



# PENSION SYSTEM AND REFORMS THE CASE OF SENEGAL

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# OUTLINE

- **Introduction:**
  - Demographics
  - National Retirement Fund (FNR)
  - Private Sector Pension Scheme (IPRES)
- **Problems faced**
- **Objectives of the reform**
- **Process of the reform**
  - Parametric reforms
  - Systemic and Institutional reforms
- **Reasons for separate scheme**
- **Recommendation**

# INTRODUCTION

- **Demographics**
  - Population 11 million
  - Active population 4 million,
  - Covered by two schemes (Public and Private)
- **National Retirement Fund (FNR)**
  - Civil service pension fund
  - 35,000 members
  - Contribution rate = 35% (12% employees 23% government)
  - Contribution base = Base salary + 2 allowances
  - Vesting period = 15 years
  - Retirement age = 60 years
  - Accrual rate = 1.8%
  - Indexation on wage bill growth
  - Pension payout based on average salary of the last 3 years
  - 10% benefits for people with up to 3 children.
- **Private Sector Pension Scheme (IPRES)**
  - Includes private sector workers and part of state workers that are not civil servants
  - 200,000 members
  - Contribution rate = 14% (Revenue/Collection side)
  - Coverage wage ceiling = **XOF 24,000,000**
  - Uses point system
  - In 1980, the fund was in deficit. As a result, the board manipulated parameters by blocking the point contribution rate at 8% and freezing the point value
- ***Both schemes are Unfunded PAYGO Defined Benefit Schemes***

# PROBLEMS

- Deficit for FNR
- Low pension for IPRES
- Issue of governance
- Lack of supervision
- Reserve management
- Issue of arrears

# Objectives of the Reform

*Government reform implemented with support by the World Bank (technical and financial)*

- **Maintain and improve Defined Benefit Scheme**
- **Creation of Defined Contribution scheme so as to introduce complementary pension**
- **Institutional reform to improve governance, regulation and supervision and to develop the financial market**

# Process of the Reform

- 1<sup>st</sup> Step – Parametric Reform

## FNR:

In 2002, due to deficit concerns, parametric reforms for FNR were introduced:

- Contribution base includes not only base salary but also 2 allowances
- Share of contribution changed from 15% employees + 20% government to 12% employees + 23% government
- Retirement age increased from 55 years to 60 years
- Accrual rate reduced from 2% to 1.8%
- Pension payout, which was previously based on last salary, was reformed to payout based on average salary of the last 5 years
- Indexation on inflation was proposed but not accepted by the Trade Union
- 10% benefits were given to people with up to 3 children. Benefits are no longer provided for additional children

## IPRES:

- Parameters (value of points, ceiling wage, annual average wage) are changing every year, which are gradually improving the pension level
- Reimbursement of arrears (with World Bank support) in order to make pension payments to contributors of liquidated companies.

# Process of the Reform (Cont'd)

- **2<sup>nd</sup> Step - Systemic and Institutional reform**
  - Study for implementation of DC
  - Proposal of change of governance
  - Proposal of investment policy
  - Study on the integration of the public and private scheme shows that timing is not right
  - An Interim Supervision Committee was set up for the Social Security Sector
  - New regulation is under study, for the whole pension system, including fiscal incentives.

# Reasons for Separate Schemes

- **Differences in benefit levels in the public and private sector**
  - Private sector salaries are higher compared to that of the public sector; but
  - Public sector have higher benefits (pensions, health and insurance)
- **Management problems with respect to IPRES**

# Recommendation

- **Indexation on inflation**
- **Notional accounts for the current defined benefit schemes**
- **Integration of both schemes subject to resolution of the constraints**
- **Consideration of coverage**



**THANK YOU**