrasted against the given expected point retirement ages we realise that there is a strong statistical relation between expected retirement year and size of wealth accumulated. That is those with relative higher portfolios of wealth expect to retire earlier than those with modest wealth. The inclusion of state pensions in the equation of analysis makes no meaningful difference at all.

The point that is none the less clear is that the private insurers and other pension schemes have a market that is undeterred by the presence of a national scheme in the

educated middle class workers. The overall effect of the state scheme on the middle class workers in so far as the demand for private pension is concerned is one of positive contribution. That view is cemented by the general observation that despite some relative content with a national scheme by those without university degrees, there is no indication that their attitude towards buying private pensions has been adversely affected.

6.3.2 Demand effect of the state pensions on the working-class

The bulk of the Zimbabwean labour force comprises mostly of these ordinary workers. The average earnings are very low compared to the middle class earnings. The average starting age for full time employment in this cohort is relatively low at seventeen years. By virtue of their early starting age into full time employment one would expect this cohort to have more years to contribute towards their retirement provisions. The results of our survey, however, seem not to support that hypothesis. There is for example clear evidence that most of the respondents in this group become more conscious of their retirement needs at the age of 40 years compared to 30 years reported by the middle class workers.

The introduction of the state pension in Zimbabwe had an awareness effect to at least 15% of the ordinary workers who had previously not heard of a retirement provision scheme. A significant percentage, 65% of the 15%, went on to inquire about private retirement plans after. That is a positive influence that the state scheme undoubtedly has had on the ordinary employee. Cagan (1965) made a related observation when investigating the effect of pension plans on aggregate saving. Interesting though with

our survey is that ironically those with positive response that led to policy issuing cancelled their new find insurance policies within a short period of time citing affordability problems of the insurance premiums.

There is a close statistical relation between the age and positive response to the introduction of the national scheme not least that almost all the entire 15% that had first heard of a retirement plan through the national plan and had an awareness effect were in ages above 40 years. There are various explanations that can be made of this latency by the younger generation. The dormancy from the lower ages could be a result of that people, in particular the less educated, tend to be aware of the risks they face when they get closer to the risks themselves. The differences in risk taking behaviour by the different social classes could well explain this generality being made. The depth of this argument is beyond the scope of this report but interesting readings could be found in risk-taking psychology texts⁶.

Table 6.4 shows the foundation background to the usable sample of three hundred and sixty three respondents. The rest of the statistical details are available as appendix to this report and this table and others that follow should be interpreted within the context of the wider statistics in the appendix.

⁶ See any good text book on risk taking behaviour and psychology

Table 6.4 Background statistics to the working-class employees.

	OH	RH	M	S	A17-A19	A20-A30	A31-A40	A41-A50	A51+
Males-FQ	6	4	3	7	0	2	6	1	1
Males-NFQ	80	98	93	85	13	33	49	36	47
Females-FQ	4	3	0	7	0	4	2	1	0
Females-NFQ	58	110	88	80	11	42	57	37	21
Total	148	215		179	24	81	114	75	69

Key: OH= Own home, RH= Rent home, M= Male, F= Female, FQ= Formal qualification, NFQ= No formal qualification, A15-A19 = Age 15 to 19 years, A20-A30 = Age 20 to 30 years, 31-A40 = Age 31 to 40 years, A41-A50, A51+ = Age 51 years and above.

The responses to question 1(c) of the survey questionnaire make an interesting observation. A very significant number of people in this cohort reported that they would consider the existence of the NSSS before making a private pensions purchase. This contrasts dramatically with the observations made in the preceding section by the middle-income earners. As can be seen in table 6.5, there are a lot of respondents who agree with the statement. This could be used as a justification to the thesis that the markets for middle-income pension consumers are different from the low-earners' markets. However the number of people reporting that they "don't know" is quite big accounting for more than 19% of the sample size.

Table 6.5: NSSS as a factor in pensions purchasing

NSSS would be a strong factor before purchasing a pension	AG	SAG	DAG	SDAG	DK
Females with formal qualification	2	2	2	0	1
Females without formal qualification	74	57	16	10	11
Males with formal qualification	3	1	0	1	5
Males without formal qualification	60	29	25	11	53

Key: AG = agree, SAG = strongly agree, DAG = disagree, SDAG = strongly disagree and DK = don't know.

In question 14(a) the respondents were asked about their ability to use benefit formulae to work out their benefit entitlements. As the results in table 6.6 show, there was a large proportion of employees who answered in the negative. The various formulae used to work out different benefit entitlements under the national scheme were perceived as being too complicated by most of the people in this group. The wide inability to work out future benefits hardly explains the attitude of employees in this group to pensions insurance. With most people being unable to workout their benefit entitlements, questions have to be asked as to how positive ability would affect the ultimate demand of state and private pensions. And most importantly how the state can intervene to redress that anomaly. In theory, however, it is logical to expect employees to make more informed choices if they can work out expected benefits. If the benefits were to be perceived as being worth the premiums paid, the resulting effect would most likely be positive. On the other hand, if the employees

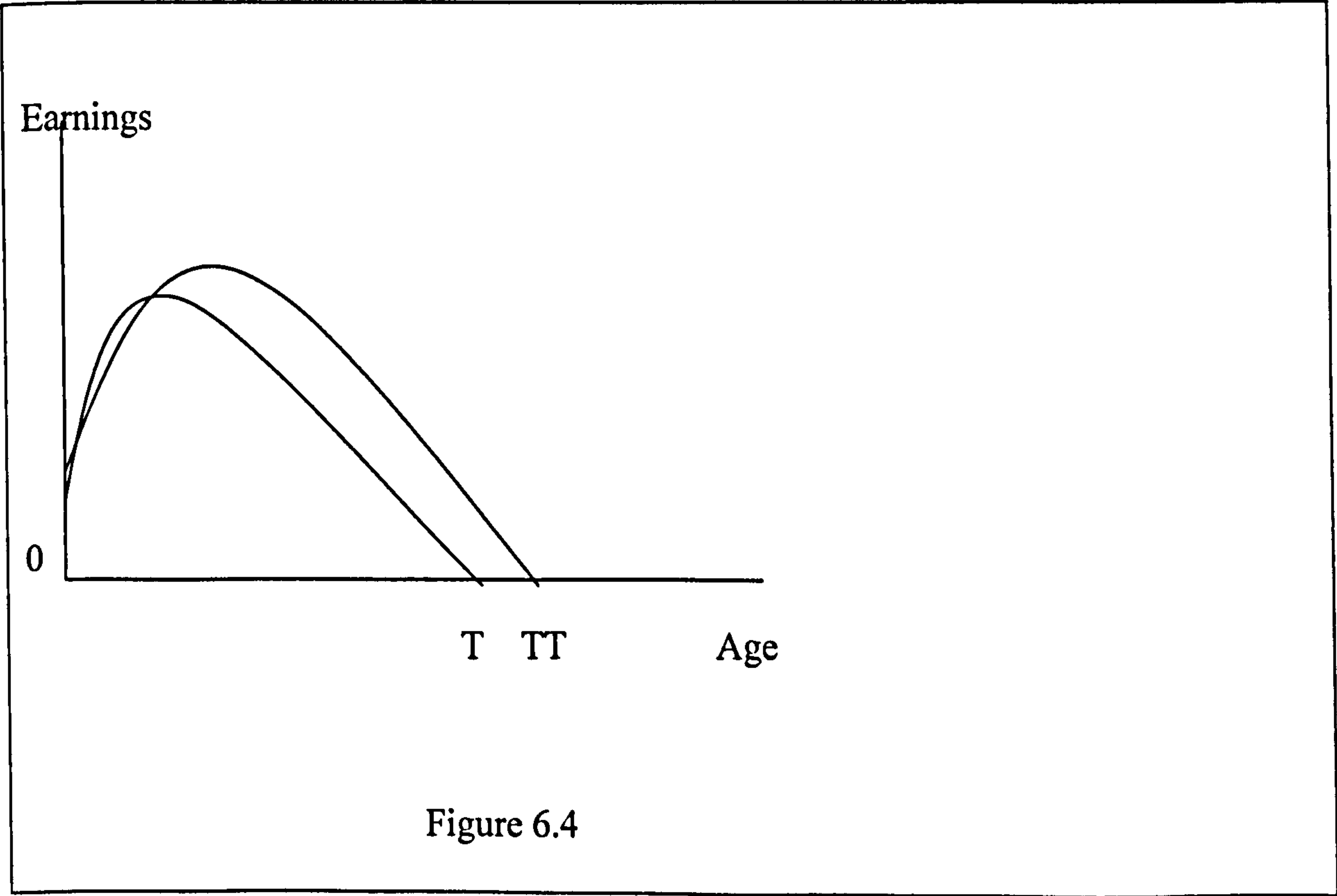
were to be able to work out their benefit entitlements and found the premiums to unworthy the benefits, the effect would be a negative demand.

Table 6.6 Low-earners' ability to apply NSSS benefit rules

Able to work out NSSS benefits using relevant formulae	YES		NO	
	FQ	NFQ	FQ	NFQ
Females	4	23	3	145
Males	6	44	4	134
Percentage of sample	2.7	18.5	1.9	76.9

The most common comment mentioned under the complementary question to 14(a) was the inflexibility of commutation of pension benefits. Because of that, we found it important to comment briefly on that aspect of pensions. The inflexibility of the pension schemes adversely affects the demand requirement for the younger ordinary workers. A very common point of wary made by the respondents in this cohort is the unfair rigidity imposed by the retirement age requirements. With the uncertainty of one's health condition in the light of HIV and related infections, the younger generation has a legitimate fear of being short changed by insuring themselves against the longevity risk when it is almost obvious that there is a realistic chance that they live to live not that long. The recent United Nations report on population trends estimates that more than 20% of the current 15 year olds in Africa south of the Sahara will not live to see their 40th birth days due to AIDS.

Notwithstanding the views and of course the comments made above, it is not wrong to suggest that the AIDS wave effect has skewed the natural life cycle so much that the same observations that we are making today would not have held true had the national scheme been introduced say 30 years ago. While the pension plans are designed with a life cycle going beyond the ages of sixties and seventies, few of the young work force can expect to live beyond their sixties let alone the seventies. That the ordinary workers of less educational attainment would almost certainly have a poor investment to their own health security is common sense. But that consequent to it follows the sub conscience not to invest in the insurance against long- term risks, such as the longevity risk need not be overemphasised. Below we show the perceptual change in the normal working life cycle of an ordinary young employee. Our figure 6.4 recognises the factual shortened working and life expectancy as a result of the uncertainty caused by the HIV epidemic in Zimbabwe.



In figure 6.4 above the curve culminating at T may be construed as the new life cycle with a shorter life span as perceived by the young employees most at risk of the HIV related infections while TT denotes the conventional cycle constructed using old mortality tables that do not take the cognisance of the AIDS threat. The pensions insurance policy insures the risk of living beyond the TT period when the perceived active working life ends at T . The difference between TT and T shows the degree of divergence in the life horizon from the perspective of the young employees and that perceived by the state in coming up with a state pension age. The more realistic the life cycle horizons as depicted by the closeness of the points of contact T and TT , the more relevant the state annuity to the demand requirements. That both the private and state schemes have sixty years, (for both men and women) as retirement age by which full pension rights can be drawn⁷ could possibly be an explanation to the puzzle of silence to the introduction of a national scheme by the younger generation. That would be seen as collaborating our earlier suggestion that the less affluent and uneducated workers would tend to have less forward planning and thus try to deal with risks as they get to the relevant risk hurdles. While we acknowledge that the rational concept of the economics of insurance requires that those least able to shoulder risks must seek to share or pool their risks, it is sad to note that in real practical life, it is those that are financially least capable to absorb the risks that rarely bother to take insurance cover.

⁷ Note however, that the NSSS has a provision for earlier retirement with full pension credits for hazardous occupations such as bus driving, miners and so on.

The notion of the life cycle horizons being outside the conceptual old age insurance requirements is further supported by the observations we make about the significant percentage of the respondents in the lower ages stratum reporting “don’t know” in response to the questions: When do you expect to retire from active employment? And “are you physically fit and healthy?” Disney and Turner (1999) in their paper, “What can we learn from retirement expectations data?” make an interesting analysis and theoretical suggestions about don’t know responses. They in fact, argue that “don’t know” may be a rational response when individuals face greater uncertainty over their retirement date. Their argument centres on that those most uncertain about their intended retirement dates are most likely to report a “don’t know” response to a question seeking a point answer. They also provide evidence that we find credible to support that hypothesis. That at least 10% of our male respondents in this cohort reported that they did not know when they expected to retire while a significant 23% reported that they did not know whether they were physically fit and healthy gives a theoretical foundation for suggesting that a realisable percentage of people have difficulty with forward planning for reasons of uncertainty about their health statuses. Rather than dismissing these people as uninformed it may be beneficial to commit investigations into understanding the social dimensions of this unique stratum of employees.

The responses to question 9(b) about the expected retirement ages make a good reading. The percentage of women reporting that they did not know when they expected to retire was inexplicably higher than that for men at 19%. The uncertainty about future marital statuses that is itself an important forward planning variable may

explain this discrepancy between men and women. At least 25% more women than men reported that they did not know whether they were physically fit and healthy. It is not obvious why such a big percentage of women would have doubts or uncertainty about their health statuses. It may be that female members of the society feel vulnerable to many health risks or have a general less confidence in their health status. The AIDS wave current sweeping severely in Sub Saharan Africa cannot be ruled out as factor influencing the self- assessment. These figures in fact make interesting similarities with the UN estimates and projections of infected people in Zimbabwe.

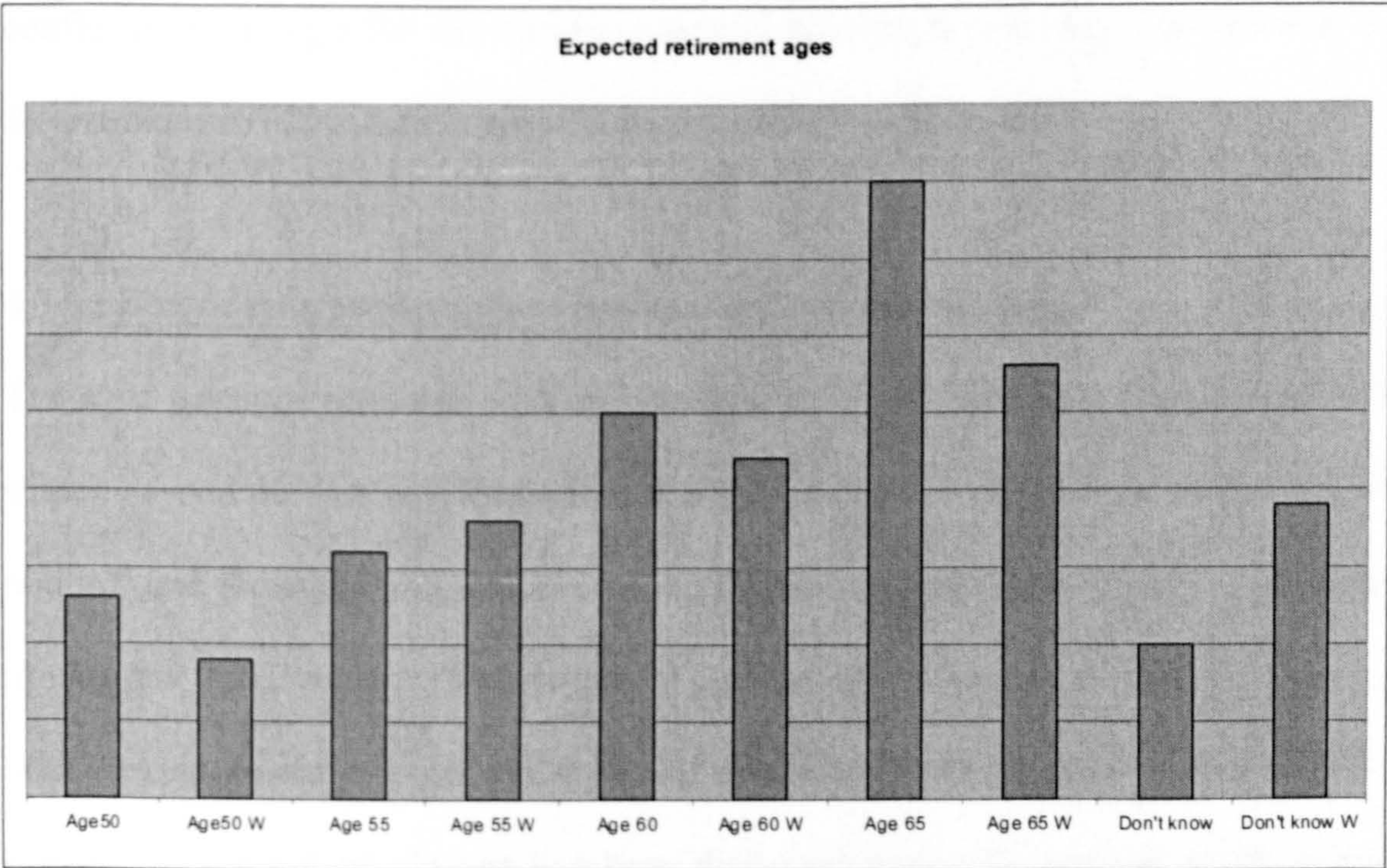


Figure 6.5

It must be noted that in figure 6.5 W in the retirement age shows that the sample referred to is that of females. That is for example “Age55 W” stands for retirement age fifty-five years by women.

Probably most importantly in this section, we are not absolute as to the actual factor contribution, of the “don’t know” response to the overall demand for pensions insurance. However, what can be said with utmost certainty is that this variable affects a significant percentage of the population. The uncertainty about expected survival chances to retirement age owing to uncertainty about one’s health or physical status of individuals may trigger a “don’t know” response. Those confident of their physical and health status are likely to report their expected retirement ages. And it is those confident of their health status that would certainly endeavour to make a split reaction to the stimulus brought about by a retirement provision instrument into their life cycle plans. The certainty about one’s health and physical fitness may imply confidence in living a full life cycle hence need to respond to futuristic predictions on factors likely to affect certain specific points within the life cycle.

6.3.3 Effect of state pensions on the occupational pension schemes

The state pensions insurance and occupational pensions have a lot in common that stretch beyond the ordinary similarities that most ordinary readers may envisage. The political and economic philosophies behind the two schemes have already been noted in chapters three and four. The degree of conflict and rivalry in the two instruments both seeking to alleviate old- age suffering emanating from incapacity to provide for one-self as a result of old age has been discussed before by various scholars and commentators. As was noted in chapters three and four there is a lot of controversy and conflicting theories about the role of the state in so far as the provision of retirement schemes is concerned. The correct role of the state in the provision of pensions insurance, factual or perceptual is a matter of individual philosophy. That

there is an inextricable puzzle of both economic and political nature emanating from state roles in pensions provision has already been discussed. And so has been the view that there is no infallible methodical theory to test the economic relationship between the state schemes and private markets.

Speaking in 1963 at the company's staff annual conference the Legal and General manager said,

“ The fundamental question is whether we are to regard the state as a partner or competitor. For my part I still cling to my original opinion that this package of legislation provided and continues to provide a springboard for new business.”⁸

This relatively unknown to many quotation that was adopted by professor Leslie Hannah from private Legal and General documents shows that the perplexity surrounding the state and private markets is an old debate. It is further evidence that while the state schemes may be seen as rivalry competitors to some they are the basis for new challenges and business opportunities. The same diversity of opinion and change of fortune following the introduction of state pensions insurance can be seen in the Zimbabwean markets as we argue below.

6.3.3.1 Reduction in pension contributions

Prior to the introduction of the NSSS the average pension contribution as a percentage of an employee's salary was about 7.5 %. We note that after the introduction of the

⁸ Adopted from professor Leslie Hannah (1986) “Inventing retirement: The development of Occupational pensions in Britain.” Cambridge University Press Cambridge page 46

national scheme the contribution rate declined by an equivalent of almost 1.5% that is much lower than the mandatory 3% contribution to the national scheme per each employee and employer. The reduction was evidently done mechanistically following the recommendations made by the actuaries. This mechanical shift of the consumption line must be distinguished from a consumption shift prompted by the preferential taste when two or more goods are on offer in a market. We have no doubt whatsoever that there is clear evidence that the almost matching reduction in pension contribution to the occupational schemes does not reflect the perceptual value attached to the occupational schemes vis-à-vis the NSSS by members. A closer analysis of the contribution trends, though not absolutely conclusive, taking into account the sample size under examination, suggests that members of the occupational pension schemes on moderate or relatively low incomes have had to reduce their contributions to the company sponsored occupational pension schemes by an average of 2.5%. On the other end those on management and other high- income brackets appear to be contributing far less than the mandatory 3% of their salaries and in fact, contribute an average of 1.2% or less of their salaries.

Tables 6.7 and 6.8 show the average amount spent between the state scheme and the company- sponsored for moderate and high- income earners respectively. As can be seen from table 6.4 the % spent on national pension scheme decreases as an inverse of the salary increment. We have argued in the previous section that the lowly paid workers place so much value to the state pension scheme that it almost certainly has an influence in their retirement plans as for example evidenced by the coincidence of intending to retire at the age of sixty-five years, the state pension age. This

phenomenon of having national insurance contributions being a substantial burden to the ordinary workforce is not peculiar to the Zimbabwean experience. And so is the substantial pension benefit perceived from the state scheme membership. That is particularly so for those on modest income. Many of the British occupational pension schemes, did for example, reduce the contribution or benefit levels for the lowly paid after the 1925 Pensions Act. That is how ever, contrary to the experiences of the professionals who had joined firms of employment after having been enticed or lured by lucrative retirement packages offered by the company sponsored occupational schemes. The same trend exacts itself in the Zimbabwean market though of course at a different scale. By comparing table 6.7 and table 6.8 the argument becomes very vivid.

The demand effect of the state scheme on the private occupational schemes varies across the workforce. The variance is generally of two fold. It is very significant in the negative to the demand for private occupational schemes within the lines of the modest earners. But because of the insignificance, both in terms of contribution and benefits envisaged in the end by the high earners, the state scheme has little or no effect at all to the higher income bracket earners' overall contribution to the company sponsored private occupational pension schemes. This view is further corroborated by the response to the questions by the high- income earners in the questionnaire to the questions seeking their views on whether they perceived state scheme to be value for money. This point has already been discussed above.

NB Occupational in tables 6.7 and 6.8 is the pension sponsored by the employers and % proportion referees to the number of observations as a % of the whole sample.

Table 6.7: Working-class workers' average pension contributions as a percentage of occupational earnings incomes.

Salary range	NSSS	Occupational	Observations.	% Proportion
\$25000-\$30000	3%	0	74	20.39
\$30000-\$35000	3%	0	65	17.91
\$35000_\$40000	3%	0	38	10.47
\$40000-\$45000	3%	0	35	9.64
\$45000-\$50000	3%	0	23	6.34
\$50000-\$55000	2.74%	0	20	5.51
\$55000-\$60000	2.5%	0	48	13.22
\$60000-\$65000	2.5%	5%	18	4.96
\$60000-\$65000	2.5%	5%	15	4.13
\$65000-\$70000	2.5%	6.5%	14	3.86
\$70000-\$75000	1.99%	6.5%	13	3.58
\$75000-\$80000	1.86	0	0	0

The aggregate effect of the marginal reductions in pension contributions on the of the occupational pension schemes seem not to match the far out cry that was made by the various market commentators when the news of the compulsory, state scheme were first entering the market circles. It may be too early to make conclusive judgements about the relationship between the state scheme and the private occupational pension schemes, as the current effects are more mechanistically induced than gradual

philosophical apprehension. That does not how ever invalidate the point observation results that we make. The important contribution that ought be deduced from these results is the physical human response to the introduction of a third force variable to the life cycle retirement provision. This is as such distinguishable from a gradual economic response instituted by natural risk response aversion that all rational human beings are perceived to have.

Table 6.8: Middle-class workers’ average pension contributions as a percentage of occupational earnings

Salary range	NSSS	Occupational	Observations	%Proportion
\$75000-\$85000	1.8%	6.5	30	11.9
\$86000-\$95000	1.59	6.5	25	9.92
\$96000-\$105000	1.43	6.5	42	16.67
\$106000-\$115000	1.3	7.5	39	15.48
\$116000-\$125000	1.2	7.5	36	14.29
\$126000-\$135000	1.1	7.5	38	15.1
\$136000-\$145000	1.02	8	24	9.52
\$146000-\$155000	0.96	8	18	7.14

As can be deduced from table 6.8 above the national insurance contributions as a percentage of salary would have increased to really insignificant levels had we included above average middle income earners. Not surprisingly therefore that the issue of national insurance in the present form is subject of interest to the least paid members of the society.

6.3.3.2 Reduction in benefit levels

The occupational pension schemes that felt that they could not absorb the shock effect of the introduction of the compulsory state pension as already said above had to either cut pension benefits or reduce contribution rates by members. The reduction in contribution rates has already been discussed above and now our focus is on the benefit puzzle resulting from the imposed state scheme. Evidence at hand suggests that the good performing occupational pension schemes despite reducing contribution rates still retain the same benefit rules un-amended. That is the benefit formulae were maintained at the old scheme rules. The occupational schemes that however, felt that the cost of retaining the pre-NSSS benefit formulae was unsustainable amended their formulae. The most common amongst the final salary schemes that are becoming increasingly the most dominant in the market was to change the % of final salary. That is instead of using say 3% of final salary, trustees on the advice of scheme actuaries considered other percentages such as say 2.4% or 2% and so on.

The consultation is not yet over at the time of writing of this report. There are some fence sitters who despite the fact that more than seven years has elapsed since the state scheme came into the market have not yet decided as to the course of action to take. The options at stake involve amongst others going back to the old benefit formulae that are less attractive and generous as is the final salary formulae. This would be of course be a negative progression in the pensions business so much that the perceived value of private pension wealth may be affected adversely leading to a perceptual decline in the demand for this branch of pension provision.

6.3.4 Effect of state pensions on private personal pension scheme firms

The personal pensions as said already are money purchase schemes. The concept of personal pension schemes is borrowed from the British market. The concept of personal pensions is in essence about individuals being responsible for their retirement plans rather than putting the burden on the employers and the government. It is in actual fact part of the wider pensions liberation programmes aimed at relieving the states of the pensions burden. The spirit behind the personal pensions is that members must have a greater say in the design and administration of their retirement plans. The present British government green paper on individual pension stake holders is in favour of creating an environment that allows individual policy holders greater say even on the investment portfolios. That is having a greater say in deciding where and when their portfolios are invested⁹.

This niche of the pension provision is itself not fully developed and hence the difficulty in making a thorough and very reliable analysis. The miss selling scandal of personal pensions in Britain did not do any good towards the growth of this relatively new product in the pensions markets. In Zimbabwe in particular, the size of the market that can potentially benefit from the development of this new development is quite small and so small that that it is hardly a force in the pensions and insurance

⁹ For a detailed account of government plans on individual pension stake holders see this year's British government green paper on pensions

markets. The absence of tax incentives and other obstacles we mention in chapter four have also hindered the growth of the personal pensions in Zimbabwe.

The puzzle that emerges is how the emergence of the compulsory state pension scheme affected the demand of this otherwise troubled from- inception product. It is as such difficult to argue how the state scheme has affected the personal pensions without attracting possible criticism. Below we discuss some of the conceptual trouble spots that we find to be relevant in this report.

Notwithstanding what I have already said about personal pensions, I can draw certain or otherwise general and specific issues worth noting in so far as the demand of this branch of retirement provision is concerned. Unlike the state scheme and other company sponsored occupational pension schemes first introduced as compulsory institutions for specific categories of employees, the personal pension has never before been a compulsory saving vehicle. The absence of compulsion factor may to some extent, explain the lack of induced demand as is found in other compulsory insurance instruments as is for instance found in public liability or motor insurance policies. In an economy such as Zimbabwe where information asymmetry is a problem, the introduction of a compulsory scheme may not be of relevance in so far as the general populace is concerned. That is more so bearing into account the level of literacy and market efficiency in so far as dispersing information to the target market is concerned. The old economic observation that the business of oranges would not flourish if consumers cannot distinguish between lemons and oranges would thus prevail in the Zimbabwean context. We take this stance of argument for primarily that

we observe from our survey results that when we compound our results after having discarded the educational variable, the level of awareness and differences in levels of pension design and benefits falls to very low and rather insignificant levels.

Related to what we have said above, the market maturity level has not advanced so much that it can create demand where there is no demand and induce demand where there is latency. The fact that despite the apparent breakdown of extended family systems for reasons beyond our scope of study, longevity risk is not yet a problem in Zimbabwe the same way it is in say the United Kingdom or France makes personal demand for personal pensions superfluous to the average employee. That is of course not withstanding the fact that the circumstances that led the London government to encourage the development of personal pensions do not necessarily prevail in Zimbabwe. As the state pensions continue to mature and the potential debt problem that we discussed in chapter four becomes apparent and unsustainable a need for personal pensions may also become very apparent and inevitable.

We discuss the subject of personal saving in Zimbabwe in detail in the next chapter. We however, hope that this brief review of personal pensions will form a substantial part of the understanding of the individual personal saving in Zimbabwe. And most importantly why we do not discuss personal pensions as an important saving vehicle in Zimbabwe in the coming chapter.

6.3.5 Demand effect of the state pensions on the financial market in general

The introduction of the NSSS to the Zimbabwean financial market appears not to have had any strong negative effects to the financial market as was first perceived when the scheme was being introduced. There were for example fears of that the national scheme was going to force the private firms out of business and domestic-over investment into certain areas. There is hardly any ample evidence to justify those fears or any indication that that may happen in future. These fears if ever they have affected the market in the negative then the market has certainly responded in the positive.

The analysis of the returns from the insurance firms to the commissioner and of those from the company schemes to the registrar of pension and provident funds show a substantial increase of an average of 20% in the amount spent on advertising and branding of the traditional long-term insurance and pensions products. That increase is matched by an even higher growth in premiums collected and new business.

We also note that coincidental the post state scheme has seen a much aggressive style of marketing most notably involving a new breed of graduate marketing executives and most conspicuous are those from the new state university, the National University of Science and Technology. The graduate marketing executives have undoubtedly brought with them a new style and flavour of marketing in the life assurance and pensions business. The sophistication in management brought about by these graduate executives has undoubtedly offset somehow the possible decline in demand of the traditional retirement saving instruments. There is how ever no clear or obvious knock

on effect to the demand of other financial instruments outside the insurance and pensions markets. Because of that it is thus credible to assume that the state pension scheme has no credible effect on the demand for other market saving instruments such as for example Savings Accounts, Mortgages and so on. This line of argument must however, not be misconstrued to imply that the state pension scheme will perpetually have no effect on the future demand for other financial saving instruments.

6.4 Broader observations and wider policy issues

While the state scheme is a force to reckon with in the Zimbabwean financial markets by virtue of the size of the fund and monthly contributions going to the fund, there is little evidence to suggest that it has monstrously affected the demand behaviour for the financial consumers serve for the particularly lowly paid to whom the state contributions and benefits there of are a considerable value. Because of that it would be uncalled for in this era to have a blanket policy towards the state scheme and the private pension schemes. The policy of pensions should instead be one that takes into cognisance the economic and social diversity of the needs of the recipients of the benefits of such a policy. There are various opportunities as are approaches upon which that could be achieved and many a number of opposing forces. In this section of our report we discuss some of the opportunities and challenges that the policy makers face with regard to introducing a positive demand and sustainable pensions policy.

First and foremost the demand effect of the state pensions to the Zimbabwean pensions market must be understood from a historical perspective. That there is no

evidence to suggest overwhelming demand for pensions provision unmet by market supply prior and after the introduction of NSSS does not need further emphasis. That the national scheme was literally imposed to the retirement and saving plans of the workforce is obvious. Less so is the fact that identity and image of the state scheme has created a false sense of threat to the existing demand equation of the participants that matter most in the market. Ironically it is this false sense of threat that has in some cases led to the revision of corporate strategies in the pensions market leading to new and most efficient ways of pension provision.

It was our observation that in light of the evidence at hand, it was a rushed decision by those private pension schemes who went on to reduce pension contribution rates of their members following the introduction of the national scheme. That blame does not absolve those who reduced benefit rates either. The upper cap set at \$1440 has not changed since inception of the national scheme despite the enormity increase of salaries and inflation in recent years. The absolute figure of \$1440 was certainly a significant amount as a percentage of emoluments at the time the national scheme was launched in 1993 but its significance as a deduction from the payroll has diminished severely and particularly to the middle and high- income earners. The corporate policy strategists of the private occupational pension schemes would as such be doing invaluable service to the scheme members and trustees alike if they could take advantage of this weakness in the state scheme. That may for instance involve the corporate strategists of the occupational pension schemes adopting more flexible contribution policy that may allow for variation in contribution rates defined as a function of the state scheme contribution policy. As another alternative it may be

worthwhile on the part of the state scheme to do away with the upper limit cap and instead introduce a salary or earnings linked index. Nonetheless the present low cap is to the advantage of the private schemes.

The restriction variable caused by the upper limit to contribution into the national scheme raises the fundamental question of how secure the national scheme is. The state by not regularly reviewing the upper limit for the national insurance contribution is creating a potentially disastrous debt that is likely to cause income insecurity rather than security to the future pensioners. That is so, for the NSSS promises very generous pension payments, as is evidenced by the benefit formulae to be used in calculating such benefits.

It is a general observation, that despite the increasing competition and complexity in the pensions market world- wide, the Zimbabwean firms that underwrite pensions and self- administered pension funds continue to play the traditional role that they were set to play many years ago. That is they continue to deal in monolithic products wherein the assurance firms sell life assurance related policies and pensions without necessarily venturing into other financial trading options. The self-administered schemes despite the present statutory constraints that limit their scope of manoeuvre in so far as what they can and can- not do is concerned show little evidence that they are doing enough in political lobby that may lead to loosening of strings in their activities. Rather than the self-administered schemes being exclusive to the sponsoring firm's employees, a lot in the form of economic benefit could be attained. Most importantly such schemes could enjoy the economies of scale never before

exploited. Through shrewd and optimal product mix such private schemes can provoke and ensure that there is a constant demand for the relevant and affordable pensions insurance.

Banc-assurance is yet to form part of the Zimbabwean financial markets vocabulary. Unlike in the United Kingdom and those relatively advanced western European economies there is scarcely a bank that manages a pension fund in the Zimbabwean market. If the growth of the British pension funds managed by banks is anything to go by then certainly it is time that the financial regulators in Zimbabwe started to consider loosening their regulatory controls to allow a possible more dynamic and competitive market.

6.5 Conclusion

We have in this chapter discussed the various aspects of the state pensions in so far as the demand behaviour of the market schemes is concerned. We note that the NSSS has had a significant impact on the retirement plans of the general lowly paid workers as opposed to the relatively well earning middle class employees. The dominance of sixty years as the intended year of retirement by female employees and sixty-five by their male counter parts shows the relevance of the NSSS to this group as opposed to dominant spike of fifty –five for both male and females in the middle-income bracket. In this chapter we also explained why the demand for private pensions has continued to flourish despite the introduction of the compulsory state scheme. We have also discussed the importance and possible ways of adopting a dynamic corporate strategy

by the market schemes to ensure continued positive demand that is sustainable over a period of time.

CHAPTER SEVEN

Personal saving for old age and other market findings

The working-class ... "These are "poor but honest" and family folks, the largest of all classes. It is composed of skilled and semi-skilled workers and small business trades people. Contrary to what may be expected, many of these class members make very good money, they simple don't use it to become "respectable" the way the middle class does. Working class people are oriented toward living well and enjoying life from day to day rather than saving for the future and being concerned about what the middle class think of them. They want to be modern, to keep up with the times rather than the Joneses".¹

7.1 Introduction

We felt it necessary to conduct a market empirical study of Zimbabwe for various reasons. First and most importantly never before has the Zimbabwean pensions insurance market been subject to a rigorous test at this level. Most of the criticisms and counter criticisms of the NSSS and pension insurance policy developments are being based on theoretical or Western economies' experience. Those that are not based on the above school are to a large extent based on intuitive imagination of individual agents in the market. It was as such important that a survey be done that would reflect the true view of the major participants' perception of the state scheme and how it is impacting to their specific social and economic desires. It is only when the views and perceptions of the major participants in the market are understood that meaningful analysis and comparison with western economies' experiences can be made. It is not only so but also that future evolution of the market can be adjudged

with reasonable accuracy and future pension insurance policy founded on present market's rigorously tested perceptions.

In this chapter that is to a large extent based on the survey that was carried out in Zimbabwe, we test some of the widely held perceptions about the mandatory state pensions and their relationships with other relevant economic variables. The survey involved the use of questionnaires as well as personal contact and desk techniques. In this chapter the SPSS package was used to analyse most of our data. The statistical analysis used in this chapter falls into two parts. That is descriptive and inferential. In descriptive statistics, analysis of the responses in terms of factual information, perception and awareness of certain important aspects of the pensions insurance is made. Inferential statistics was prepared to provide the basics upon which the conclusions generalised in this report were made.

The views of the executives express the general perception of what they perceive about the state pensions and are as such very important in so far as the future development of social insurance and the market at large is concerned. By understanding the perception of the executives we can at least in theory, be in a position to best interpolate the future developments in the market. The word "executive" is in this context not monolithic but used in general to refer to any insurance firm top or senior representative qualified to make opinion on behalf of the employing firm.²

¹ Loudon and Della (1993) describing the American working- class people's behaviour.

² Included amongst the executives are managers, brokers, directors, public relations officers and so on.

The influence of the ordinary workers in Zimbabwe can not be at any scale be overlooked as the views of this group is as important as is an other principal player in the pensions insurance market. After all the ordinary workers are the dominant and the single consumer group more sensitive to the pensions developments and changes in the state pensions policy than any other groups. In addition to that the working-class employees are a very significant if not dominant percentage of the electorate that can change pensions policy through the ballot box. It is in that regard that we felt it important that a particular section of this paper be dedicated to the labour force and its perception of the state pensions vis-à-vis the general developments in this area.

The questionnaires used to gather the relevant data for this chapter are divided into three distinct parts. The first part sought to gather basic statistical information about the respondent. The second part aimed at getting the core information of inquiry while the third and last part was aimed at getting general views about the pensions insurance market. The information that was so gathered is corroborated by that that was obtained by the researcher during the fieldwork were one to one interviews with some of the core participants in the market was done. The questionnaires used to solicit the information required for purposes of completing this chapter are attached in this document as appendix.

The state occupational pension scheme (NSSS), to which most of the ordinary workers employed in the manufacturing and agricultural sectors are not entitled to, forms a very important aspect of households' future wealth. We have already provided the line of argument behind this observation in the preceding chapter. We have shown and explained why the lowly paid households are most likely to value the

state pension scheme. We also look at the various saving instruments that employees can use to mitigate the cost of old age and substitutability of these in favour of state pensions. The effect of NSSS in influencing saving behaviour of households is also carefully discussed within the context of this report.

The rest of this chapter is divided as follows: In section 7.2 we discuss the old-age retirement saving trends, factors influencing saving and retirement behaviour. In 7.3 we discuss the empirical results of the future of the NSSS and the pensions market by analysing the executives' perceptions while 7.4 considers the workers' perception of the different aspects of this market in light of the emergence of the NSSS. It is in section 7.5 that we look at the general market findings and 7.6 are the conclusions.

7.2 Saving behaviour in the presence of state pensions

We have explained the various concepts and schools of thought behind the theories of consumption and saving in chapter five. We have also explained that the conventional life cycle theory of saving has been used before by various scholars and in particular to interpolate the consumption and saving trends of different household set ups. In this section we look into the saving behaviour of ordinary workers and middle income earners separately for the reasons we discussed in chapter six. Professor Feldstein starting with his 1974 paper that was subsequently followed by the 1976, 1979 and 1982 papers founded the current debate on the effect of state pensions wealth on consumption and saving behaviour.

To attempt to follow the approach used by the likes of Feldstein to estimate the effect of the Zimbabwean state pensions on consumption and saving and retirement is not only wrong but also very illogical. Not only that the economies that have been subject of this debate are long established with well matured state pension schemes developed over many decades ago, the Zimbabwean scheme is founded on a different political spectrum and differs in many respects to many of the Western world schemes. The kind of data used by Feldstein to measure pension wealth is currently not available in Zimbabwe. Feldstein for example, used data covering the period 1930 to 1974 in his original work. Apart from that nobody has ever investigated how the state schemes wealth affected the consumption and saving trends for example in the UK or USA during the early years of introducing compulsory old-age state pension schemes, the focus of research continues to be at long time intervals.

Hemming (1978) is one of the earliest if not the first to use strict actuarial techniques using British data to examine the effect of pensions wealth on saving. His time series has often been criticised for having been too short to provide credible conclusions. As we are not actuarial scientists we will not dwell much on this area. There are however many more studies that use time-series econometric models as a framework to investigate this complex relationship of pensions wealth and saving and in particular based on the USA data. See for example Darby (1979), Browning (1982) and many others.³ The use of cross sectional data is also widespread. On consumption the general findings have been that state pensions wealth increases consumption though

³ See Kessler, Masson and Strauss-Kahn (1981) "Social security and saving: A tentative survey" The Geneva Papers on Risk and Insurance, 18 (January 1981) pages 3-50

there are some findings that have conspicuously pointed to the contrary. Leimer and Richardson (1992) found a replacement of around 0.6 of private wealth by social security wealth. Takayama (1990) using Japanese data found that social insurance reduces the savings ratio by more than ten percent. Using cross-sectional data the likes of David and Menchik (1985) found no significant relationship between consumption and state social security wealth. The chain of previous studies is inexhaustible and yet the findings are as inconclusive as they have always been. Trying to reconcile the various findings would be a strong basis for a separate independent thesis and hence our decision not to pursue the previous literature in this area of study. As has already been said we have no evidence of any related work that has been published or done with respect to Zimbabwean experience.

7.2.1 Saving behaviour of middle income earners

The responses to question 1 about satisfaction with 3% contribution to the national scheme and membership to other pension saving vehicles show a high level of consideration of other alternatives to the NSSS. Table 7.1 shows a high percentage of people with pension plans other than the state scheme. On the other hand a very lower percentage of people reported satisfaction with the mandatory 3% contribution to the state scheme, though as we said in the previous chapter, most respondents in this cohort hardly contribute more than 50% of the 3% required of them by the state scheme rules. The high percentage of respondents with alternative pension plans explains to a large extent the attitude exacted by the majority of people in this group towards the state scheme. The high percentage of dissatisfaction with the 3% contribution to ward the state scheme is difficult to explain as the ultimate nominal pay out in dollars is extremely small as a percentage of the gross salary.

Table: 7.1 Membership to other pension plans and satisfaction with 3% to the NSSS

Question	Yes Number	Yes- %	No- Number	No- %
Are you a member of any other occupational pension plan?	240	100	0	0
Are you content with a 3% NSSS premium?	22	9.16	218	90.83
Do you have any other retirement pension plan options?	165	68.75	75	31.25

Using the results from our survey we see little relevance of the life cycle in explaining the saving behaviour of Zimbabwean households. As can be seen from the results and contrary to the life cycle predictions, those in the fifties show as much propensity to save and acquire wealth, as are the younger workers in the thirties and early forties. It is in fact, true that those nearing retirement tend to save more, on a dollar per dollar comparison, than those with more years remaining on their working lifecycle. The professionals in the fifties while showing high propensities to save in their last years in active employment show how ever, little evidence that they will match their total wealth disposal with the expected number of years before they die in fulfilment of one of the core principles of the life cycle.

Rather than dismissing the life cycle as irrelevant in so far as the consumption and saving trends are concerned in Zimbabwe, it may be worthwhile pursuing other avenues of debate. Most relevantly would be the historical and economic/social

background of the working population in Zimbabwe. Notably the people approaching their retirement ages or now retired were once deprived access to conventional saving markets such as membership to mutual societies, building societies and so on. As if that is not enough, they were once denied progression to positions and professions that would have seen them earning as much as they do today and thus saving at the rates they are doing. On a more speculative analysis one would not be wrong to suggest that the high propensity to save by the professionals nearing retirement is a result of a psychological drive to make up for the lost years during apartheid Rhodesia. On the other hand that background could explain why we do not observe the expected behaviour as projected by a conventional life cycle theory of saving that we need not emphasise that it was developed primarily with western economies in mind. Thus the relevance of the lifecycle theory of saving may be brought to question when the spectrum of analysis is limited to a certain cohort whose economic and social progression has been fundamentally different from the western experiences.

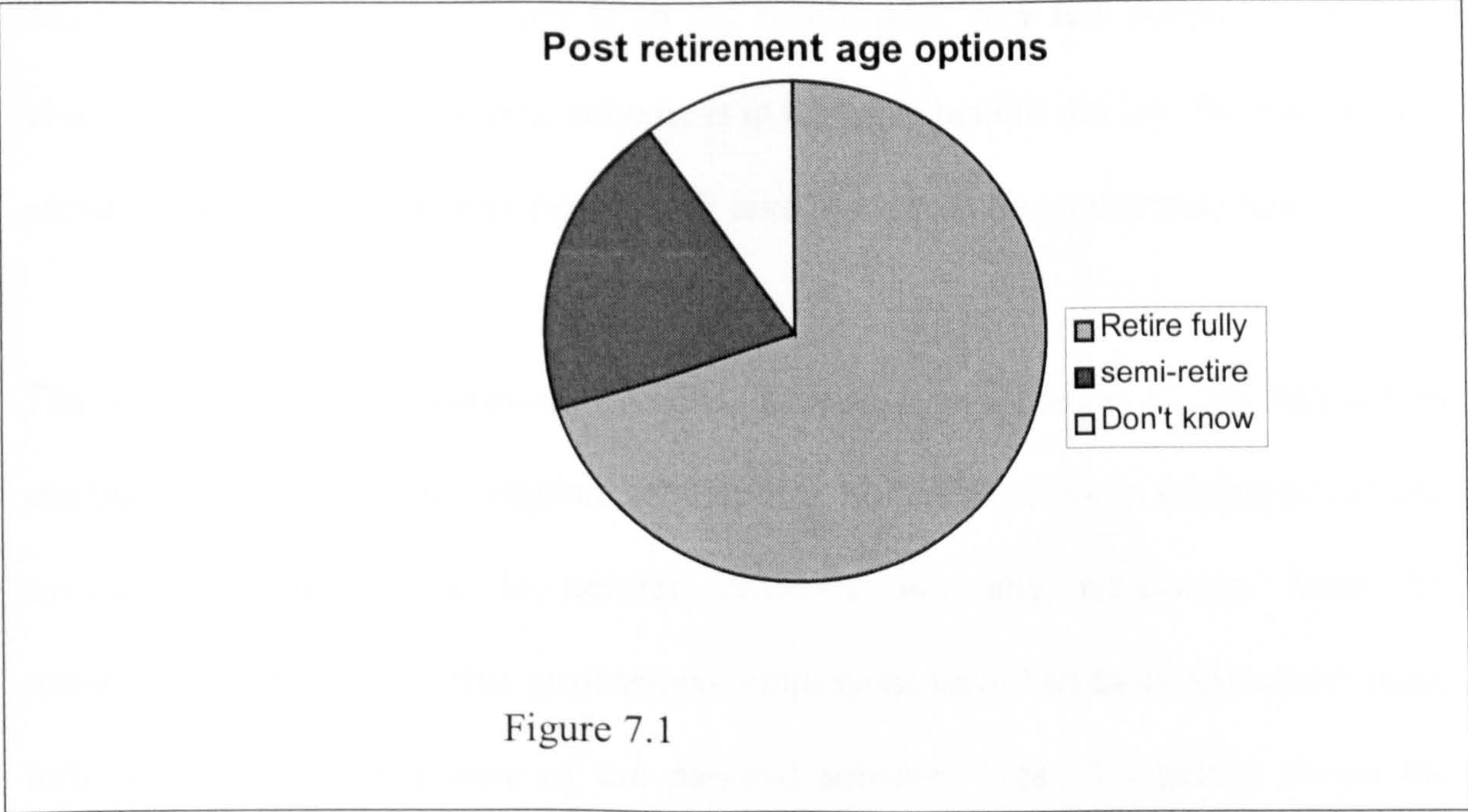
We note that most of the professional employees, according to our survey, have a strong cautious approach about their retirement plans. A large percentage of employees despite being content with the retirement plans they have in place want to continue in some form of employment ranging from running own companies to small consultants. Table 7.2 shows the responses to question 9 of the questionnaire that sought the views of the employees about their expected retirement ages and plans after statutory retirement age. At least 20% of the professionals report that they will certainly continue to be active participants in the economy through self-employment. Strange though is that the same workers who intend to have partial retirement save on average 10%-15% more than those intending to retire fully. This is somehow

puzzling, as one would have expected those with ambitions to venture in new economic challenges to save less during the normal working age and those with shorter working spans to save more. The reasons or logic behind this may not be economic as such and may call for other disciplines to explain, such as is the psychological interpretations.

Table 7.2 Retirement plans of the middle- income earners

		Responses		
Question	Statement	Yes	No	Don't know
9	Would you continue in active employment after retirement age?	20%	70%	10%

We note that a significant percentage of the workers, in the range about to retire, report that they do not know how they intend to spend their post employment life. There is little evidence of abnormality in saving for retirement by the “don’t know” cohort. In figure 7.1 we show the distribution of the retirement plans by the middle-income professionals aged fifty years and above.



The paradox from the analysis of the results is that the younger professionals far from attaining retirement age want a permanent job exit before the state pension age. A very insignificant percentage of less than 2%, report that they would want to see their contracts of employment running to retirement age. At least 65% of this cohort reports that they want to retire earlier than the expected retirement age. Because of a shorter anticipated working life span that would be followed by a more than normal post retirement life, these people in this group will tend to save at abnormal rates for retirement. As circumstances and attitudes are bound to change as years go by, fewer than those that say they will opt for an early exit from the job market if retirement packages at hand are improved or remain as they are will in fact retire as they claim in the responses to the questionnaire. As a result of that more people than we may be made to believe will still be in active employment as their retirement ages approach. In consequence a disproportionate saving pattern may result leading to massive aggregate saving by individual households. That is despite the presence of the national scheme with its generous benefit provisions. This is even more relevant

taking into account that we note from our results that very few people seem to be aware how generous the national scheme is in terms of benefit out lay. Because of this partial information asymmetry people will save more than they otherwise have to.

The preference saving distribution results, derived from question 12, by this cohort suggests that the national pension scheme has not affected their consumption and saving behaviour. There is neither evidence nor any comments from the questionnaires to suggest that professional employees have had their retirement plans influenced by the emergence of the national scheme. Table 7.3 below shows the different point preferences made by various people with regard to choice in saving instruments. In question 4(b) the respondents were asked to put in order of choice, starting with the most appropriate retirement saving option, five different old-age saving vehicles.

Table 7.3 Preferences in saving instruments by middle-income earners

Type of saving	1 st Choice	2 nd Choice	3 rd Choice	4 th Choice
Occupational pension scheme	60%	35%	10%	0%
Private pension plan	9%	12%	30%	45%
State pension	0%	5%	45%	50%
Estate and housing	25%	40%	5%	3%
Others	6%	8%	10%	2%
Total	100%	100%	100%	100%

A large percentage of the people report that they would prefer to save with company-sponsored retirement plans to any of the other retirement option plans. The high level of confidence in the private provision of retirement further corroborates our above assertion that the NSSS has not had any significant influence to saving trends. The housing option as an investment plan is perceived to be a better option by more people than we had first anticipated when we decided to include it amongst the retirement plan vehicles. The national scheme is least popular as a saving vehicle for retirement despite it being very generous in its pension benefits. The state scheme while it is not so popular amongst the professionals, it is however, regarded by many as a necessary integral part of the retirement saving equation. This is evidenced by the absence of total disregard in terms of points scored in respect of the national scheme in our survey.

The aggregate saving behaviour is indifferent between the married or those with dependents and those single or without dependents. Contrary to our expectations that the unmarried and those without dependents would show lower propensity to save, there is minimal evidence to suggest so. In fact when the confidence level is reduced to 98% from 95% we find that the unmarried and those without dependents save slightly more than those with dependents. The incidence and relevance of this part of investigation goes to the heart of the question of why some households are thrift and others are not. The most obvious logic would be to assume that those with families or dependents or have benefited before in their lives from bequeathal gifts would be ahead in terms of thrift. But real life experiences are more complex than that. The complexity of saving is best explained in fact, by a cocktail combination of economic,

psychological, sociological and other political determinants whose precise role in determining saving behaviour may never have been investigated before.

When the results to question 12 are analysed within the domains of male and female, an inexplicable pattern of attitude emerges. The professional females are more attuned to spend more on a dollar per dollar comparison on precautionary saving. The overall picture is that the females are more aware and wary of the longevity risk. The NSSS though not a significant variable in determining the saving patterns does have a significant shadowy influence in the minds of the professional females. This shadowy effect is characterised by the inclusion of relatively statistical significant sums of voluntary expenditure to the national scheme. The results of the scores affirm this prognosis of the behaviour of the female professionals. On the other hand males seem to be little moved in their saving lines by the emergence of the NSSS. This is more so taking into account that the females despite showing higher desire to spend on a per dollar unit than men towards their retirement provision, are prepared to spread the risk of their old-age income across the board. Males are prepared to invest very insignificant amounts to the NSSS. Yet women in aggregate are prepared to spend 13% more than their male counterparts on state schemes. Table 7.4 shows the comparison between the amounts that males and females are prepared to spend in dollar terms. The respondents were asked to split various amounts presented in multiples of thousand, into what they would be prepared to spend on NSSS, employer-sponsored occupational pension scheme, private pension scheme and any other retirement options they might have had in mind. In table 7.4 we however, only show the comparison between the state and the company-sponsored scheme. It must also be noted that the total in the pool refers to the total to be spent on retirement

provision only not the total household budget. The figures are the average reported and rounded off to the nearest whole numbers for both the NSSS and company-sponsored schemes. The results of the rest of the options are available as appendix to this report.

There is, as we have already said, no obvious explanation of this apparent anomaly between male and female workers. The most credible explanation would probably lie in the confidence that males have on the government scheme vis-à-vis the private schemes and the female population’s perceived confidence in the two schemes. Pursuing the reasons of this anomaly may lead to the emergence of complex sociological and psychological questions that we may find difficult to answer within the scope of this report. We in the circumstance not discuss the subject further.

Table 7.4: Voluntary budgetary contributions expected from men and females

Females			Males	
Total in pool to spend in \$	NSSS (\$)	Co. Pen Scheme (\$)	NSSS (\$)	Co. Pen Scheme (\$)
1000	24	520	26	600
2000	39	1310	36	1170
3000	60	1740	54	1562
4000	78	2130	57	1926
5000	113	2750	74	2480
6000	135	3280	101	2952
7000	156	3510	136	3160

8000	182	3920	153	3780
9000	201	4240	198	3787
10000	214	4530	207	4060

From what we have discussed above it is evident that there is no case per ser that the saving behaviour of both men and women professionals has been significantly affected by the introduction of the compulsory national pension scheme. The evidence of this insignificant influence is evident in both the amount that individuals are prepared to spend on the NSSS or are already spending on it. This observation of course is not reflective of the entire attitude of all the working professionals. As history has shown in the past, other features that we may have overlooked or took for granted may lead to different outcome if taken into account. Most notably is the geographical and political environment under which our respondents made their expectations. We would possibly get a different picture if we say carried our survey and other investigations in say two of the smallest towns of Zimbabwe.

7.2.2 The saving behaviour of the working-class workers

We note some interesting and scintillating similarities and contrasting differences between this sub cohort and the middle-class employees already discussed. Whereas it was some how expected that the NSSS would create a greater interest and immediate shock interest in this group, there is very minimal statistical significance to suggest that the saving behaviour has been permanently altered as a result of the introduction of the national scheme. The introduction of the national scheme, if ever it has any effect that is likely to be a permanent feature, is in fact that of positive expectancy of the “unknown benefit.” The average unskilled workers, despite the fact that most are

not willing to contribute towards the national pot of saving for retirement, are more than willing to be beneficiaries to the national pot out put.

Most people generally have this tendency to view the working class people as victims of social injustices, particularly perpetrated by the capitalists and middle-class people. They are seen as the biggest bearers of economic hardships together with the low salaried. They portray themselves as modest earners and what ever little they earn goes towards meeting the more fundamental basic needs of survival such as good food, shelter and so on. In the circumstances, engaging and concerning themselves with the cost of looking after one self in post retirement life becomes secondary and hence outside the scope of immediate needs. This view is flawed and in fact encourages the culture of perpetual under saving by this social class. The Zimbabwean working class is no exception of this syndrome. As we said on the limitations of the survey that was done as part of this study, there were genuine economic hardships that the average populace was facing at the time that could have potentially influenced the risk perception and in particular long-term risks such as that of longevity insurance.

The above observation is in line with the observations made in the previous chapter and that pattern is even clearer when the results in table 7.5 are taken into account. Table 7.5 in fact confirms our earlier assertion that ordinary workers have a higher regard of state pensions than the professional employees. That is despite the fact that the unskilled workers have a very low propensity to save for long-term needs and in particular old age. The general consensus among this group is that they would be happier if the state pension benefits were commutable at much earlier dates during

their working lives. The absurd prognosis is therefore that the ordinary workers expect a better life after retirement even without saving for it. There is how ever some logical explanation to this other wise abnormal behaviour in that most if not all retired ordinary employees retire in the rural country side were they scarcely pay a fifth of the money they would require to survive marginally in an urban set up. We look into some of the wider personal saving issues later in the report. The rest of this subsection is about individual saving characteristics of the ordinary employees in light of the presence of the compulsory state pensions insurance.

Table 7.5: Workers' saving vehicle preferences

Type of saving scheme	1 st Choice	2 nd Choice	3 rd Choice	4 th Choice
Employers' occupational pension	45%	33	15	5
State scheme	21	27	12	14
Private pension scheme	12	10	33	45
Estate and Housing	18	27	22	18
Others	4	3	18	18
Total	100%	100%	100%	100%

In question 1 of part two of the survey the respondents were asked about their reaction to the introduction of the NSSS and whether the 3% contribution was a fair premium together with their pension memberships. Tables 7.6 and 7.7 show a summary of the responses.

Table 7.6: Responses to satisfaction with a 3% contribution to the NSSS

Question 1(b)	Yes (Number)	Yes (%)	No (Number)	No (%)	Don't know (Number)	Don't know (%)
Women	65	17.9	80	22	30	8.2
Men	77	21.2	72	19.8	39	10.7
Totals	142	39.12	152	41.87	69	19

Table 7.7: Membership to other occupational pension schemes

Are you a member of any other scheme	Yes (Number)	Yes %	No (Number)	No %
Women	21	5.8	154	42.4
Men	39	10.7	149	41
Totals	60	16.5	303	83.5

The results of our survey show that the unskilled workers while having a positive awareness about the need to save for one’s retirement are generally not active participants of the private pensions market. The percentage of workers reporting having a private financial retirement plan other than employer- backed, from the pensions market is very small, and not worth the “media frenzy,” created by the financial commentators when the NSSS was first introduced into the market. The effect of the state pensions to the private retirement plans purchasing is in that regard minimal. This is not strange or peculiar to Zimbabwean experience as reports on some of the most liberal economies show overwhelming evidence that the average working

class household continues to depend on public provision for such necessities as health, old-age pension and so forth. In the USA there were for instance about 2% of pensioners with old-age insurance annuities according to Friedman and Sjorgen (1980).

Notwithstanding the fact that there is a generally very low propensity to save privately by both skilled and the generally unskilled employees of the working class, the apparent number of times that the issue of policy change was raised, shows the extent of insecurity perceived in general in this cohort. The significance and effect of this apparent wary is that despite other economic and social constraints to saving by this class, the political risk, that pension scheme rules may be reshuffled or changed to suit the politically advantageous electorate target group is an embedded element of the saving risk considerations. In Zimbabwe the element of political risk could not have been more apparent than at the time when our field surveys were being carried out. And indeed that aspect of saving for one's retirement through compulsory state mechanisms raises the question of "how secure the state pensions are?" However, as a fundamental point of importance it is imperative that we mention that the policy risk erodes the confidence to the national scheme and so deeply that it is more than a problem of political persuasion but one that should be researched into using modern social scientific techniques. In theory of course the uncertainty about the benefit to be derived from a national scheme will lead to over saving by the individually risk averse households.

Our argument about the working-class workers having low propensity to save should not be taken out of context. And in fact, it is expected in many societies that this class

of people will not have as much propensity to save as their middle-class counterparts. The trend, world-wide shows that most of the average of the skilled and unskilled working-class workers rely on state social security for their post retirement income. The British as are the Americans and the Western countries are no exception. Some respected scholars, for example professors David L Loudon and Albert J Della of USA, believe strongly that the working-class folks make more money than otherwise it always been deemed and simply do not want to save it. In fact the two scholars make a fitting summary of this social class when they say:

“The working-class family’s world view is one of great anxiety. They value the present, the known and the personal while avoiding the competitive, the impersonal and the uncertain. They indulge rather than invest.”

The far outcry that was more than publicised in the run up to the establishment of the national scheme was, in the light of this evidence, certainly an exaggeration by the private market commentators. That the private pensions sector continues to grow despite the presence of the NSSS and other economic adversaries currently evident affirms that view.

These observations that we have endeavoured to explain and those that we have merely referred to, are clear evidence that there is a lot that can be learned from personal saving trends. In the next section below we look into some of those crucial issues that we feel this report would not have been complete without their inclusion.

7.2.3 Personal saving issues worth noting

There are several economic and social issues that we find interesting and worth discussing but by virtue of the scope and size of this report we limit ourselves to the very few that are close to the objects of this report. The economy, culture and political considerations are important in this part of our report. Here we highlight not only the importance of these factors, but we also explain the complexity of the interaction of these factors in shaping decision making in the provision of old-age saving.

First there is the fundamental issue of the State of the economy. Magnussen (1994) says private saving is an important economic factor in that in the short run oscillations in the savings ratio are a major determinant of business cycles, while over a longer horizon saving can stimulate economic growth by giving room for investment. The same observation cannot be less true for the case of Zimbabwe.

At the time we were gathering data for purposes of this research, we were amazed at the number of individuals and business syndicates in the foreign currency business. The apparent collapse in the confidence in the local currency, speculative or otherwise partly explains why every average citizen was seen to be chasing the American dollar or British pound in every sector, informal or formal. The intriguing economic question that arises from such a scenario is, “what effect does this have on the formal saving markets?” The precise answer may require the use of empirical data and complex econometric specifications that are certainly beyond the scope of this report. However, from a qualitative analysis point of view we have no doubt whatsoever that the ultimate damage both in the short and long run is ruinous in terms of volume of cash available to the established institutions to invest or finance other business ventures so crucial for economic growth. More crucially, the instability of the local

currency unit the prime unit of pricing the pensions products, implies that the voluntary markets are for that period of instability unviable as the risk of buying a security quoted in local currency is perceived to be “unworthy taking.”

That short-term lending rates are presently prohibitively high and inflation equally unsustainable, investing in long-term securities is economically not viable both in the eyes of corporate bodies and individual household savers. The ultimate argument is precisely why invest in twenty year securities when a similar fortune can be made in sixty day securities with lending risk remaining unchanged? There is certainly no need for a rational individual to do so.

Lastly we note the fact that when the economy is generally failing to deliver to meet the economic expectations, the difference between the middle and the working class becomes very thin. And so much that the workers on middle class cease to be concerned with issues of long-term saving, of which saving is a traditional characteristic of this group of people. On the other hand, the working-class whose life tends to centre on matters of day upon day survival rather than futuristic uncertainties become even more difficult to convince on matters of saving for their future. It is precisely with that in mind that we feel compelled to acknowledge that the perception of the people we engaged in our investigation may have been influenced by the state of the economy to such certain levels that the picture of this report would have been different in the presence of a fully functioning economy. There are other economic considerations that are interesting in their own right but are trivial in the context of this report that we felt it unnecessary to discuss them in this report.

Culture is the second biggest relevant consideration that has an important relevance to individual and group household saving behaviour. The general view expressed by the authorities suggests that saving has no culture though the various social cultures do influence the way different ethnics save. It is itself interesting to note that societies very conservative such as Japan have been found to have similar aggregate saving trends, as are the British and American societies with very diverse cultural and ethnic combinations. That cultures are similar but different is common knowledge in anthropology but that these diverse norms are a good starting point in financial markets segmentation has often been less emphasised, and more so for reasons beyond the scope of this report.⁴

Despite that we had to change our original questionnaire so as to exclude amongst other things the respondent's ethnicity, we find interesting patterns that are evidently a function of one's region. That is for example, the Asians, Africans and White people from the Eastern part of Zimbabwe display certain characteristics uniquely different from the same social groups that dwell in another part of the country such as Western Zimbabwe. There is in the case of the people from the Western regions having an above the average percentage of people who desire to retire into the rural or farming communities. And the relation between retiring into the rural or farming community and poor propensity to save for one's retirement is statistically unquestionable. The government agencies providing pensions and the private pension providers alike should as such strive to take such anthropological differences into account when formulating household saving policies.

⁴ See for example Loudon and Della (1993) Consumer Behaviour McGraw-Hill Book Company Singapore

We also note that irrespective of region of origin, people born of generally poor background and never before been bequeathed any property of pecuniary value are prone to resist measures of lifetime saving for their retirement. That is the very lower of the lower working class families are most likely to have bad perception of conventional saving methods inclusive of the state pension scheme though interesting enough they welcome the notion that the state must provide them with these social security benefits. The trend is not different from the experiences in the United Kingdom and the United States of America where you find the unemployed “junks” being the most vociferous when it comes to issues of social security benefits and ironically in most cases do not work or contribute to the national insurance funds. The social scientists do not tell us much about this culture of resistance and defiance of logic that is also observable in other branches of insurance markets such as motor insurance where drivers of “rag tag” cars are in some cases twice as much in Zimbabwe to be driving cars without third party insurance cover⁵. The irony of whole of it is that it is those in most need of insurance that in most cases avoid having such policies.

Political considerations have been found to be very crucial in the consumer behaviour by other learned researchers. We would have included this part under the banner of culture for culture is wide enough to include political beliefs and associations thereof but that the political climate at the time the research into this report was being carried was such fascinating explains why we have had political considerations as a

⁵ Statistics based on Davel et al (1995) Cost of uninsured and inadequate motor insurance to the Willis Faber Motor Schemes Willis Faber Claims division Bulawayo Zimbabwe.

subsection by itself. The political perception in a market, notwithstanding the fact that politics and economics counteract so dependently, is one aspect that may have played a substantial role in influencing the overall perception of the state pension scheme. At the time of data gathering and writing of this report the political uncertainty and future of the government that has ruled Zimbabwe since 1980 has been deepening day in day out. Without indulging into the subject of depth political activities taking place everyday in Zimbabwe, we need not emphasise that the current government has lost not only the trust but also the mandate of the urban working and upper classes. And what does that mean to the establishment of a massive compulsory occupational scheme? Below we discuss some of the possible explanations to this puzzle.

Firstly, some people may see the opposing of a massive project such as is the NSSS as a symbol of resistance to the continued rule by the present government. That is by pulling together all forces of resistance against the present regime, political goals may in the process be misconstrued for genuine economic goals aimed at bettering the lives of the ordinary poor or society at large. Secondly, there are those forces that will promote a policy of opposing any initiatives by a government they perceive not to be worth supporting irrespective of legitimate goals that the government in sitting may have. Thirdly, political distrust in a government is complemented by lack of economic confidence in the administration by those opposed to it. That situation cannot be worse than in Zimbabwe where the entire urban populations have virtually declared a vote of no confidence in the present regime. And ironically the urbanites are the economic active and target market in the pensions industry and targeted equally as a market by the NSSS. Lastly, there are those other dormant political forces that work

invisible to undermine or influence the ordinary people's perception about the government's management and economic agenda.

7.3 Shaping the pensions market: The perception of the executives

We have in the preceding section looked at the specific issues of personal retirement saving behaviour and the role of the NSSS. In this part of the report we examine the views of the major influential participants in the pensions market. That is the producers and regulators of the market. To accomplish that task we use information gathered from our survey questionnaire, appendix C in this report. The term "executive" is in this context not used monolithically, but is used to embrace the coalition of all the influential participants in the market, inclusive of directors, managers, pension scheme regulators and some legislators⁶.

7.3.1 Regulators and legislators' views on the pensions market:

Our major perception propositions of this cohort were as follows:

- The regulators and legislators have a biased positive attitude towards the NSSS and its effect on the pensions market.
- There are many policy and management issues in the NSSS that need collective effort of regulators and legislators.
- For a strong pensions market the private and public servants have to complement each other's objectives.

The first two propositions were addressed using responses to statements 1.1 to 1.5. These statements were primarily designed to seek opinions from the legislators and

regulators alike. The last proposition was satisfied by the responses to statements 1.6 and 1.7 and 1(b) that complemented the factual issues. A total of ninety people in this group responded to our survey questionnaires. The respondents who answered "I don't know" are excluded from table 7.8 below.

Table 7.8: Question 1 responses (Chi- squares).

No	Statement	Chi-Square	Confidence Level %
1.1	The NSSS has not shaken the pensions market.	127.213	95.000
1.2	The government has been considerate and consistent in its conduct of NSSS issues.	73.125	95.000
1.3	The NSSS has a sustainable future in the market	68.038	95.000
1.4	There is need to constantly review the NSSS rules and its management strategy	134.645	95.000
1.5	My organisation/department is happy with the direction of development of the NSSS.	62.818	95.000
1.6	The NSSS has increased operational efficiency in the pensions market.	164.353	95.000
1.7	My organisation is involved and in regular consultation with private pension scheme executives	176.806	95.000

⁶ Though we had a good response from the MPs in the last parliament before the 2000 elections, at least 47 percent of the ruling party legislators lost their constituents to the new opposition MDC including all urban seats.

The results show high levels of agreement with statements 1.1 to 1.5. The level of agreement with statements 1.6 and 1.7 is slightly lower though certainly big enough to show an over whelming support of the propositions. From this statistics it is clear that there is an undisputable evidence to support our propositions. The legislators and regulators have shown a big positive response and attitude towards the NSSS. The effect and impact of the state scheme is held with same attitude. The mismatch in the administration and policing of the pensions market is evidenced by the high level of agreement with the last statement that contradicts with the views expressed by the private pensions executives.

To complement the above views of this cohort, the results to question 1(b) are taken into context. The results in table 7.9 below confirm that there is a small contingent that believes that the national scheme will lead to a stunted growth of the pensions market. Few of the policy makers and enforcers believe that the NSSS does not have any impact to the development of the pensions markets. Ten percent of the legislatures and regulators believe it is too early to have meaningful opinion and let alone make a judgement. These are difficult people. We would not know the way they would exact their pressure in terms of the pensions policy and development of the pensions markets.

Table 7.9: Perceived impact of the NSSS to the pensions market.

Effect of the NSSS to pensions market	Number	Percentage of sample
Positive and good for the market	55	61.11
Negative and detrimental to the market	6	6.67
Premature to judge	9	10
No impact	12	13.33
No opinion	8	8.89

In question 6 we asked the legislators and regulators’ opinions on perceived obstacles to the co-existence of the national scheme and the private pension schemes. As the results in table 7.10 below confirm, the conservatism of the private pension market are seen by the regulators and legislatures, alike as the major obstacle to the co-existence of the national scheme and others. The figure 45% shows the extent to which this view is upheld by the regulators. The history of the market may to some extent explain the logic of the concerns about resistance to change. Most if not all of the regulators and members of the legislature are black whereas the private pension markets are run by and large white executives and managers. The social conflicts about the colour of who is who and were may blur the otherwise pivotal debate about the imposition of the state scheme to the pensions markets.

There are as many as twenty percent of people in this category who have a conviction that the negative press coverage of the NSSS is major cause for concern in so far as integrating the national scheme into the pensions market is concerned. These are the people who believe that the hyping and sensational coverage of issues pertaining to

the objects and functioning of the state scheme is the major cause of “bells of alarm” about the monstrous intents of the state occupational scheme. There is some grain of truth in such a perception in that strictly speaking, we have not had before in Zimbabwe an independent study of some of these pertinent issues by commissions or other groups comprising all the concerned stakeholders.

Poor marketing strategy of the national scheme by the government is seen by at least fifteen percent of this sample as the dominant single factor explaining the difficulty of acceptance of the NSSS in the market. These are people who believe that had the government done a thorough anthropological investigation of the various segments that make up the entire pensions market, the resulting imposition or marketing strategy of the state scheme would have curtailed some of these problems. The government, at least in the views of this segment, has a challenge to redesign its marketing strategy and forge a new harmonious relationship between the state scheme and its private rivals. It may not be easy to reverse damage done so far but would certainly be worth pursuing in view of the long-term relationship that is there.

There are as many as thirteen percent of this sample population that believes that the general negative perception and resistance to accept the national scheme as a necessary player in the market is a political vendetta. While there is no unanimous pattern in terms of comments made in this sub-cohort, there is however, a general feeling that the position of the NSSS and its acceptance needs a political solution rather than economic considerations.

Table 7.10: Obstacles to co-existence of the NSSS and the private schemes

Obstacle	Conservatism	Negative publicity	Poor strategy	Political	Market failure & others
% Response	45	20	15	13	7

In question 7 the legislators and the regulators were asked about their expectations from the private pension firms following the imposition of the NSSS. It is not amazing that we expected the regulators to have expected massive resistance to the introduction of the compulsory state occupational pension scheme from the old players in the market. The figures below show a staggering sixty percent of the sample population to have expected resistance from the old guards in the market. Well, it is however strange that there is no uniformity to the comments made about the resistance that was expected from the market’s old guards. What is nonetheless clear is that the team on the government’s side entered the market expecting the least favourable response, a factor that may explain the attitude of both the private and public scheme forces to each other.

There is as much as twenty-two percent of the respondents here who say they expected the private markets to respond in panic and cause structural shake-ups. The panic and structural shake-ups are probably one of the inevitable developments to a development such as the coming of the NSSS to the Zimbabwean market. That the market managed to sustain the shock wave caused by the imposition of a compulsory scheme is certainly something worth applause.

At least eleven percent of this class expected the private market to respond by introducing technically superior and less costly pension products. The strategy of using innovation as a counter strategy to the Government’s introduction of the NSSS into the market, at least as of now, is not yet clear or supportable by prevailing evidence. The overall impact of the NSSS to the market may to some extent explain the apparent lack of the need to react by engaging in expensive research and development projects by the private markets.

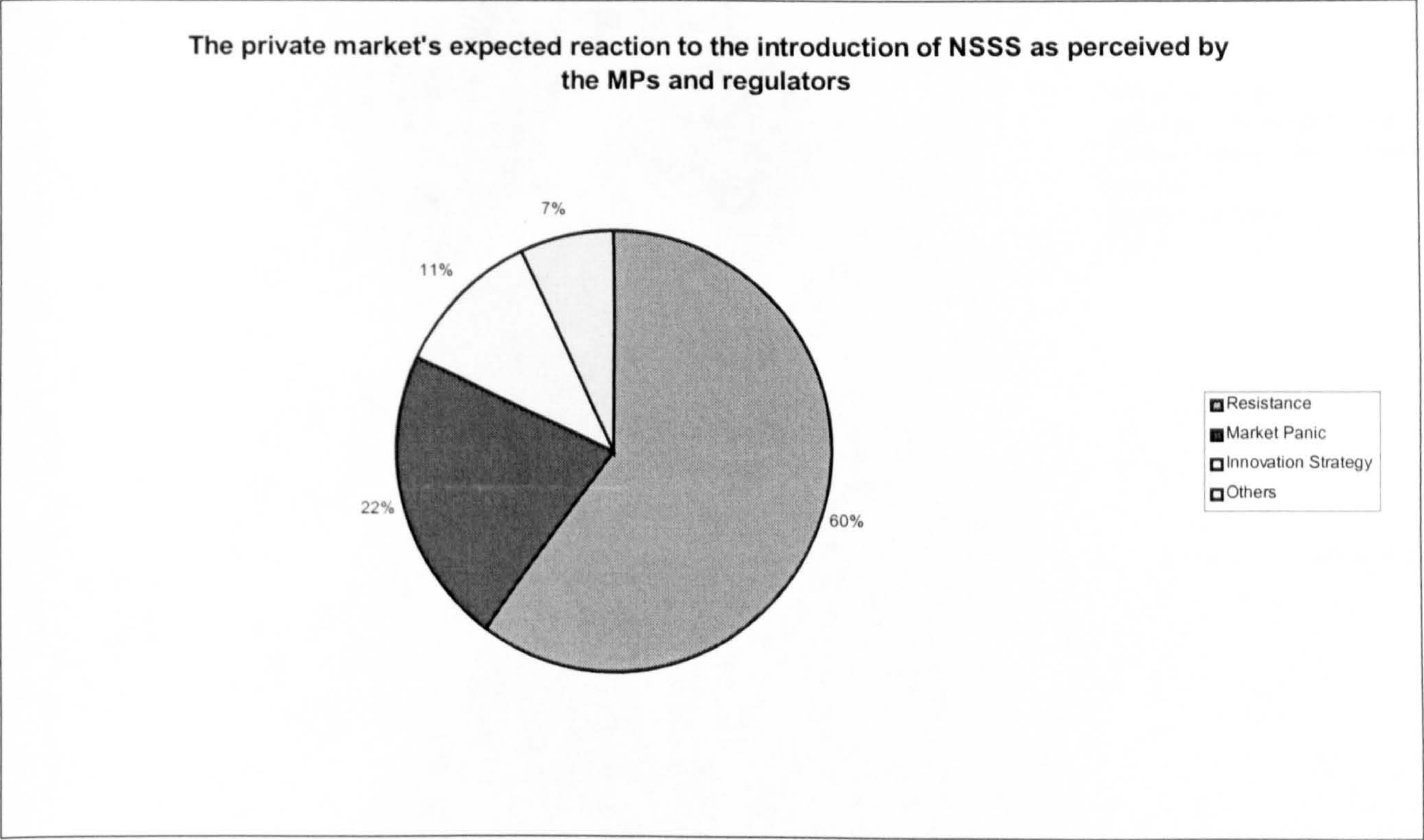


Figure 7.2

Question 8 sought the views about the projected life span of the NSSS. There was as much as ten percent of the respondents who thought that the NSSS would not survive beyond fifteen years from its inception. At least as much as twenty-four percent of the respondents in this class did not see the NSSS surviving beyond the thirty- year mark, while as many as twenty six percent of the sample population believe it would be dissolved before its forty-fifth anniversary. There are as many as thirty-eight percent

of this class who believe that the NSSS will be in the market for more than forty-five years. There are 2% of this class who do not have an opinion on the most likely lifespan of the national scheme. Figure 7.3 shows the distribution of these results.

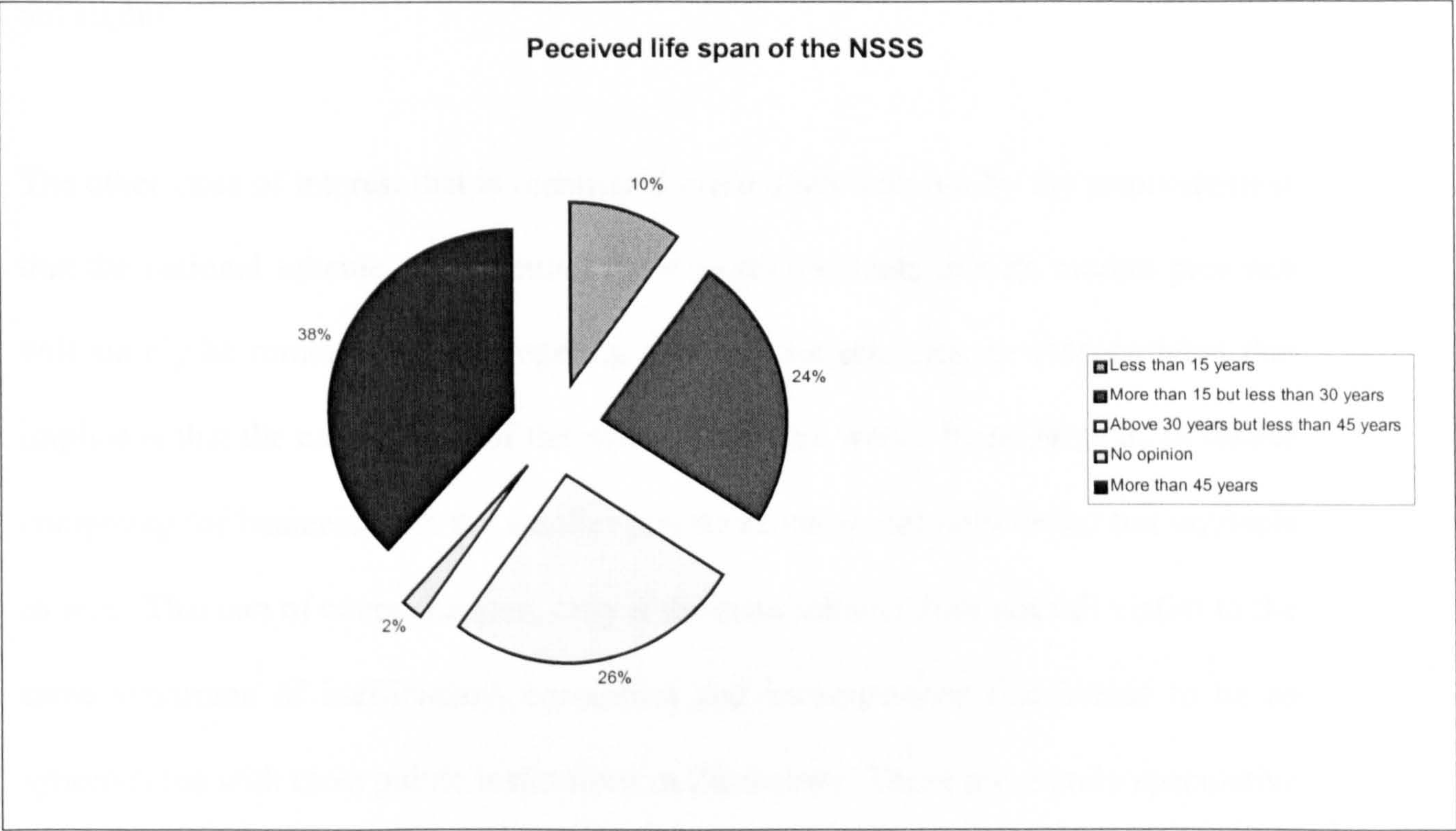


Figure 7.3

There are many comments that were made with regard to the perceived future of the national scheme in the market and we cannot discuss all of them. However, we felt it imperative that we discuss two of the most pertinent views that were generally common to all the views expressed by this sample population. First and most importantly, there is a general view shared by almost all the respondents here that there is more than a realistic chance that in the decades to come the NSSS would be subject of privatisation programme. The feeling is that as the scheme grows bigger and bigger, the more complex and costly it would be to manage. And as diseconomies

of scale become virtually unsustainable without the inevitable political risks, the more apparent it becomes that the national scheme would one day be subject of going to the hands of the private firms. If the experience with the government and other quasi government corporations is anything to go by, then certainly this view ought be taken not slightly.

The other issue of interest that is mentioned more often than not by the respondents is that the national scheme can potential grow to such extents that its market presence will simply be ruinous to the competing rival private schemes. In essence what that implies is that the capital base of the national scheme would be so large as to render competing for business with the smaller private schemes not only unfair but unviable as well. That can of course happen, only if the state scheme does not fall victim to the same syndrome of inefficiency, corruption and incompetence that seems to be so synonymous with most public institutions in Zimbabwe. These are merely speculative opinions based on individuals' perception of the NSSS and the pensions market at large. The influential vintage position that these people occupy in the market explains the importance why these views cannot go without noting with enthusiasm. They in fact, would be subject of quoting in the future as the anticipated complications in the progression of the market take place.

We have now discussed the views and opinions of the market forces largely on the side of the government that established the NSSS and is responsible for its promotion and running. The important aspects worth noting have been carefully noted. We discuss the views of the private scheme directors and managers alike in the next section of this report.

7.3.2 Directors and managers' views

The techniques used to get the views of the public servants executives were also applied to this sample. There was a slight modification of the questionnaire sent to this cohort to reflect the spirit of the investigations and our propositions. The areas covered were basically the same in many respects to those discussed in the preceding section. The ultimate reflection of the entire picture of the perception of the private market executives in the Zimbabwean pensions market is one of sharp contrast to the picture one gets from the legislators and regulators' perception of the market. Our propositions in this section were as follows:

- The private pension scheme executives have a negative bias against the NSSS.
- There is a general uncertainty about the course of the pensions development following the introduction of the national scheme.
- The NSSS and the private pensions would benefit greatly when all the executive stakeholders participated actively with each other in developing and managing the interests of the pensions market.
- Strong market efficiency can be enhanced when there is a two- way evaluation process involving senior corporate management.

The general propositions advanced from the first two propositions can best be explained by the results to the statements 1.1 to 1.4 of appendix C1. The rest of the propositions are supported by results from the rest of the questionnaire that sought to address factual issues as opposed to collective perceptions and opinions of the private market executives. The general observations that form a foundation of the report also

draws a lot from some of the open ended questions that were brought to the attention of the respondents.

The results in table 7.11 are quite self- explanatory. The high responses that agree with the first four statements suggest that our propositions are true. The uncertainty about the government's next action or directive in the market is explained by the massive percentage of respondents who either strongly agreed or agreed with statement 1.4. One market manager during an interview with him, remarked, "the best way to deal with the NSSS is to assume it does not exist." All that we can deduce from such comments and opinions is that the private market has not come to the point where it can, with utmost certainty, list the shortcomings or strengths that have come about in the market as a result of the introduction of the NSSS into the market.

Table 7.11: Responses to statements 1.1 to 1.6

Number	Statement	SA	A	DA	SDA	DK
1.1	The NSSS has disrupted the evolution and operations of the pension schemes in Zimbabwe.	68%	18%	9%	3%	2%
1.2	The government has done little to consider the market interests of the private pension schemes.	67%	23%	5%	2%	3%
1.3	There is need to amend the NSSA Act and NSSS rules to reflect the interests of all stakeholders.	52%	25%	14%	4%	5%
1.4	The direction of the NSSS is obscure	32%	38%	14%	8%	8%
1.5	My organisation has not been in regular consultation with the state operatives in shaping the direction of the pensions development.	23%	37%	11%	16	13%
1.6	My organisation is seeking ways to improve efficiency in the wake of the emergence of the NSSS.	35%	29%	16%	15%	5%

To cement the views expressed justifying our propositions one has to look at the results to question 1(b). There is an insignificant figure of respondents who say the NSSS has had a good and positive effect to the pensions market. At the same time there is contrastingly large percentage of people who thought the state scheme had a negative and detrimental effect to the market. The percentage that thought that it was

still too early to judge is slightly lower than that reported by the legislators and regulators. There was substantial percentage of respondents who felt that the NSSS had had no impact on the pensions market.

Table 7.12: The impact of the NSSS to the pensions market.

Effect of the NSSS to the pensions market	Number	Percentage
Positive and good for the market	3	2.73
Negative and detrimental to the market	63	57.27
Premature to judge	13	11.82
No impact	19	17.27
No opinion	12	10.91

The issue of obstacles to mutual co-existence of the state scheme and private pensions was brought up in question 6 of the questionnaire. There are some pertinent obstacles that this cohort believes are a hindrance to the establishment of harmonious environment in the market to allow the state scheme as are the private pension schemes to flourish. We discuss in this section the most crucial and less obvious. Those obstacles that are otherwise in the generality are discussed under section 7.5.

First and foremost, there is an apparent disgust amongst most of the private pension schemes executives about the government’s failure to engage and involve the private markets in the formulation and implementation of these very important developments in the market. The diversity in opinions explains to some extent the level of understanding and appreciation of the emergence of the state scheme.

In question 5 respondents where asked if they felt there were any obstacles to the co-existence of the NSSS and the private pensions schemes. The results were resoundingly significant in the positive. 95% of the respondents thought there were some obstacles that hindered a mutual existence of the state and private schemes. Question 6 was used as a follow up to question 5 and produced results that suggest the obstacles perceived by these executives are diverse. All of the factors that were presented for consideration scored significant marks in terms of over all weighting. The results in table 7.13 show the distribution of the weighting scored by each of the factors. The answers are a score of hundred percent because of single responses per factor by individual respondents. Judging by the cumulative scores, it is clear that market failure and political reasons are perceived as the most dominant factors that are thought to be the biggest detrimental forces in the market.

Table 7.13: The obstacles to mutual existence of the NSSS and other schemes.

	Number of people in terms of preference				
Factors	Score of 5	Score of 4	Score of 3	Score of 2	Score of 1
Conservatism	15	17	22	25	30
Negative press	9	10	16	21	38
Marketing	13	16	31	45	34
Market failure	41	39	21	9	6
Political	32	28	20	10	2
Totals	110	110	110	110	110

From the results above it is imperative that further research be done to determine amongst other things, how to harmonise these factors in the interest of the development of the pensions market in Zimbabwe. It is also important that effort is made to understand the large variance in opinion between the respondents in this group and those in the legislators and regulators cohort.

In question 8 the respondents were asked about their perceived life spans of the national scheme. The results in table 7.14 show a skewed distribution towards a shorter life span in that more fifty percent of the respondents believed that the lifespan of the state scheme would not exceed thirty years. There is, also a disturbingly large percentage of respondents who offered no opinion at all. Avery small percentage in this cohort thought the NSSS would survive beyond fifty years. In a way what the results suggest is that there is a great sense of pessimism in this group of people. More crucially, it is very clear that the direction of development has not been fully appreciated by everybody on a general universal scale.

Table 7.14: The projected life span of the NSSS.

Question 8	Number	Percentage of sample
X< 15 years	8	7.27%
15 years<X<30 years	51	51%
30years< X< 45 years	22	20%
X> 45 years	10	9.09%
Don't know	19	17.27%

The most common general comment mentioned by most of the respondents to question 8(1) was that the state scheme was most likely to be subject of privatisation in the foreseeable future in line with the privatisation programme of state utilities. This line of opinion was raised by more than 35% of the respondents. Another common comment was that reiterated by 24% of the respondents who stated that the NSSS was most likely to under perform leading to increased direct costs to the private sector in the form of cost subsidies.

In question 9 the respondents were asked about the changes that they would like to see introduced to the national scheme. The investment of the NSSS funds is seen by many as the area with most pressing need for involvement of the private firms' expertise. It is no coincidence that the private schemes' executives are of the opinion that the investment portfolio of NSSS ought be subcontracted to private markets specialists that the same class has expressed concern about the cost of possible investment flops being passed on to private markets.

There is substantial percentage of executives that see the inclusion of all stakeholders in the funding of the national scheme, as one of the central issues that need to be introduced. The feeling amongst this group is that the funding of the national scheme must be a tripartite arrangement involving employees, employers and the government. Such concerns are justified for when we look at other established schemes in other countries like France, Germany, Great Britain and so forth, the government employees do contribute towards national insurance.

The Zimbabwean scheme, that is a funded pension fund, raises concerns not by failure of the government to include its employees in this massive national programme, but more crucially by specifically exempting certain big employers, and more conspicuously the National Railways, from contributing to the national scheme. The executives who have raised concern about this issue believe that the membership of the national scheme should not be “on a- choose and mix” basis as one executive said.

There is, a significant percentage of people amongst the executives who believe that the introduction of an opt-out clause in the national insurance scheme is crucial for the establishment of fairer pensions system in the country. The present set-up where employees and employers with the most superior and cost effective occupational pension scheme are required to join the national scheme is seen by at least fourteen percent of this class as the most urgent reform that must be done to redress that anomaly.

7.3.3 Lessons learnt from the executives’ perception of the market

The first and most crucial point that can be deduced from the various perspectives and perceptions of the market executives is that the Zimbabwean pensions market is a market “with other markets” in itself. The different market segments that form the Zimbabwean pensions market are distinct but dependent on each other. It is failure to distinguish between these markets that can cause and in fact, caused the pandemonium panic when the national scheme was first introduced into the market. To purport or believe that the NSSS will have a common impact on the various markets that make up the Zimbabwean pensions market is wrong.

The views and positions of the market executives confirm without any doubt that the Zimbabwean national occupational pension scheme is a strong force in the market that cannot be ignored despite having little impact as a retrogressive factor in so far as the current saving trends for old-age are concerned. What the market executives confirm is that far from being a disastrous monster, the NSSS, at the current rates has not had any significant inroads to the conventional market strongholds that the private schemes ought to direct their focuses. And in particular the highly paid private sector employees who make up a significant market segment in so far as the private pension markets are concerned.

What we can also learn from the market executives is clearly that there is no consensus between the private pension schemes and the government as to the running of the national scheme. The former show a conviction that it is getting a raw deal from the latter by not being included in the running of scheme. There is, in fact, apparent bias by both the private and public executives against or for the policies and implementation of the NSSS. The private pensions are determined to protect their interests that may be threatened by the NSSS particularly in the long run. Apart from the issue of interests, there is the practical reality that the private markets will come with them to the national scheme with knowledge and expertise.

It is almost certain that the uncertainty currently engulfing the market as a whole is likely to be an ongoing experience for some time or such a time that the NSSS and the private schemes spell out their grounds properly and engage each other more than is currently happening. It may not be now or sooner that the exact precise extent of effect that the NSSS has on the private schemes is known. What however is

indisputable is that there is an apparent distrust between the national scheme and the private schemes.

7.3.4 Way forward

Having examined the various sentiments and opinions expressed by the executives of the pensions market, we are left with no doubt that the future of the private schemes is not in anyway, threatened by the emergence of the national occupational pension scheme. The private schemes must devise strategies that can help mitigate the short-term shock waves caused by certain uncertainties that may arise from the implementation of the national scheme. The political strategy to lobby for the minimisation of these uncertainties may be worthwhile. Above all an embrative strategy to shield the likely unforeseen increase in trading costs is necessary if the private markets are to maintain the perceived competitive advantage that they seem to enjoy over the newly established NSSS.

7.4 The perception of the ordinary workers

This part of our report is crucial in that the salient characteristic features of the Zimbabwean pensions market are brought to light within the scope of statistical examination. It is in doing so that future developments, central to the development of any market and in particular the Zimbabwean market, can be predicted with reasonable accuracy. And lastly, it is this group that has the electoral muscle to influence the legislative direction in future pensions (inclusive of state pensions) policy developments. The order by which we discuss these issues does not necessarily reflect any order of preference or importance.

7.4.1 Familiarity with the Act and NSSS rules

The results were largely generated from responses to questions fourteen of our survey questionnaire and interpreted within the context of the over all statistical pattern, generated from other ancillary questions. The respondents were asked how conversant they were with the national insurance governing Act and other pension rules. As the results in table 7.15 show, there is, a large percentage of people ignorant of the Act of parliament giving them rights under a national social insurance scheme and the rules alike. There were a lot of people reporting ignorance about refunding of contributions.

Table 7.15: Workers' conversancy on the NSSA Act and other rules

	Responses in %			
Question 14	Not at all	Average	Very good	Excellent
Females	33.167%	5.804%	3.317%	2.488%
Males	31.509%	8.478%	9.121%	5.970%
Total	64.676%	14.282%	12.438%	8.458%

When questions 14(c) and 14(d) are analysed within the context of age groups, a clear pattern emerges that justifies the younger employees, far from retirement or in the middle of their employment careers are more informed about the scheme rules than the much older about to retire. We would like to believe that the younger employees though not in the “born free”⁷ category had received more formal education than their older colleagues.

⁷ The “born free” is a term used in Zimbabwe to refer all those people born after independence of Zimbabwe from Britain in 1980.

Table 7.16: Age breakdown to workers' understanding of rules

Age	17-30		31-40		41-50		51+	
Question 14(c)	Yes	No	Yes	No	Yes	No	Yes	No
	20.6%	8.3%	14.1%	15.9%	6.6%	15.6%	5%	24.1%
Question 14(d)	21.6	7.1	13.8	16.3	7.3%	14.9	8.3	10.8%
	%	%	%	%		%	%	
% Of total sample	28%		30%		22.2		19.1	

Because of the mere size of the people that fall within the category that is not confident with the pension rules, it is more than inevitable that it is a requirement that the government adopts a positive policy towards disseminating information that promotes more than awareness of the various scheme rules.

7.4.2 Desired NSSS reforms

In questions 17 and 18 the respondents were asked open questions about desired reforms and impact of the NSSS to the pensions market. The factors scoring more than 5% of mention are discussed individually, while the rest fall under the "others" category. A summary of the relevant statistics is shown in figure 7.4 below.

More than thirty-nine percent of the respondents felt strongly that the present financing of the scheme is flawed in that the actual pecuniary contribution of the

government to the scheme was unclear. They are right for evidence at hand is clear that the government does not contribute to the pension stakes of individuals just as does the employees and the employers. The general opinion is clear that the average employee would have liked a scenario where the treasury contributed a certain percentage of each employee's earnings. That is to say, for instance for every dollar contributed by the employee, let the government through treasury or other forms of some credits match that contribution by say one and half times or what ever matching percentage that could be agreed upon.

The second most cited issue of interest that is evident from the workers' concerns is that of personal records kept by the national scheme. We acknowledge the difficulty that individuals face in keeping record of their individual contributions to the national scheme. The NSSS as a good gesture and part of good governance with transparent record keeping should seriously consider issuing out to individual members annually updated certificates detailing out the national insurance contributions paid to any one date. Or as an alternative the government should make it compulsory that employers through pay slips keep individual employees posted about their contributions to the national scheme. It could also prove very helpful to the employees if the authorities were to consider making it a compulsory act to transfer national pension records from a previous employer to the most current.

We recognise some of the potential problems that may be faced as a result of some of these recommendations we are making here. Most notable is the crisis that may arise in the eventuality of a company going bust and more so when it crushes like a bomb without prior warning to all the interested stakeholders. Other logistical problems lie

with the NSSS itself as an organisation. For example there is a quite sizeable number of people reporting having erroneously been issued with two or more social security numbers.

The government’s self- given prerogative to choose who amongst the workers must or must not contribute⁸ to the compulsory scheme is an issue raised by many workers. That the government and certain quasi government employees are excluded from the list of employees compulsorily required to be members of the national scheme raises shreds of suspicion to the effect that national insurance contributions are just another form of stealth taxes. It is evident that this exclusion of certain worker categories from membership into the NSSS is not popular and is viewed with utmost suspicion.

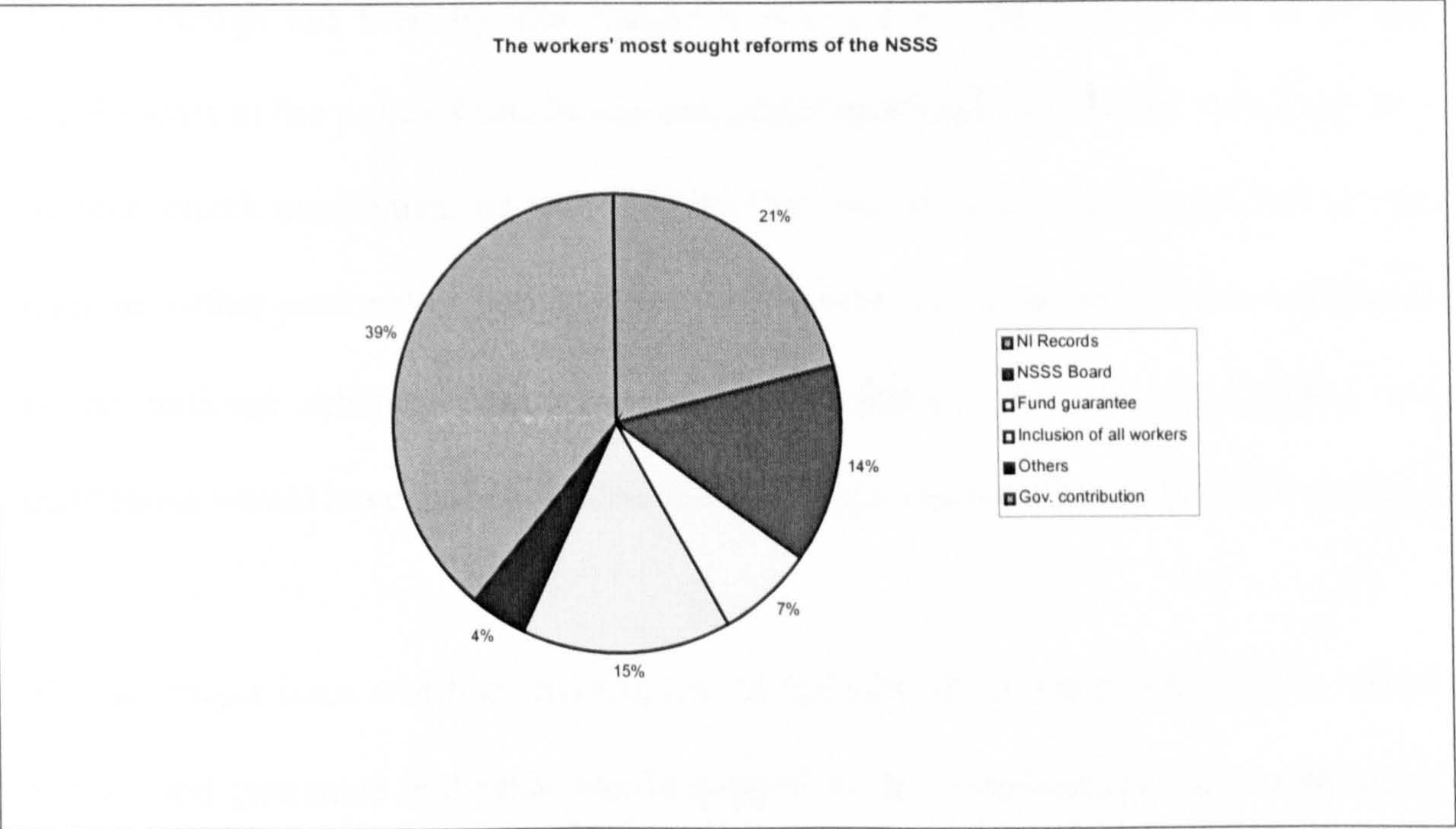


Figure 7.4

⁸ See the government’s statutory instrument number 393 of 1993 for the full list of organisations with employees exempt from contributing into the NSSS.

Many respondents cited the Board responsible for the running of the national scheme as a factor needing urgent reform to boost the performance of the pensions market. While we could not establish the reasons behind having the government having the exclusive monopoly and sole responsibility for the formation, operation and regulating the NSSS, we find a clear cut per se concern by the workers for the present arrangement that clearly does not involve them in the running of the national scheme. As a funded scheme, the NSSS ought have an independent board of directors that would represent the interests of the employers, employees and the government alike. An independent Board would ensure that the interests of all the stakeholders are not compromised for the benefit of short-term political goals.

Lastly, though not least by any standards whatsoever, the involvement of all the stakeholders in the policy formulation and administration of the NSSS would act as a counter- check mechanism on those organs that can potentially abuse the public platform to further personal or political gains at the expense of the intended beneficiaries to the national scheme. And we need not emphasise that naturally people and institutions would have more confidence in organisations run with open transparency.

The last major issue worth discussing that is mentioned by many respondents relates to the fund guarantee and what would happen to the beneficiaries and contributing members alike in the event of the NSSS becoming insolvent and impractical to subsidise through taxes or other treasury means. While chances of a government becoming insolvent are quite remote in the normal circumstances, it is quite interesting by virtue of the number of times that this issue comes up from the people, there is a realistic chance that the NSSS may find itself unable to meet its financial

obligations. Without emphasising the economic disparity at the time the survey was done, there is a potential actuarial debt that can blossom into unsustainable magnitudes thereby leaving members and beneficiaries exposed to the same risks that they would have done so much sacrifice of their hard-earned cash. As we said in chapter four, the present statutory provisions are silent on how this potential debt would be financed in the eventuality of that happening. There is no scientific estimation that has been done on the potential debt of the national fund or when it is likely to start manifesting itself. The debt concerns make a sound qualitative debate that can have equally scintillating theoretical projections.

7.4.3 Retirement scheme satisfaction

In question 8 the respondents were asked to rate satisfaction perceived from pension insurance cover provided by the state, employers and those that could be privately purchased. The rating scores were in terms of security and value for money. The employees were asked to rate in terms of approval the different pension plans, by giving score marks between zero and four, where the latter score signalled excellent satisfaction. The former score, of zero, marked a very poor satisfaction. The employees were encouraged to make their utmost intuitive evaluations. The results are provided in table 7.17.

Views with regard to the confidence in the NSSS are diverse and interesting. First and foremost we note that on relative figures it is those members of the sample who neither belong to an occupational pension scheme nor have other retirement provisions in place, that report certainly more than marginal satisfaction with the national scheme. On the other hand, those members of the sample who have either

other retirement provisions in place or belong to company- sponsored occupational schemes have put relatively very low scores to the national scheme. The most likely reasonable explanation to this variance of opinion is that those people who have other retirement provisions in place have become so much ingrained into those other provisions that introducing another vehicle into their retirement equations would certainly be met with some resistance. More over the loyalty that people have in certain institutions tend to obscure their rational judgements towards other institutions that they may perceive as rivalling the older established ones.

The state scheme scored poorly both in terms of satisfaction and value for money. The fact that there was no total disregard for the state scheme shows that it is a relevant pillar of retirement provision in some segments of the market. The high regard for the employer- provided pension cover explains the confidence that has been acquired by a large percentage of the population.

Table 7.17: Saving instruments evaluations in terms of security and value for money

		Degree of satisfaction with a particular scheme					Total
Type of scheme		Excellent	Very Good	Average	Poor	Very poor	
NSSS	Security	3%	13%	47%	31%	6%	100%
	Value for money	18%	26%	40%	12%	4%	100%
ESOPS	Security	56%	31%	11%	2%	0%	100%
	Value for money	63%	27%	10%	0%	0%	100%
PAPPS	Security	30%	26%	30%	11%	3%	100%
	Value for money	30%	26%	34%	8%	2%	100%

Note: The ESOPS is the employer-sponsored occupational pension scheme and the PAPPS are the private arranged personal pension schemes.

7.4.4 Effects of the NSSS on the workers’ welfare

To simplify our approach to this issue we had to use a “no or yes or do not know” approach in soliciting information pertaining to perceived welfare gains as a result of the introduction of the NSSS. Unsurprising to us, the results computed mainly from question eighteen of our survey questionnaire show a very big consistence with the other results and observations that we have already made.

We note that despite all the brilliant graphical demonstrations that can be made to explain the economics of welfare gains and losses, individuals have justifiable

difficulty in quantifying or putting to scale the levels of welfare gains/losses emanating from the introduction of an economic or social variable such as is the case with the NSSS. In table 7.18 below we show a simple summary of the results as reported by the people. The results may not be a true reflection of the actual gains/losses that the national scheme has brought upon the people of Zimbabwe, as to start with, we had difficulty ourselves with coming up with appropriate native terms to describe what we meant by welfare gains/losses.

Table 7.18: Does the NSSS bring welfare gains to the workers?

Age groups (Years)	Positive gains		Negative gains		Don't know		Sample %	
	Men	Women	Men	Women	Men	Women	Men	Women
17-30	30%	35%	59%	55%	11%	10%	14.26%	14.42%
31-40	33%	37%	55%	51%	12%	13%	14.43%	15.59%
41-.50	32%	40%	54%	48%	14%	12%	12.6%	9.62%
51-60	38%	44%	49%	45%	13%	11%	11.77%	5.31%
61 and above.	43%	46%	45%	44%	12%	10%	1.82%	0

From the table results above it is clear that it is those employees in higher ages that report higher welfare gains emanating from the introduction of the national scheme. It is those people who are well into their working lives and with neither a company sponsored scheme or any other sizeable retirement plan options that report that they perceive big welfare gains from the NSSS. On the other hand, we note that there is a significant percentage that said they do “not know” in their responses. Very few people were being elaborate on questions in this section and we believe that the complexity and lack of a depth understanding of the concepts of welfare gains goes a long way in explaining the pattern of responses to this section. Notwithstanding what

we have said so far about the welfare gains/losses perceived by the people, the only picture that emerges and is indisputable is that it is still too early to make true reflective judgements about welfare gains/losses resulting from the introduction of the NSSS into the Zimbabwean economy.

7.4.5 Effect of the NSSS on worker mobility

The workers were asked to file six labour factors in order of the most likely to influence their move from one job to the other. In addition to the six factors suggested in the questionnaire, they were also given the option to add their own factors. The inclusion of this part of the survey questionnaire was in line with the indisputable consensus amongst the various institutions with interest in the workers including of course the International Labour Organisation (ILO) that putting retirement plans in place for every worker is a positive development. Apart from security that is guaranteed by membership to a public pension scheme, the issue of worker independency that encompasses mobility freedom is an important object of a national scheme. The puzzling challenge and question is whether or not that the national schemes do give the workers that freedom of mobility that includes amongst other things the right to change employments and or sectors of employment. In theory at least, in efficient markets, retirement plan provisions must be one of the major variables in determining labour mobility.

As is clear from the tabulated results in table 7.19 the issue of pensions as a factor in determining labour mobility, scores relatively poor, compared to other factors. That is true for both state and private pensions. It is amazing that employers more often than not splash eye catching job advertisements sighting “attractive and generous pension

benefits” as the reason why their potential employees must consider the option of joining their firms, yet we seem not to find compelling evidence that pension benefits are a strong recruitment bait, particularly in Zimbabwe and specifically in the low income earners. The state pensions alone, is poorly perceived as an irrelevancy in short-term employment mobility and more evidently by the young class.

It is mostly employees that are above the age of forty years that choose pension benefits as the first choice factor that is most likely to influence their decision to move from one employer to the other. On the other hand, the younger people are more concerned with salaries followed by job security. There is no obvious explanation to this variance in preferences. But it is very clear that the position in one’s life cycle is an important variable in determining the labour factors that individuals perceive to be instrumental in determining their employment destinies. The nearness to one’s retirement “post” probably stimulates one’s awareness to the risk of income loss due to old-age and hence the reason why the older generations are most likely to choose retirement benefits as the first preference in making job mobility decisions.

Table 7.19: The rating of the NSSS as a factor in the labour mobility

	Labour factors %													
Preferences	Salary		Holiday benefits		Flexible hours		Job security		Private pension		NSSS		Others	
	LT	ST	LT	ST	LT	ST	LT	ST	LT	ST	LT	ST		
First choice	24	14	3	1	6	2	15	6	19	9	3	0	4	
2 nd Choice	20	9	2	2	8	3	16	7	22	9	1	0	1	
3 rd Choice	7	13	6	2	11	6	24	12	11	7	1	0	0	
4 th Choice	3	1	11	6	23	14	17	9	6	3	5	2	0	
5 th Choice	0	2	18	9	14	16	12	10	2	3	8	4	0	
6 th Choice	0	2	15	19	11	14	10	7	0	0	19	3	0	

N.B In table 7.7 LT and LS are the long-term and short-term considerations. The percentages in each box represent the proportion of the sample choosing that factor.

There are more females than men who perceive pension rights as a first fundamental consideration before moving from one employment to the other. The relevance of the national occupational pension scheme to the decision making in terms of job mobility is ironically very insignificant with less than ten percent of people of all sexes putting down NSSS in the first three preferences in our survey. The NSSS as has been said before, is by and large very generous in terms of benefits formulae to be used in calculating benefits receivable compared to other schemes offered in the market. It is thus very strange to some extent that despite the NSSS being less costly in terms of premium paid directly by the employee, it does not pull so much economic influence in the decision- making within the labour market mobility.

7.4.6 Tax and other factors

Here we look into the vital variable factor of taxation and other ancillary factors that are crucial to creating a people friendly retirement plan policy. There was substantial number of people who felt strongly that there is a need to revisit the tax status of the National Insurance contributions. Whereas those people with life assurance policies do not pay tax on the premiums the state pension contributions are not a tax deductible. That at least sixty percent of people would perceive the national insurance scheme differently if the national insurance contributions were a tax-deductible is evidence enough to suggest that part of why the NSSS is viewed gloomily is precisely part function of this perception of state pension contributions being compulsory taxes. It is amazing that people would still resist paying taxes even if those taxes are meant to benefit them directly and given a chance would avoid them.

We also note that it is those people on relatively very low salaries that feel strongly that national insurance contributions must be a tax-deductible. It is not clear if marital status has any effect on the views with regard to national insurance contributions. At least in theory we would have expected married households to express more concern with tax deductibility of N.I contributions for on average a married couple pay a potential six percent of the households' gross incomes to the NSSS.

That the statutes are silent on whether the benefits payable under the NSSSS are subject to tax makes an interesting observation in view of the concerns expressed by many people. While an insignificant percentage of people specifically expressed their concerns about the possibility of being taxed twice, there is no implication that the double taxation is a general issue of concern to many. As people become more

informed, it will undoubtedly become a cause for concern. It is thus imperative that as part of developing a pensions market, the authorities must come out with explicit policies that do not leave the recipients with questions hanging over their minds about certain vital variables of the market.

We also note that the treatment of national insurance contributions is not different from that of any of the retirement premiums paid by people with private retirement plans. There is in our opinion a strong case for political lobby to change the treatment of NI contributions if the national scheme is to benefit in terms of positive image.

7.5 Broader general market observations

The Zimbabwean market is a relatively new and developing market whose full potential is yet to be fully realised. It is on comparison terms to the British and other western markets standards, an incomplete market. The pensions wealth despite its relevancy in so far as individual household wealth is concerned is not held with such high- esteem, as is the case with both public and private pensions in say Britain or USA. There are various economic, social, political and anthropological explanations to the Zimbabwean experience, which are themselves, fundamentally different from the experiences that the United Kingdom has gone through in its history.

It is interesting to note that it has taken the British market and in particular the London pensions market some generations to progress to the level where it is today, yet it is still undergoing some transformations and ambiguities on certain issues continue to date to concern the financial services regulators and investors alike. It is in trying to get where the London pensions market is today overnight that may undo the

Zimbabwean pensions market development rather than the coming to the market of the state pension scheme. The London market has been co- existing with the PAYG national insurance scheme for more than fifty years now and yet it has continued to develop and grow into the biggest financial centre in Europe. The Zimbabwean pensions market can as such forge a successful development and grow to become a financial model in Africa despite the emergence of the NSSS.

The private pensions markets and the government alike have a mammoth obligation that is both moral and economic in helping develop, promote and facilitate in the education of people on the need to save both in the short and long term. There is need to develop a culture of saving and in particular precautionary saving in view of the increasing breakdown of the extended family systems. The government and the private sector should, in the circumstances, develop and fund joint or closely co-ordinated strategies aimed at boosting low-scale household saving with guarantees of minimum returns and other incentives⁹. Unless there is a general culture of saving in the population, the local savings markets will continue to be thin and squeezed for the naturally available business. In a way there is need for an induced demand for saving and that can only be achieved if people understand the need for such saving and the national government supports the need for such a cause.

Turning back to theoretical considerations of this report, and in particular the political theories considered in chapter three, the present scenario wherein the middle class workers contribute barely a percent of their occupational earnings to the NSSS when

⁹ Like for example the British National Savings Scheme that gives lottery style monthly cash backs to randomly picked savers.

on the other hand the working-class pay almost if not the full three percent of their earnings to the national scheme defeats the distributive motive so often more than not used to justify the existence of such public enterprises as the NSSS. Instead of the socially well-off paying more in terms of NSSS contributions as a percentage of earnings, so as to realise that distributive effect, the present set up does not provide the required framework for the resources to be channelled from the relatively rich to the poor.

The workers' consolidation and solidarity is failed by the NSSS' exclusion of a large spectrum of employees from participating in the state pensions programme. The NSSS should not have a discretionary membership if the solidarity of workers that the trade unions so much acclamer for.

There is also an urgent need to improve literacy and understanding of the operations, rights and obligations that employees have as a result of the emergence of the state scheme. The national scheme must in so doing endeavour to produce a simplified versions of the Act and rules of the NSSS. It could also benefit many employees if the English versions of the Act and rules were translated into local languages best understood by the ordinary employees that constitute a bulk of workforce.

7.6 Conclusion

We have in this chapter discussed the various factors that explain the observed saving behaviour of both the working and middle-income workers in Zimbabwe. We have argued that despite a relative positive appreciation by the lowly paid workers, the NSSS has not had the striking negative impact to the saving trends by individuals.

The effect of the NSSS to the retirement plans of the middle-income earners is insignificant and statistically irrelevant. We have also demonstrated beyond any reasonable doubt that there are various economic, social and political factors that explain the individual saving trends and perception to the establishment of the NSSS. The inherent flaws in the structure and running of the national scheme as perceived by various social groups that matter in the Zimbabwean market have been carefully noted and discussed. Market issues peculiar to Zimbabwe have been noted with interest.

CHAPTER EIGHT

Suggestions to improve NSSS, conclusions, limitations and further research

This chapter is a web of all the different subjects and issues that have been raised, noted and discussed through out this thesis. It draws together all the essential paradigms that have been learned while pursuing this research. It is an attempt to bring together, in a nutshell, all the various components material to this report so that this thesis can be visualised as a neat coherent study of a complex subject that borrows many a times from different aspects of economics, academia, political, and other schools of inclination as we have shown through out this study. More importantly this chapter seeks to make recommendations on how the state scheme can be improved for the benefit of the development of the pensions market.

8.1 Suggested reforms to the NSSS

There are many aspects of the national scheme that we felt important that they be reformed. First and most crucially, the state scheme must be revolutionised from its foundation perspective as to reflective its overall social and economic goals. As things stand at the moment, it is very vague as to how the NSSS intends to meet its social justice goals in pursuance of the ultimate government of redressing social injustice largely blamed on colonialism and repressive white minority rule that ended in 1980. The economic goals have to be taken in the context and pursuance of the government's economic policy. The investment of the funds of the national scheme contradicts to a large extent with the spirit of privatisation and financial freedom in the allocation of financial resources. The fact that the government already enjoys 20% investment leverage from private pension scheme must be a cause for concern given the magnitude of the funds that the state has control of in the form of the NSSS

premiums. It would make more financial responsibility if the government were to consider reducing the size of investment portfolio under its control.

The other issue that needs urgent attention is policy awareness of the state scheme. As we said in our report, there are many people that are not well informed about how the NSSS was formed, its obligations and their rights as the assured public. The government needs to adopt a strategy that will help educate and disseminate information about the state scheme. There is also a need to simplify the available literature about the state scheme and its rules. A very high percentage of people would struggle to work out their pension benefits or other entitlements from the NSSS. That being the case, it is important that the state scheme must develop and distribute literature explaining how NSSS benefits are worked out, using given formulae. It would also make a difference if the published literature could be translated into local languages that are understood by the majority of the workers.

There is a massive need to improve the image of the state scheme and make it the pride and corner stone of the assured public's social security. To achieve that, it may be necessary to reform the composition of the board and culture of management in the state scheme. The government could for instance, invite representatives of the employers' federation and workers' unions to sit on the board running the state scheme. In that way, both the workers and employers' councils would feel involved and that would go a long way in promoting the image of the NSSS. Apart from the image promotion, such a move would help build confidence in the state scheme. As we said in the report, there are many people whose confidence in the state scheme is very low.

With regard to pension contributions, there is a need to constantly review contribution levels to reflect the financial soundness of the state scheme. It would be a courageous and reasonable thing to do if the NSSS could do away with maximum contribution capping. In that way the contribution levels would be reflective of salary increases at the same time accounting for the income redistribution between the high earners and low earners. The latter would be in line with the government's social justice objective.

The contribution records of employees are not communicated to the assured public in clear channel. It would as such be a good thing to do, to keep the individual assured members informed of their total contributions up to a particular date. In that way the employees would be in a position to make informed choices about value for money derived from the state scheme.

8.2 Conclusions

The various schools of thought that seek to address the issue of social justice and their priorities were carefully noted after a careful discussion and examination of their relevance in so far as the Zimbabwean scenario is concerned. The abstract theories, developed mainly by the Western academics to explain the origins and philosophies behind the various approaches to social security have been explained and their applicability to Zimbabwe carefully scrutinised.

We have shown not only in chapter three but through out the thesis also that the Zimbabwean pensions markets and in particular the NSSS has been shaped by an interface metamorphosis of politics and economics that reflect both the colonial legacy and present government's dilemma in redressing social injustice that has

accrued over many generations. The theoretical concerns of adopting a national occupational pension scheme as modelled in the NSSS have been highlighted. The weaknesses inherent in the design of the NSSS and in particular the flawed contribution and scheme membership requirements have been discussed exhaustively. We have no doubt, as we mentioned in chapters four and five, that the ambitious benefit plan that is offered by the NSSS will present the national scheme with dramatic financial problems as the scheme develops to maturity unless the funding of the scheme and its entire financing policy are changed before it is too late.

The Zimbabwean pensions policy, inclusive of the mandatory occupational state pensions scheme, is borne of a complex combination of political, economic, anthropological, and legal forces. The economic and political forces have played a greater role than other considerations in shaping the developments that have taken place in the Zimbabwean pensions markets. While it is difficult to make a precise account of the exact percentage roles in this respect, what is beyond dispute is that the political interests disguised under the different political philosophies have had a greater influence in so far as the events and developments that have taken place in Zimbabwe are concerned. We have also argued in this report that the group of recipients that the government has targeted in its so-called first phase programme of the scheme is grossly unjust, ill conceived, unnecessary and does little if ever something at all, in meeting the government's social and economic programme that it launched in 1999.

The importance of the relevancy and legacy of the British influence in the Zimbabwean market, hence inter alia our inclusion of a detailed account of the

development of the British old-age social security system in chapter three, has been carefully emphasised in this report. It has been shown that despite many calls, particularly from the old remnants of the society that believe in the “British way of doing things” for the NSSS to be modelled along the British experiences, there is a clear difference in the circumstances that led to the formation of the BSSS¹ from the Zimbabwean encounters. We have dismissed the popular notion in Zimbabwe, and to be precise, that of using the British as both the yardstick of measure and reference point as an irrelevance.

However, the compromise that has led to a spurious blend of Marxist and liberals’ principles has also been noted with interest. It is in fact, this “unholy” blend that has been used by some unprofessional hands in the running of the national scheme to further individuals’ political agendas. We argue and in particular in chapter four and generally through out the thesis that the NSSS has been imposed to everybody in Zimbabwe so much that it is misunderstood by many and disproportionately unappreciated by the middle-class in particular. It is this imposition that in addition to other government mishaps in forming and subsequent running of the national scheme that has at times obscured the general good intents of according a descent retirement for everybody, a position that everybody in Zimbabwe so wishes and cherishes.

It was no sooner than later that the government intentions of establishing the NSSS were announced that the uncertainties that would be caused by the NSSS not only to the private markets but also to the individuals’ saving patterns started dominating the debates about the subsequent launch of the national scheme. The ultimate effect of the

¹ British Social Security System that includes state pensions

NSSS to the institutions and individuals, core to the pensions markets is a subject that we have reviewed with vigour. This report has shown through the various chapters that the NSSS has so far not presented any ruinous effects to the established pension schemes.

This thesis has and in particular chapter five demonstrated convincingly that the NSSS has some technical flaws in its design and structure that at least in theory, will lead to employees not realising a true potential of their savings. We have argued that the early beneficiaries as the scheme matures will most likely get more than generous returns on their savings. But with scheme approaching its peak in maturity, the cost of financing the promised benefits will spiral to unprecedented levels thereby hitting hard those on low and moderate income. That surge in cost of funding has been explained in terms of an implicit long- term debt that the government's inefficient resource allocation of the NSSS' funds is causing. The qualitative assessment of the NSSS leaves us in no doubt that the compulsory scheme is a financial time bomb whose explosion will be hard hitting not only to the present employees but to the future employees as well, causing a credibility blow of the national scheme whose prime object is to help the workers of Zimbabwe.

The results of our fieldwork in Zimbabwe, and in particular the survey results, confirm what we had not suspected at the beginning of this research, that the NSSS has not had the devastating effect on both the demand for private saving and actual saving behaviour of the middle and working-classes. Our results show that the impact of the NSSS to the middle-class employees is very low and in some instances very insignificant. It is however relatively significant to the working-class that has

expressed some positive appreciation of the national scheme. The working-class for whatever reason, show a disappointingly low propensity to save. Because the national insurance contributions as a percentage of an average middle-income earner's salary is about 0.9%, it is found to be very insignificant as an expenditure factor and more so when directly computed against other expenses such as mortgage, life assurance policies and so forth. It is precisely for such reasons that we fail to find compelling statistical evidence from our selected samples to justify the hypothesis that state pensions depress the demand for conventional saving instruments provided by the private pensions markets. We have in fact, found that the immediate period following the introduction of the NSSS had one of the most positive demands for private pensions, with the already insured revising the extent of cover.

We have also failed to find any significant threats to the actual and potential saving or reduction in the private markets as a result of the introduction of the NSSS. The national scheme has not been fully endorsed by the general public as a credible alternative investment vehicle that can substitute for the conventional approaches provided by the private markets. The level of that rejection is more clearer in the middle-income workers whose anthropological past and present explains to some extent the perceived attitude towards the national scheme that judged by its benefit proposals is indeed generous by Zimbabwean standard.

In this report we have illustrated how the political, social and economic forces have interplayed on each other as if in a cobweb to produce the present state of the Zimbabwean pensions market. The uncertainty about the future and direction of development of the NSSS has not been emphasised less in this report. The theoretical

perspectives, discussed particularly in chapter three show little absolute relevance in explaining the social insurance developments in Zimbabwe. Where however that happens, there is a risk that it may have been a coincidence of macro-political collinearity than a well planned and executed policy of intent. That position has not been made any better by the government's unstable "choose and mix" economic and political ideology.

Despite all what we have said so far in this chapter, this research did not progress to this level without encountering difficulties that at times meant that we had to change our methodologies to suit certain circumstances. The lack of previously published secondary data meant that we had to dig into the historical archives and cross-reference with other disciplines in order to come up with a suitable framework upon which to understand the Zimbabwean pensions market in general and the NSSS in particular. The scepticism and lack of co-operation by some government officials meant that at times we had to do with half-truths and speculative judgements. As if that was not enough, we found some government reports that were incomplete and at times fraught with errors of principles that forced us to engage in bureaucratic correspondences with the sources of documents so that certain crucial issues could be clarified and official positions established.

The lack of reliable primary statistical data forced us to resort to carrying out surveys ourselves to obtain certain essential population characteristics. Unlike most of the previous related researches of this kind in other countries that use data previously collected and collated by other researchers outside this area of study, our data may be biased to some extent in that our questionnaire was drawn up specifically with this

and only this research in mind. We also need not emphasise that our data and hence our results reflect the present and perceived future not necessarily what will happen as a matter of established fact.

This report will act as both a good guidance and foundation for future researches in the area of state pensions insurance and the private pensions insurance in Zimbabwe. It will in our view stimulate further debate and interest in the subject of the NSSS and the pensions provision at large. It is a good reading for both academic and business readers trying to get an insight into the Zimbabwe pensions market following the introduction of the compulsory state scheme.

It would be interesting to make a follow up research using different data and approach in a few years time and see whether our observations will still be holding true. It would be equally interesting to institute further research in this area of state pensions and saving in private markets from a different perspective. Approaching this research from a pure actuarial principles perspective may give a different or a clearer picture of the Zimbabwean private pensions markets and the NSSS.

Appendix A: Incidental facts about Zimbabwe

Appendix A1: Population distribution in Zimbabwe

Sector	Percentage of total population	
	Females	Males
Communal lands	32.4	19.92
Large scale commercial farming	6	5.7
Small scale commercial farming	0.7	1
Resettlement areas	2	1.8
State Land	0.25	0.23
Urban Areas	14	16
Total	55.35	44.65

Source: Various sources and Central Statistical Office

Appendix A2: Workforce, sectors, and pension cover

	Number (000)	% with occupational insurance and pension		
		NSSS	Employers' scheme	Others
Mining	231.4	12	100	2
Agricultural	345.6	0	9	0
Manufacturing	186.3	10	21	3
Service sector	123.2	90	94	8
Informal sector	211.3	4	N/a	7

Source: Various

Note that the employment figures include contract and casual employees who are not obliged to contribute to the NSSS.

APPENDIX B

This survey is purely an academic exercise, aimed at soliciting information that will enable us to disentangle and document the complex process and factors of the NSSS that impinge directly to you, or your family and the society at large. I/We would appreciate all the assistance that you can offer by sparing a few minutes of your time answering the following questions.

Survey Number..... Date of call.....
Interviewer.....
City.....

PART ONE: BASIC INFORMATION

I/We would like to ask you a few questions about yourself and personal background.

- 1. Occupation/ position in the firm.....
- 2. Sex.....
- 3. Age Marital status.....
- 4. Period in this employment.....
- 5 Do you have more than one job? Yes/ No
 - (a) 2nd Job-----
 - (b) 3rd Job-----
 - (c) Other (specify)

6. Which of the following best describes your educational attainment?

- (a) No formal education.....
- (b) 1st Degree-----
- (c) Post-graduate qualification-----
- (d) Professional qualification only -----

7. How many dependants do you have? -----

8 Do you own the house you live in Yes No

- (a) What is its market value?.....
- (b) If you are a tenant, how much rent do you pay?.....
- (c) Do you own any other house?.....
- (d) What is its market value?.....

9 Would you consider yourself to be a health and fit person?

PART TWO: THE QUESTIONNAIRE

I/We will now ask you personal questions about the National Social Security Scheme (NSSS) and your personal saving towards old age and retirement plans.

1. When did you first here of the NSSS?.....

- (a) What was your immediate reaction when the NSSS was first introduced into the pensions/labour market as a compulsory scheme?
.....

(b) Do you think 3% of your monthly salary paid towards the NSSS is a fair premium/price for the benefits you will get? Yes/No/Don't know

(c) We/I would like you to tell us about what you think of the following statement, tick one box only: NSSS would be a strong factor before purchasing a retirement plan.

Agree

Strongly agree

Don't know

Disagree

Strongly disagree

(d) Apart from the state insurance scheme, are you a member of any other occupational scheme?

2 Is it a compulsory scheme if you have answered in the affirmative in 1(d) above?
.....

3 Are you a member of any other retirement pension plan?

(a) What percentage of your monthly salary do you pay towards that pension plan?
.....

4 Do you contribute more than the mandatory 3% to the National Insurance scheme?
Yes/No/Don't know

(a) If so, what % of your salary do you pay towards this extra contribution to the NSSS?-----

(b) In order of preference, kindly state your preferred retirement saving instrument listed below.

Type of saving	Choice
State pension plan, i.e. NSSF	
Private pension plan	
Company occupational pension plan	
Estate and housing	
Others	

5 What percentage of your monthly salary do you contribute towards your firm’s private pension scheme?

6 What percentage of your monthly salary do you pay towards non-conventional retirement provision plans? -----

7. Do you have any other retirement provisions other than as covered above?

(a) If you have answered in the affirmative, what % of your salary do you pay towards these other retirement provisions?

8 How would you rate the following retirement schemes in terms of satisfaction?

8.1 The NSSF (a) Security:

(b) Value for money

8.2 Company sponsored scheme

(a) Security

(b) Value for money	<input type="text" value="0"/>	<input type="text" value="1"/>	<input type="text" value="2"/>	<input type="text" value="3"/>	<input type="text" value="4"/>
(c) PAPP Schemes	<input type="text" value="0"/>	<input type="text" value="1"/>	<input type="text" value="2"/>	<input type="text" value="3"/>	<input type="text" value="4"/>

N.B The degree of satisfaction is assumed to be in ascent form.

8.3 Do you have any comment about confidence in the retirement vehicles above?

.....

9 Do you expect to continue in active employment after attaining the State retirement age?

(a) Any particular reason to explain your decision above?

(b) At what age do you expect to retire?

10 Do you expect to retire in to the rural community or continue to live in the urban?

(a) Do you have any particular reason(s) about your choice of retirement?

.....

.....

(b) If your retirement choice is not urban or rural were would you want to spend your retirement life?

11 Do you want to leave the country after retirement?

(a) I f you were to leave the country, which country would be your most desired destination?

Do you have any specific, or rather particular reasons as to your choice above?

.....
.....

12 If you were to make a budgetary allocation based on the hypothetical figures as presented in the table below, how much money from each band will you be prepared to spend on pension provision by the state, your employer and the private pensions insurance markets?

Allotment	State pension	Occupational pension	Private markets	Other	Actual spent On NSSS
\$1000					
\$2000					
\$3000					
\$4000					
\$5000					
\$6000					
\$7000					
\$8000					
\$9000					
\$10000					

12.1 We/I would like you to tick the box representing your salary range and state how much you spend on NSSS and company pension scheme if you are a member of one.

Salary range	NSSS	Company scheme	Other
\$25000-\$30000			
\$31000-\$35000			
\$36000-\$40000			
\$41000-\$45000			
\$46000-\$50000			
\$51000-\$55000			
\$56000-\$60000			
\$61000-\$65000			
\$66000-\$70000			
\$71000-\$75000			
\$76000-\$85000			
\$86000-\$95000			
\$96000-\$105000			
\$106000-\$115000			
\$116000-\$125000			
\$126000-\$135000			
\$136000-\$145000			
\$146000-\$155000			

13. How often do you compare your pension provision(s) including the national pension provision with that of your peers?

Never

Once

Regularly

14. How conversant are you with NSSA Act (1989) and the state pension rules?

Not at all	Average	Very good
Excellent		

(a) If you were to be entitled to a benefit payable under NSSS today, will you be able to calculate on your own how much benefit you are entitled to?

(b) Any other comment about benefit calculations?

.....
.....

- (c) Do you know that your contributions to the NSSS are refundable together with interest? Yes/No
- (d) Are you aware that there are other benefits other than retirement benefits from the NSSS? Yes/ No

15. What would you consider to be the single most important factor that can entice you to make a pension provision or contribute to a retirement plan?

.....

PART THREE: GENERAL MARKET

I/ We will now ask you general questions about the pensions market and your perceptions, particularly the relationship between the NSSS and the private schemes.

15 Do you think that the state pension scheme will improve your welfare?

NO	YES	Do not know
----	-----	-------------

(a) Any other comment you would like to make about welfare gains/losses from the NSSS?.....

16.In order of preference, starting with the most influential factor, how would you rate the following labour factors as forces most likely to influence your choice of employment? N.B Put your choices in the boxes next to each factor.

	Preferences	
	Long- term	Short- term
Labour factors		
Salary		
Holiday benefits		
Flexible working hours		
Job security		
Company pension		
State pension		
Others		

17. What impact do you think the NSSS has in the pensions market?.....

18. What would you consider to be the most urgent reforms needed to make the Zimbabwean pensions market more competitive?

.....

19. If NSSS membership were to be optional, would you still continue to be its member? Yes /No/ Don't know

(a) Do you have any particular comment to make about your answer above?

.....

20. Would you consider the presence of the NSSS before moving to another job?

YFS

NO

Don't know

21. Do you think the conflict between the NSSS and the private markets is real or just academic?

(a) Do you have an opinion that you can state about the relationship between the NSSS and the private schemes?

.....

.....

(b) Do you an opinion that you can state about the demand for private pension schemes vis-à-vis the compulsory NSSS?

.....

.....

22. What other comments do you have about the state pension scheme and/or the private schemes (including the occupational schemes)?

.....

Appendix C: questionnaire used to solicit the views and opinions of the legislators and regulators of the NSSS and pensions market.

This survey is purely an academic exercise, aimed at soliciting information that will enable us to analyse and document the complex progression and factors of the NSSS that impinge directly to you, your organisation/department or the society at large. I/we would appreciate all the assistance that you can offer by sparring a few minutes of your time answering the following questions. We may have sent similar questionnaire/or questionnaires to your colleagues, please complete even if a colleague has already completed one. All the collected data will be treated with strict confidence and no names of individuals or organisations will be identified in the results to be published.

We will appreciate if you can place a tick in the appropriate box or desired response and making your views were requested. Where you have to choose between a "no and yes" responses, kindly delete the inapplicable response. Thank you for your co-operation and time.

Survey number..... Date of call.....

Interviewer.....

City.....

PART ONE: BASIC INFORMATION

We now like to ask you a few questions about yourself and personal background including your organisation/firm. Now tell us about your:

- 1. Occupation..... Sex.....
- 2. Age..... Period in current employment.....
- 3. Type of employer.....
- 4. Rank/position in your department.....
- 5. Which of the following best describes your educational attainment?

No formal education	1 st degree
Post graduate education	Professional qualification

- 6. Would you consider yourself to be a health and fit person?
Yes/No/Don't know
- 7. Marital status.....
- 8. Number of dependants.....

PART TWO: The survey

1. Which of the following do you think best describes your opinion of the impact of the NSSS to the pensions market? Tick one only.

- (a) Positive and good for the market. ☐
- (b) Negative and detrimental to the market. ☐
- (c) Premature to judge ☐
- (d) No impact ☐
- (e) No opinion ☐

1.1 Any other comment that you would like to make?

.....

2. As an employer/person in a position of influence, what was your immediate reaction to the compulsory introduction of the NSSS?

.....

3. Are you happy with the way that the NSSS was introduced into the market?
Yes/No.

3.1 I would like you to tell us what you think about the following statements.

Number	Statement	SA	A	DA	SDA	DK
1.1	The NSSS has disrupted the evolution and operations of the pension schemes in Zimbabwe					
1.2	The government has done little to consider the market interests of the private pension schemes.					
1.3	There is need to amend the NSSSA Act and NSSS rules to reflect the interests of all stakeholders.					
1.4	The direction of the NSSS is obscure					
1.5	My organisation has not been in regular consultation with the state operatives in shaping the direction of the pensions development.					
1.6	My organisation is seeking ways to improve efficiency in the wake of the emergence of the NSSS.					

4. How conversant are you with the law and rules governing the NSSS?

Not at all

Average

Verv good

Excellent

5. Do you feel that there are obstacles to the co-existence of the NSSS and the private pension schemes? Yes/No/ Don't know

6. If you have answered in the affirmative in 4 above, which of the following do you think best describes the major obstacles? Put marks 1-5 in order of preference starting with the most significant with a score of 1.

Conservatism

Negative press

Poor marketing

Market failure & others

Political

6.1 Apart from the factors mentioned in 6 above, which other considerations do you think explain the conflict of co-existence between NSSS and other schemes?

7. What was your expected reaction of the private pension schemes to the introduction of the NSSS?

8. What is your projected life span of the NSSS?

(a) Less than 15 years? ☐ (b) More than 15 years but less than 30 years? ☐

(c) More than 30 years but less than 45 years? ☐ (d) More than 45 years? ☐

(d) Don't know ☐

8.1 Would you like to make any other opinion about the lifespan of the NSSS?

Yes/No

8.1 If you have answered in the affirmative above, kindly let us know your opinion.

9. What are the changes that you would like to see being introduced to the NSSS?

.....

....

10. Are there any other comments that you would like to make about the NSSS and the pensions market?

☐ Yes☐ No

11.1 If you have answered in the affirmative in 10 above, would you kindly let us know them?

Appendix D: Detailed descriptive statistical breakdown.

The sample was based on the workers and executives who agreed to be interviewed during the research for this report. The workers were interviewed from the two biggest cities of Zimbabwe. The interviews for the workers were mainly done in the evening. On the other hand the executives interviews were done during the working hours. The locations of the executives were in Harare, Bulawayo, Gweru and Mutare.

Table D1: population of employees

Total employees interviewed	620
Less spoiled/incomplete responses	17
Total usable population	603

Table D2: Breakdown of employees according to class

Usable population	603	Sex	
		Females	Males
Working class	363	175	188
Middle class	240	96	144
Formal qualification	185	77	108
No formal qualification	418	194	224

Table D3: Period of employment

Less than 5 years	85
5years <10 years	107
10years< 15 years	120
15years< 20years	130
20years< 25years	109
More than 25 years	52

Table D4: Responses to employees having more than one job

Question 5	Yes	Yes	No	No
	Number	%	Number	%
Do you have more than one job?	431	71.48	172	28.52
2 nd job	222	36.82	0	0.00
3 rd job	105	17.41	0	0.00
Others	104	17.25	0	0.00

N.B The most mentioned response under the "others" section response in table D5 is the informal vending in small consumables. Sixty people used cross boarder importing to supplement their incomes. Another twenty-six

relied on rural farm projects to supplement their incomes, while the rest mentioned things ranging from illegal trading of beverages to unprintable sources of income.

Table D5: Employee/dependents ratios

How many dependants do you have?	0	1	2	3	4	5	6	7	8	8>
Females	4%	7%	13%	14%	21%	16%	10%	7%	5%	3%
Males	7%	9%	12%	16%	24%	14%	8%	5%	3%	2%
Average	4%	8%	13%	15%	23%	15%	9%	6%	4%	3%

Table D6: Employee home ownership

Do you own the house you live in	Yes	Yes	No	No
	Number	%	Number	%
Working class	148	40.77	215	59.23
Middle class	157	65.42	83	34.58
Total	305	50.58	298	49.42

Table D7: Accommodation expenses as a % of salary

What % of your salary do you pay towards your accommodation?	10%<	10%>20%	20%>25%	25%>
Working class females	10%	23%	38%	29%
Working class males	7%	19%	42%	32%
Middle-income earners females	13%	24%	34%	29%
Middle-income males	9%	17%	39%	35%
Average	9.75%	20.75%	38.25%	31.25%

N.B the responses to the question of second home ownership have been deliberately omitted as it was established well into the interviews that it is illegal in Zimbabwe to own more than one house in the former black township suburbs where most people still reside.

Table D8: Questions about health

Q9: would you consider yourself to be healthy? --	Yes	No	Don't know
Working class women	65	5	105
Working class men	101	3	84
Middle class women	76	5	15
Middle class men	114	7	23
Total	356	20	227

Table D9: Membership to other pension schemes

Are you a member of any other occupational pension plan?	Yes (Number)	Yes %	No (Number)	No %
Working class women	21	3.48	154	25.54
Middle class women	96	15.92	0	0
Working class men	39	6.47	149	24.71
Middle class men	144	23.88	0	0
Total	255	42.29	348	57.71

Table D10: Chi square results on 1(b)

Chi square	Significance
236.345	0.000

The proposition was that one's social class affects his/her positive responsive to the question of satisfaction with the 3% contribution to the national scheme.

Table D11: Summary of responses to NSSS consideration before purchasing a retirement plan according to income and sex

	AG	SAG	DAG	SDAG	DK
Question 1(c)	%	%	%	%	%
Working class women	12.6	9.8	3	1.7	2
Middle class women	4.1	1.8	2.8	6	1.2
Working class men	10.4	5	4.1	9.6	2
Middle class men	5.5	2.8	5.1	9.3	1.2
Total	32.7	19.4	15.1	26.5	6.3

Table D12: Summary of responses to retirement preferences

Type of saving	Responses							
	1 st choice		2 nd Choice		3 rd Choice		4 th Choice	
	MC	WC	MC	WC	MC	WC	MC	WC
Employers' occupational scheme	60%	45%	35%	33%	10%	15%	0	5%
Private pension plan	9%	21%	12%	27%	30%	12%	45%	14%
State pension	0	12%	5%	10%	45%	33%	50%	45%
Estate and housing	25%	18%	40%	27%	5%	22%	3%	18%
Others	6%	4	8%	3	10%	18	2%	18
Total	100	100	100	100	100	100	100	100

Table D13: Summary to responses to contributions above the mandatory level

	Yes	Yes	No	No	DK	DK
	No.	%	No.	%	No.	%
Working class women	0	0	163	27.03	12	2
Middle class women	0	0	94	15.59	2	0.33
Working class men	0	0	165	27.36	23	3.81
Middle class men	0	0	138	23.88	6	1
Total	0	0	560	92.87	43	7.13

Table D14: Money spent on non- conventional retirement provision (annually)

	Live stock	Burial and charity	Others
Women	1.5%p.a	8%	0.5%
Men	2.5%p.a	10%	0.75%
Total	4%p.a	18%	1.25%

All the responses to question 7 where no, thereby rendering its ancillary questions irrelevant.

Table D15: Saving instruments in terms of security and value for money

		Excellent	Very good	Average	Poor	Very poor
NSSS	Security	3%	13%	47%	31%	6%
	Value for money	18%	26%	40%	12%	4%
ESOPS	Security	56%	31%	11%	2%	0%
	Value for money	63%	27%	10%	0%	0%
PAPPS	Security	30%		30%	11%	3%
	Value for money	30%	26%	34%	8%	2%

The most common comment amongst the low-income employees was that the pension contributions were a form of tax that reduced employees' net income. On average the employees are happy to belong to a pension scheme of some kind.

Table D16: breakdown of employees' conversancy of NSSA Act and other rules

	Level of understanding of the Act and rules			
	Not at all	Average	Very good	Excellent
Females with educational qualification	10%	4.8%	2.5%	2.49%
Females without educational qualification	23.167%	1%	0.82%	0
Males with educational qualification	7.5%	3.95%	8%	5.97%
Males without educational qualification	23.5%	4.5%	1.1%	0
Total	64.7%	14.28%	12.44%	8.46%

Table D17: Chi- square of formal education and understanding of rules

Chi square	Sig.
28.41	0.003

The hypothesis proposition was that those employees with educational qualification were most likely to report that they understood the rules of the NSSS.

Table D18: Effect of NSSS on retirement plans for employees

NSSS would be a strong factor before purchasing a retirement plan	AG	SAG	DAG	SDAG	DK
Females with formal education	1.99%	1%	2.82%	5.80%	1.16%
Females without formal education	13.93%	10.61%	3.48%	2.16%	1.99%
Males with formal education	2.65%	1.49%	3.81%	8.46%	1.49%
Males without formal education	10.95%	5.62%	6.63%	4.31%	9.62%
Total per sample	29.52%	18.72%	16.74%	20.73%	14.26%

TableD19: Expected retirement ages according to sex and age

Retirement age	Females	Males	Total
50 years	4%	6%	9%
50years<55years	7%	5%	12%
55years<60years	6%	8%	14%
60years<65years	10%	12%	22%
65years>	13%	15%	28%
Don't know	10%	5%	15%

Table D20: Pension membership factors

Question 15	Females	Males	Total
Security guarantee	5%	7%	16%
Premium levels	8%	7%	15%
Salary	9%	6%	15%
Maturity of investment	6%	6%	12%
Marital status	7%	5%	12%
Dependency ratio	3%	6%	9%
Type of pension scheme	4%	5%	9%
Tax relief	4%	3%	7%
Others	3%	2%	5%

N.B The most mentioned factor under the "others" column is the place of retirement, followed by the economic conditions.

Table D21: Employees' willingness to join an optional state scheme

Question16: Would you join an optional NSSS?	Yes	No	Don't know
Females	24%	57%	19%
Males	21	58%	21%

Table D22: Breakdown of executive respondents by sector

	Males	Females
Public sector	60	30
Private sector	83	27
Total	143	57

BIBLIOGRAPHY AND REFERENCES

Abel, A.B. (1985) Bequests and social security with Uncertain Lifetimes, American Economic Review Vol.75 number 4 pages 777-791

Ahmeyer, A. J (1966) The formative years of social security, University of Wisconsin Press, Wisconsin (Madison)

Atkinson, R (1983) The Economics of Inequality (2nd ed.), Oxford University Press, Oxford

Atkinson, A.B. (1987) "Income maintenance and social insurance" in Auerbach and Feldstein (eds.): Handbook of Public economics, North Holland

Barr, N.A. (1998) The economics of the welfare state, Weidenfield and Nicolson, London

Barro, R (1978) The impact of social security on private saving, American Enterprise Institute for Public Policy Research, Washington D.C.

Birds, J (1981) The Insurance law, Macmillan London

Booth, P.M. (1997) The Pensions Problem: The transition from social insecurity, The Journal of the Institute of Economic Affairs, Vol.18 number one, London

Booth, P.M. and Dickinson, G. (1997) The insurance solution, European Policy Forum, London

Booth, P.M. and Stroinski K. (1996) The Joint Development of the Insurance and Investment Markets in Poland, British Actuarial Journal, Vol. 2.

Cagan, P. (1965) The effect of Pension Plans on Aggregate Saving: Evidence from a Sample Survey, Occasional paper number 95, Columbia University Press (for NBER) New York

Carter, R (1974) Economics and Insurance, PH Press, Stockport.

Carter, R (1979) Economics and Insurance (2nd edition), PH Press, Stockport

Carter, R. and Diacon (1988) Success in insurance, John Murray Publishers, London.

Darby, M.R (1979) The effects of social security on income and the capital stock, American Enterprise Institute for Public Policy Research, Washington D.C.

Diamond, R. (1977) A framework for social security analysis, Journal of Public Economics, Vol. 8 pages 275-298

- Disney, R. (1996) Pensions as Insurance, The Geneva Papers on Risk and Insurance, Vol.21, number 79 pages 258-270.
- Duesenbury, J.S. (1949) Income, Saving and the Theory of Consumer Behaviour, Harvard University Press, Harvard
- Feldstein, M.S (1974) Social Security, Induced Retirement and Aggregate Capital, Journal of Political Economy, Vol. 82 pages 905-926
- Feldstein, M.S (1979) The effect of social security on savings, working paper series number 334, National Bureau of Economic Research, Cambridge.
- Feldstein, M.S (1996) "Would Privatising Social Security Raise Economic Welfare?" Working paper number 5281, National Bureau of Economic Research, Cambridge.
- Friedman, M. (1957) A Theory of the Consumption Function, Princeton University Press, Princeton
- Gale, W. (1998) The effects of pensions on wealth: A re-evaluation of theory and evidence, Journal of Political Economy, Vol. 106 number 4.
- Gapinski, J.H (ed.) (1993) The Economics of Saving, Kluwer Academic Publishers, Boston USA
- Gorovitz, S. (1975) "John Rawls: A Theory of Justice" in A. de Crespigny and K.R Minogue (editors), Contemporary Political Philosophers, Methuen, London
- Guduza, C.M. (1996) Housing Markets in Greater Soweto, PhD thesis, London School of Economics, University Of London
- Gordon (1988) Social Security Policies in Industrial Countries: A Comparative Analysis, Cambridge University Press Cambridge
- Hall, R.E. (1978) Stochastic implications of the lifecycle –permanent income hypothesis: theory and evidence, Journal of Political Economy, Vol. 86
- Hannah, L (1986) Inventing Retirement: The development of occupational pensions in Britain, Cambridge University Press Cambridge.
- Harvey, A.C (1990) The Econometric Analysis of Time Series (2nd ed.) Mass: MIT Press, Cambridge
- Holmes, J.M. (1970) A Direct Test of Friedman's Permanent Income Theory, Journal of the American Statistical Association, Vol.66, pages 1159-1162
- Hubbard (1985) Pension wealth and individual saving: some new evidence, Journal of Money, Credit and Banking
- Katona, G. (1965) Private Pensions and Individual Saving, Monograph number 40 Institute for Social Research, Ann Arbor, University of Michigan USA

Keane (1993) Emerging Markets: The relevance of efficient market theory, occasional research paper number 15 ISBNI 898291055, Chartered Association of Certified Accountants.

Keynes, J.M. (1936) The General Theory of Employment, Interest and Money, Harcourt, New York

Kotlikoff, L.J and Summers, L (1981) The role of inter-generational transfers in aggregate capital accumulation, Journal of Political Economy, Vol.89

Kotlikoff, L.J (1996) Privatising social security at home and abroad, AEA papers and proceedings, Vol. 86 number 2

Koutsoyiannis (1979) Theory of econometrics: An introductory exposition of econometric methods (2nd ed.) Macmillan London

Lalor, R. (1995) Privatising Welfare: The Unthinkable Becomes the Inevitable, Occasional working paper, City University Business School, London

Leimer, D.R. and Lesnoy, S.D (1982) Social security and private saving: New time series evidence, Journal of Political Economy, Vol.90

Lyrio, R.C.O (1993) Private insurance and social insurance sectors in Latin America, The Geneva papers on Risk and Insurance, Vol. 18 number 69

Magnussen, K.A (1994) Old-age pensions, retirement behaviour and personal saving: A discussion of the literature, Social and economic studies 87, Statistics Norway, Oslo

Marples, W. F. (1965) Actuarial Aspects Of Pension Security, Pension Research Council Publications, University of Pennsylvania USA

Martela et al (1994) Socialism and Sub Saharan African States: Issues and views, unpublished paper produced for the commemoration day of the International Socialist Organisation.

Maseko, R. (1991) Employee retirement benefits in Zimbabwe, MBA thesis, University of Zimbabwe, Zimbabwe

McCleary, G.F (1930) The rise and development of the national health insurance in Europe, Baltimore, USA

Modigliani, F. (1949) Fluctuations in the savings –income ratio: A problem in economic forecasting, Studies in income and wealth, Vol.11 New York: NBER

Modigliani, F. (1989) Life cycle, Individual Thrift and the Wealth of Nations, American Economic Review, Vol.76, pages 297-313

Ogus (1982) Development of social insurance in Europe, London School of Economics Occasional papers, LSE

The Oxford English Dictionary (1996) Oxford University Press, Oxford

Rawls, J. (1972) A Theory of justice, Oxford University Press, Oxford

Rubinow, I.M (1914) Social insurance and the medical profession, paper produced for the Associated Physicians at Long Island, New York

Schulenburg, J.M (1986) Optimal insurance purchasing in the presence of compulsory insurance and uninsurable risks, The Geneva papers on Risk and Insurance, Vol.10 number 38

Seldon (1981) Wither the Welfare State, Institute of Economic Affairs Occasional paper number 60, Institute of Economic Affairs, London

Seldon, A. et al (1996) Re-Privatising Welfare: After a lost century, Institute of Economic Affairs Readings 45, Institute of Economic Affairs, London.

Smyth (1993) The economics of saving, Kluwer Academic Publications, Massachusetts

Smyth, D.J and Jackson, J.D (1978) A theoretical and empirical analysis of Ratchet Models as Alternatives to Permanent Income and Continuous Habit Formation Consumption Functions, Journal of Economics and Business, Vol. 30 pages 89-97

Stiglitz (1976) Monopoly, non-linear pricing and imperfect information: The insurance market, Review of economic studies, Vol.44, pages 407-430

Stiglitz (1988) The Economics of the Public Sector (2nd edition) Norton London

Tawney, R.H. (1964) Equality (4th ed.) George Allen, London

Taylor (1971) Saving out of different types of income, Brookings Papers on Economic Activity Vol. 2 USA

Wittee (1962) The Development of the Social Security Act University of Wisconsin Press, Madison