International Social Security Association

ISSA Regional Conference for Africa

Lusaka, Zambia, 9-12 August 2005

Pensions

Recent reforms and experiences of pension schemes

The experience of the National Social Security Fund

Lala Malan Kante
Deputy Director General
National Social Security Fund
Guinea

ISSA/AFRICA/RC/LUSAKA/GUINEA-4(a)

Pensions

Recent reforms and experiences of pension schemes

The experience of the National Social Security Fund

Lala Malan Kante
Deputy Director General
National Social Security Fund
Guinea

1. Introduction

1.1. Socio-economic environment

In Guinea, the current socio-economic environment in general and that of the social security system in particular, have been significantly marked by the impact of the reforms introduced in the mid-Eighties.

These reforms, which focused on the restoration of macro-economic equilibrium and renewed growth, led to the liberalization of economic and financial activities, the withdrawal of the State from manufacture and commerce, and the disappearance or privatization of public enterprises.

The government clearly indicated its choice of a liberal economic system, in preference to the managed economy which prevailed in previous decades.

In economic terms, this new political and economic stance enabled the government to absorb the budgetary deficit and the foreign debt. Inflation was controlled and a new trend towards strong growth appeared. The average growth in gross domestic product (GDP) increased to approximately 4 per cent per year during the Eighties, compared with a population growth rate of 2.8 per cent. The rate of inflation fell from approximately 30 per cent in 1988 to less than 5 per cent in 1994.

In spite of these improvements Guinea still faces a number of challenges, particularly that of persistent poverty. In 1994-1995, 40.3 per cent of the population lived below the absolute poverty line, considered to be approximately USD 300 per year, per capita. Poverty was twice as high in rural areas as compared to urban districts (52.5 per cent compared with 25 per cent). It was more than 7.8 times higher in these areas than in the urban district of Conakry (the capital).

Increased unemployment, job precarity and the lack of social security are among the characteristics of the new domestic social and economic environment. Compared with other countries in the area, Guinea has a significant deficit in terms of the index of human development.

In 2002, Guinea was placed 159th out of 173 in the world ratings established by the United Nations Development Programme (UNDP) based on the human development index.

Apart from structural factors such as the lack of infrastructure and an unsuitable institutional framework which combine to hinder economic development, the level of poverty can also be explained by inequalities in the distribution of existing resources. In 1994-1995, the level of consumption of the poorest 20 per cent of the population accounted for barely 7 per cent of total consumption while the most wealthy 20 per cent accounted for 47 per cent.

A number of factors helped to exacerbate poverty and inequalities, including in particular the introduction of programmes of structural change and the closure of public enterprises.

Faced with these difficulties the government undertook, in February 2000 and with the support of its development partners, the task of designing and implementing a new development strategy based on economic growth and reduced poverty (SRP). This exercise, based on the active participation of all the actors, led to the development of a strategic plan to reduce poverty (DSRP) which was adopted by the government in January 2002 and approved by the International Monetary Fund (IMF) and the World Bank in July of the same year.

1.2. Growth and demographic indicators

1.2.1. Growth and inflation

Table 1. *Percentage growth by sector, 2001 to 2003*

	2001	**2002**	**2003**
	% Variation	**% Variation**	**% Variation**
GDP Factor-price	3.8	3.4	2.1
Primary activities			
Agriculture	6.3	5.1	4.7
Animal farming	3.4	3.9	4.0
Fishing	9.7	3.6	3.7
Forestryt	7.3	3.0	3.0
Secondary industries			
Mining	3.5	2.9	2.7
Manufacturing sector	5.5	6.0	1.0
Water, electricity	3.0	3.0	-2.0
Building and Public Works	8.5	7.0	7.5
Service sector			
Commerce	2.0	1.8	1.5
Transport	1.8	2.2	2.0
Administration	0.6	2.5	3.0
Others	2.0	2.0	3.2
GDP market price	3.8	4.2	2.1

Table 2. *Economic growth, 1998 to 2003*

Year	1998	1999	2000	2001	2002	2003
Rate of growth	4.5%	3.7%	2%	2.8%	4.2%	2.1%

Source: Macro-economic framework compilation.

Table 3. *Inflation, 1986 to 2003*

Year	1986	1987	1989	1996	1997	1998	1999	2000	2001	2002	2003 (Sept.)
Rate of inflation (%)	72	34	28.2	3	1.9	5.1	3.9	6.8	5.4	2.8	15.4

1.2.2. Demographic indicators

- The population of Guinea was 8,154,000 in 2000. Life expectancy at birth was 47.5 years for men and 48.5 years for women.

- In 1995, the literacy rate for adults was 49.9 per cent for men and 21.9 for women. However, considerable efforts have been made in the field of education over the past ten years; the gross rate of school attendance rose from 56.5 per cent in 1999-2000 to 74 per cent in 2002-2003.

1.2.3. State-run old age pension schemes

Salaried workers in Guinea are provided with social protection, as follows:

- *Retirement scheme for civil servants and other government employees*

Act 94/PRG/SGG updated Act no. 354/PRG dated 7 August 1963 which established the general pensions scheme for civil and military employees of the Guinea government. This scheme covers civil servants and government employees, military personnel of all ranks in the army, the air force and the police.

Pensions are paid quarterly and the following benefits are provided:

- retirement pension;
- proportional retirement pension;
- disability pension;
- life annuity disability pension;
- survivors' benefits;
- temporary orphans' benefits.

- *Private insurance companies*

Alongside the retirement scheme for civil servants and other government employees, certain local private insurance companies provide retirement insurance based on defined contributions and optional death guarantees.

The aim of a retirement scheme is to enable a member to build up a supplementary pension or end-of-career capital while providing guarantees against the risk of premature death or total and permanent disability.

- *The general scheme administered by the National Social Security Fund (CNSS)*

2. Description of the scheme administered by the National Social Security Fund

The National Social Security Fund (CNSS) administers four branches: pensions; occupational risks, family benefits and health insurance.

The scheme covers:

- all workers covered by an employment contract;
- employees of the government and state, auxiliary and contractual administrations which do not form part of the permanent structure of a state administration and are not covered by the general regulations applicable to the civil service;
- students undergoing vocational training;
- individuals located in training, rehabilitation and occupational re-orientation centres;
- trainees and apprentices working in branches and under regulations established by decree in accordance with proposals made by the appropriate ministry;
- other population groups covered by special social security schemes for certain clearly defined occupational groups.

A percentage of the contributions collected is allocated to each branch as follows:

- pensions: 6.5 per cent;
- occupational risks: 4.0 per cent;
- family benefits: 6.0 per cent;
- sickness: 6.5 per cent.

2.1. Pensions

2.1.1. Old age

- *Standard pension*

Members are eligible for an old age pension if they are aged 55 or over, if they have been employed for at least fifteen years, and if they have retired from all salaried employment. They must have completed 12 months of insurance contributions, must have contributed to the fund for at least five years and must not be eligible for early retirement benefit. The minimum pension amounts to 60 per cent of the lower limit of the salary subject to contributions.

- *Early retirement benefit*

If a member takes early retirement at any moment during the five years preceding normal retirement age, the employer pays a sum into the Fund to cover the employer's and the worker's contributions for the remaining period up to normal retirement age.

- *Old age benefit*

Members who become disabled before reaching the minimum age to qualify for an old age pension, are eligible for an invalidity pension if they have contributed to the Fund for at least five years and have not claimed an early retirement benefit.

2.1.2. Invalidity

An invalidity pension will be paid to members who have become disabled for a reason unconnected with their employment and have suffered permanent physical or mental impairment which makes them unable to earn more than one third of the salary that a worker with the same qualifications would expect to earn.

2.1.3. Survivors

Survivors have the right to a pension only if the deceased member has completed at least 180 months of insurance at the time of death. The following are considered as survivors:

- the widow or widower of the insured and children dependent upon the latter;
- the widow's or widower's pension is withdrawn in the event of remarriage.

The survivor's pension provides the following percentage amounts:

- 50 per cent for a widow or widower; in the case of a polygamous marriage, the amount is divided equally among the widows;
- 10 per cent for each child orphaned by the mother or the father;
- 20 per cent for each child orphaned by mother and father.

2.2. Demographic forecasts

The population of Guinea is expected to rise from 8,154,000 in 2000 to 14,803,000 in 2025 and 21,909,000 in 2050. This represents an average annual growth rate of 2.4 per cent between now and 2025 and 1.6 per cent over the following twenty years. The population covered by the National Social Security Fund benefits from better living conditions and access to health care compared with the national average and has a higher life expectancy.

Life expectancy at birth will increase to 66.8 years for men and 69.3 for women in 2050, while the overall fertility rate, currently estimated at 5.8 children per woman, will show a linear fall over 45 years to 2.1 in 2045 and the following years.

Table 4. *Demographic ratios*

Year	Ratio of elderly dependants	Ratio of dependent children and adolescents	Overall ratio of dependants
2000	8.6	85.5	94.2
2010	8.0	80.8	88.8
2025	8.7	67.2	75.9
2050	13.7	40.4	54.2

In 2001, at the time of the CNSS most recent review, the insured population was estimated at 20,369 persons, made up of 87 per cent men and 13 per cent women. The breakdown by age and gender is shown in Table 5.

Table 5. *Breakdown by age of the insured population*

Age Group	Women	Men	Total
15-19	24	119	143
20-24	131	608	739
25-29	301	1,336	1,637
30-34	357	2,101	2,458
35-39	420	2,842	3,262
40-44	533	2,332	3,864
45-49	610	3,899	4,509
50-54	288	2,715	3,004
55-59	55	613	668
60-64	5	74	79
65+	0	6	6
Total	2,725	17,643	20,369

Table 6. *Demographic forecasts by pensions branch, 2001-2050 (optimistic scenario)*

Year	Number of beneficiaries and pensions paid				Demographic ratios (%)		
	Active	**Retired**	**Disabled**	**Survivors**	**Retired**	**Disabled**	**Survivors**
2001	20,369	6,635	64	1,911	32.6	0.3	9.4
2002	22,034	6,846	78	2,090	31.1	0.4	9.5
2003	23,750	7,219	94	2,266	30.4	0.4	9.5
2004	25,530	7,642	110	2,447	29.9	0.4	9.6
2005	27,383	8,081	128	2,632	29.5	0.5	9.6
2010	38,117	10,119	232	3,605	26.5	0.6	9.5
2015	51,658	11,690	396	4,592	22.6	0.8	8.9
2020	68,694	13,570	610	5,508	19.8	0.9	8.0
2025	89,214	16,154	880	6,323	18.1	1.0	7.1
2030	113,374	19,594	1,223	7,090	17.3	1.1	6.3
2040	171,320	31,340	2,219	8,930	18.3	1.3	5.2
2050	240,180	49,830	3,721	11,955	20.7	1.5	5.0

3. Problems, stakes and measures

General problems facing our pension’s scheme include:

- the ageing of the salaried population compared with the age of 55 included in the legislation;
- the non-renewal of the labour force on reaching retirement, because of the obstacles to the creation of jobs which exist in the country;
- an increase in the basic reference salary used to calculate benefits, which are currently based on the average of the preceding three or five years;

- failure to update the ceiling and floor values used to calculated benefits and contributions.

3.1. The burden created by gaps in the legislation

Act L/94/006/CTRN dated 14 February 1994 replaced Act 21-AN-60 dated 12 December 1960, under which pension benefits were calculated according to a points-based retirement system. The new current legislation has replaced the financial system of points distribution by a percentage per year of retirement. Instead of fixing the contribution point and reference salary, the parameters which are taken into account are the period of contribution and the final salary of the insured. There is no longer a link between contributions paid and acquired rights.

The consequences of these shortcomings are as follows:

- The financial implications of the new legislation were not calculated and no provision has been made for financial compensation.

- At the same time the authorities had just decided to increase the ceiling from GNF[1] 300,000 per month to GNF 400,000 from 1 January 1994.

- Changes in the legislation were combined with modifications in the method of calculation which made it more advantageous, and with the modification of the ceiling. The socially insured thus benefited twice over from the changes.

- All pension calculations are based on the new legislation and on the new ceiling.

- At the time the legislation was changed, no financial forecast was made to identify the financial changes that should be introduced.

- Due to the lack of appropriate measures, the financial difficulties were foreseeable in the medium term because of the financial burden involved.

3.2. Proposed reform measures

The following measures were proposed following an actuarial review carried out in 2001:

- an increase in the ceiling for salaries on which the contributions are based;
- higher statutory retirement age;
- internal readjustment of contribution rates;
- improvement in reference salary;
- better financial links with the government;
- payment of benefits in arrears;
- improvements in membership and collection of contributions.

3.2.1. Higher ceiling and floor limits for salaries subject to contributions

The salaries subject to CNSS contributions vary between the lower limit of GNF 75,000 and that of the ceiling of GNF 400,000 since January 1994.

[1] GNF = Guinean Francs. USD1.00 = GNF3,605.

After reviewing the different readjustment proposals, the expert suggested an increase of the lower limit to GNF 100,000 and that of the ceiling to GNF 800,000.

There are two advantages to raising the ceiling:

- it would slightly increase the financial resources of the CNSS;
- it would enable the Fund to increase the minimum retirement pension from
- GNF 135,000 to GNF 180,000 per quarter.

3.2.2. Higher statutory retirement age

In Guinea, the retirement age is laid down in article 49 of the social security code. Retirement age is fixed at 55 years of age for men and women. This has a major impact on the costs of the retirement scheme. Economic and demographic studies prove that the lower the age of retirement (e.g. 55 years), the higher the number of beneficiaries and the higher the cost of the scheme, including for the national budget which is obliged to intervene with subsidies to balance its income and expenditure in accordance with Article 30 of the social security code.

The first advantage of increasing the statutory retirement age would naturally be the alignment of the Fund's legislation with that of most other West African countries. The other benefits would be as follows:

- fill the job creation gap in the country;
- reduce the financial imbalance in the retirement branch;
- reduce the high number of members retiring early and retirement at a relatively early age.

3.2.3. Internal readjustment of contribution rates

The aim of readjustment of contribution rates is to enable the retirement branch to have a sufficiently high rate to create an equilibrium within the branch. Analysis of the consolidated CNSS accounts revealed a worrying deficit within the pensions branch, because the technical expenditure of this branch is higher than the income provided by the current contribution rates. The contribution shares need to be redistributed between the various branches in order to balance out the income and expenditure of the different sectors. The total rate of 23 per cent remains unchanged; the proposed redistribution is as follows:

- pensions: 12.5 per cent;
- occupational risks: 2.0 per cent;
- family benefits: 2.0 per cent;
- sickness: 6.5 per cent.

3.2.4. Increase in the reference salary

The methods to be used to calculate pensions are defined in Article 54 of the social security code. In accordance with this Article, old age pensions are based on average remuneration, defined as one 36th or one 60th of the total salary on which contributions were based during the 36 or 60 months of insurance preceding the date of eligibility for a pension, whichever is most favourable to the beneficiary.

Based on the foregoing, the pension depends on the following elements:

- average earnings over the preceding 36 months up to the current contributions ceiling which is GNF400,000;
- the age of the retired worker;
- registered service annuities.

This combination includes both the change in the calculation formula to make it more advantageous and the change in the upper ceiling limit.

In this way, members benefited from the double effect of the changes. Pensions which have been allocated since 1997 have been calculated in accordance with the new legislation (1994 code) taking into account the new ceiling (GNF400,000 as from 1 January 1994).

The current legislation has been criticised because the amount of the pension takes into account only earnings over the last three years, rather than earnings throughout active employment.

Although the entire career cannot be taken into account, it would be preferable for the sake of justice and equity to use earnings over the last five years as the parameter for the reference salary in calculating pensions.

3.2.5. Improvement in the financial links between the CNSS/State

Historically, this reform measure is the result of the retention of the CNSS financial resources within the State budget (Ministry of the Economy and Finance) during the period when the government was responsible for the management of this institution.

Following the merger of the national State administration and the general administration of the CNSS on 30 September 2002, the Government was left with an outstanding debt of more than GNF14 million in favour of the CNSS. A programme was established for reimbursement over a three-year period.

3.2.6. The reduction of unpaid benefits

The CNSS went through a difficult period in the years 1997 to 2000 when it was unable to fulfil the totality of its obligations and it accumulated arrears of benefits estimated at approximately GNF10 million.

As a result of the ongoing reforms, benefits are being paid with increasing regularity and payments in arrears are stable. The time has come to consider how these obligations can be met. The resolution of the financial problems between the government and the CNSS will enable the CNSS to meet them.

The payment of pensions in arrears on the part of the CNSS is not only a question of good management but also and above all the means of sending a strong signal to employers to indicate that slowly but surely, the CNSS is instituting successful reform. The reduction of the arrears will have a major impact and set in motion an upward spiral of recovery, while at the same time bringing about significant improvement in the relations between the CNSS and its social partners.

3.2.7. Improvement in membership and collection of contributions

Within the context of an improved financial resource situation within the CNSS, priority must be given to improvements in membership and the collection of contributions. The CNSS must improve its follow-up of contributors, particularly verification of the proportion of contributions paid, in order to improve collection through better identification of bad payers.

Since 2000 the general administration has designed strategies to keep better track of the CNSS financial resources. These include:

- the stimulation and reinforcement of the collection mechanisms;
- the exhaustive identification and listing of employers subject to contributions;
- improved rates of membership of workers and collection of contributions;
- introduction of a computerized system for the collection of contributions;
- introduction of administrative procedures to stop evasion of contribution payment;

Over and above the measures described in sections 3.2.1 to 3.2.7 above, the CNSS is faced with the problem of the special status of contract workers.

Conclusion

Guinea, like other countries in the sub-region, is experiencing numerous difficulties as regards the administration of its retirement pension scheme.

The difficulties are of various kinds: administrative, legal, statutory, normative, etc.

The reforms currently under way are designed to resolve these problems and to provide effective solutions.

The implementation of these reforms will have a positive impact not only on the system itself, but also on the social environment and the level and quality of benefits.

There can be no doubt that the reform of the legislation and the introduction of computer processing will lead to a more balanced and viable retirement system.