

# **THE UNITED REPUBLIC OF TANZANIA**



## **NATIONAL AUDIT OFFICE**

### **A Performance Audit on the Processing of Terminal Benefits of Retirees from the Central and Local Government of Tanzania**

#### **A Case Study of**

**Public Service Pension Funds (PSPF) and Local Authorities  
Pension Fund (LAPF)**

**A REPORT OF THE CONTROLLER AND AUDITOR GENERAL OF  
THE UNITED REPUBLIC OF TANZANIA**

# THE UNITED REPUBLIC OF TANZANIA



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## PREFACE

The Public Audit Act No. 11 of 2008, Section 28 authorizes the Controller and Auditor General to carry out Performance Audit (Value-for-Money Audit) for the purposes of establishing the economy, efficiency and effectiveness of any expenditure or use of resources in the MDAs, LGAs and Public Authorities and other Bodies which involves enquiring, examining, investigating and reporting, as deemed necessary under the circumstances.

I have the honour to submit to His Excellency the President of the United Republic of Tanzania, Dr. Jakaya Mrisho Kikwete and through him to Parliament the first Performance Audit Report on Processing Terminal Benefits of retirees from the Central and Local Government of Tanzania.

The report contains conclusions and recommendations that directly concern the Central Government through the Ministry of Finance and Economic Affairs, President's Office – Public Service Management, Ministry of Education and Vocational Training, Ministry of Agriculture Food Security and Cooperatives, Ministry of Health and Social Welfare; and Local Government Authorities.

The Central and Local Government Authorities have been given the opportunity to scrutinise the factual contents and comment on the draft report. I wish to acknowledge that the discussions with the auditees have been very useful and constructive.

My office intends to carry out a follow-up at an appropriate time regarding actions taken by the auditees in relation to the recommendations in this report.

In completion of the assignment, the office subjected the report to the critical reviews of the following experts namely, Mr. Mushtaq Osman of the University of Dar es salaam, Advocate Cornelius Kariwa an expert in labour laws and Dr. Richard Kavura (a retired officer), who came up with useful inputs on improving the output of this report.

This report has been prepared by George Haule, James Pilly, Wendy Massoy, Michael Malabeja, Elizabeth Augustino, Warento Nyanchogu, Martin Henry and Esnath Henry under the guidance of Gregory G. Teu. I would like to thank my staff for their assistance in the preparation of this report. My thanks should also be extended to the auditees for their fruitful interaction with my office.



Ludovick S. L. Utouh  
Controller and Auditor General  
Dar es Salaam,  
January 2010

## ACRONYMS

DED	–	District Executive Director
FN-6	–	Form Number 6
GoT	–	Government of Tanzania
ILO	–	International Labour Organization
LAPF	–	Local Authorities Pension Fund
MDA	–	Ministries Departments and Agencies
MoAFC	–	Ministry of Agriculture, Food Security and Cooperatives
MoEVT	–	Ministry of Education and Vocational Training
MoHSW	–	Ministry of Health and Social Welfare
NAO	–	National Audit Office
NGOs	–	Non Governmental Organizations
NSSF	–	National Social Security Fund
PO-PSM	–	President’s Office – Public Service Management
PPF	–	Parastatals Pension Fund
PSPF	–	Public Services Pension Fund
PUT	–	Pensioners Union of Tanzania
ROI	–	Regional Office In-charge



## **EXECUTIVE SUMMARY**

Today, Pension payments to retirees have been and continue to be a big problem in Tanzania, which requires immediate attention. Most of old age people who served in the public sector are dependent on the terminal benefits as their major source of income after retiring from public services.

The terminal benefits for the retirees in Tanzania are managed by five different Pension Funds which are Public Service Pension Funds (PSPF), Local Authorities Pension Fund (LAPF), Government Employees Provident Fund (GEPF), National Social Security Fund (NSSF) and Parastatal Pension Fund (PPF). These Pension Funds are responsible for the payment of pensions, gratuities, and other benefits in respect of the service of retirees.

Beyond policy formulation and regulation, Central Government Authorities and the Prime Minister's Office – Regional and Local Government Authorities as main employers and custodians of Pension Funds are responsible for the way Terminal Benefits are being processed in the country.

However, indicative problems discussed in the proceeding paragraphs suggest that there are problems in the processing of Terminal Benefits of retirees. This is following an outcry of many people who have been retiring from public service employment. The purpose of this audit was to assess the efficiency of the Government, Pension Funds and selected Employers on processing terminal benefits of retired public servants in Tanzania. The aim was also, to evaluate the adequacy of systems and procedures in place for managing terminal benefits.

The audit covered three fiscal years i.e. 2006/2007, 2007/2008 and 2008/2009; and focused on two Public Pension Funds namely the Public Service Pension Fund and the Local Authorities Pension Fund administered by the Ministry of Finance and Economic Affairs and Prime Minister's Office – Regional and Local Government Authorities respectively. Similarly, this audit was carried out in three selected Ministries out of 29 and 17 LGAs out of 133 of various sizes, population and with reasonable accessibility. These are samples of the main employers of the public servants and in which case all of them have a role to play in processing terminal benefits in Tanzania.

The above Ministries and LGAs have been selected due to the fact that they have a large number of Public servants and the rate of retirement is considered to be high compared to other Ministries and LGAs in Tanzania.

### **Major Findings and Conclusions**

The audit disclosed that the main employers i.e. Ministry of Finance and Economic Affairs (MoFEA) and President's Office – Public Service Management

(PO-PSM) being the overall overseers of Pension Funds on behalf of the Government have not to a large extent fulfilled their responsibilities of ensuring the processing of terminal benefits of retirees on time and without recourse to duress. Specifically, the audit noted that there is increasing number of retirees waiting processing time.

Together with that, other issues noted are:

- Pension Fund's system of keeping records is appallingly inefficient and ineffective this is due to poor record keeping by Pension Funds,
- The processes to finalize terminal benefits of retirees continued to be problematic which in consequence hinders the retirement system's ability to fulfill its mission and inordinate delays in processing retirees' benefits. This problem can be addressed by revamping the existing pension system in the country.
- There is lack of clearly defined awareness programs by the two main employers (The MoFEA and PO-PSM).
- Employer's system of keeping records is appallingly inefficient and ineffective
- The Employers failed to properly manage and control the necessary documents for the processing of retirement benefits of their respective employees resulting in reciprocal delays and trading of blames between the Funds and the employers.
- In addition, MoFEA and PO-PSM as main Employers have not taken any tangible action to ensure efficient processing of terminal benefits is instituted despite the fact this is a known and repetitive problem throughout the period of the audit i.e. 2006/07 to 2008/09.

**Based on the audit findings and conclusions it is being recommended that:**

PSPF and LAPF should review the processing of terminal benefits of retirees' workflow. This includes preparation of a Client Service Charter which will incorporate all core activities and the whole process of terminal benefits indicating exact time a certain activity is going to be initiated and completed and identify who will be accountable for what. Communication should be improved among stakeholders to ensure timely communication between the funds and employers. The Pension Funds should also, create awareness to their members including conducting training on pension matters

MoFEA and PO-PSM as Main Employers should ensure that proper records of employees are accurately kept and submitted to Pension Funds for processing terminal benefit payments, there is a clear coordination among stakeholders and an improved coordination among the key stakeholders including transferability of benefits in favour of those who are paid by LAPF and PSPF and have served both the Local Government Authorities and the Central Government.

Likewise, Employers should prepare a schedule of employees who are about to retire in the near future at least have a three years' schedule. This schedule should be used as a basis for reminding employers on the date of retirement of staff, when to notify staff on their retirement dates, and also the right time to look for the necessary documents. This will ensure timely access to information for efficient decision making on terminal benefit matters

In addition, employers should ensure that monitoring, evaluation and feedback mechanism for the training conducted on staff awareness on pension matters is done. Through this, it will be easier for the employers to identify areas that need to be addressed for future improvements.

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background

The International Labour Organization (ILO) Social Security (Minimum standards) Convention of 1952 describes eight specific contingencies, which social security schemes should cover<sup>1</sup>. By implication, these contingencies do define and delineate boundaries of social protection which any country or Central and Local Government Authorities (LGAs) should provide to the population.

The ILO therefore, defines social security as protection that the society should provide for its members through a series of public measures against social and economic distress, which otherwise would have been caused by sudden stoppage or substantial reduction of an income, accruing from specific contingencies such as sickness, workplace injury, maternity, invalidity, disability, old age and death.

Social security measures in their conventional form are intended to provide a decent standard of living to people who are unable to earn an income due to invalidity, unemployment or old age. This has been the operational policy oriented definition of social security. Thus, the enactment of social security legislation such as the Public Service Retirement Benefits Act (Cap 371) and Local Authorities Pensions Fund Act (No. 9 of 2006)<sup>2</sup>; establishment of different pension schemes, provident funds and related laws in Tanzania; should have their foundation in this fundamental philosophy of providing economic security to the needy, at least to a certain acceptable standard within the context of Tanzanian society. Appendix 4 details the chronological development of the Pension Funds in Tanzania.

Today, most of old age people who served in public sector are dependent on the terminal benefits as their major source of income after retiring from public services, so they need it urgently and should be paid on time without unnecessary delays.

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<sup>1</sup> International Labour Conventions and Recommendations 1919 – 1981 Second Impression 1985 page 519 Article 7.

<sup>2</sup> Refer Appendix 2 – Main Laws and Regulations governing Processing of terminal Benefits in Tanzania

## 1.2 Indication of the problem

Some of the common factors which cause a range of difficulties while processing terminal benefit payments indicate the following problems:

- Delay in processing payment of terminal benefits has been a long time outcry of many people who have been retiring from public service employment. The more the time that passes the more difficult it can be for everyone involved to remember exactly what has happened. It has been a common observation for retired officers to spend more than 12 months without receiving their terminal benefits.
- On account of this untimely payment of pensions there are reported cases where pensioners die before getting their dues thereby making it even more difficult for relatives to obtain the due pensions and result in miserable life of dependants who are left without any reliable source of income hence denied a decent standard of living.
- A number of retired people have been observed gathering at the Ministry of Finance and Economic Affairs pension offices complaining and condemning the delay in processing their terminal benefit payments<sup>3</sup>.
- Retirees have been claiming that the delay has a negative impact to them since it goes to the extent of affecting their purchasing power.
- In some instances the delay in processing payments takes long time as this could be facilitated inter-alia by the fact that there are multiple governing laws pertaining to settlement or processing of terminal benefits of retired employees from either central, regional or LGAs.
- Further, notwithstanding the delay in processing payments, we noted that there is a huge disparity of terminal benefits being paid under different schemes applying different formulas, for example PSPF, LAPF, GEPP, PPF and NSSF despite the fact that both retirees have been serving or operating under the same government.
- Terminal benefits are being processed after retirees have retired from public service which denies them easy access to any required information while processing terminal benefits.

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<sup>3</sup> Retirement Benefits in Tanzania: Realities and Challenges by Pensioners Union of Tanzania (2009)

## **1.3 Objective and Scope**

### **1.3.1 Audit Objective**

The objective of this audit was:

*To assess the efficiency of the Government, Funds and selected Employers on processing terminal benefits of retired civil servants in Tanzania giving consideration to:*

- *Time taken to wait for the terminal benefits to be effected;*
- *Supervision, training and effective communication between different pension stakeholders and schemes;*
- *Workflow of processing terminal benefits;*
- *Actions taken by responsible authorities to reduce average waiting time;*
- *Impact of late payments of terminal benefits to retirees; and*
- *How to complain if retirees are unhappy about the way terminal benefits have been handled or processed.*

*To evaluate the adequacy of systems and procedures in place for the processing of terminal benefits; and*

*Finally, to make recommendations as deemed appropriate under the circumstances.*

### **1.3.2 Audit Scope**

This audit covered three fiscal years i.e. 2006/2007, 2007/2008 and 2008/2009; and focused on two Public Pension Funds (Public Service Pension Fund and Local Authorities Pension Fund) administered by the Ministry of Finance and Economic Affairs and the Prime Ministers' Office (R.A.L.G) respectively.

This audit was carried out in 3 (three) selected Ministries and 17 (seventeen) Local Government Authorities. These are employers of the public I service in Tanzania and in this sense all of them have a role to play in public pension management in Tanzania.

The selected ministries and local government authorities were:

Central Government (Ministries)

- i.) Ministry of Education and Vocational Training (MoEVT)
- ii.) Ministry of Health and Social Welfare (MoHSW)
- iii.) Ministry of Agriculture and Food Security (MoAFS)

### **Local Government Authorities**

<b>Region</b>	<b>Councils</b>
Morogoro	<ul style="list-style-type: none"> <li>• Morogoro Municipal Council</li> <li>• Ulanga District Council</li> <li>• Kilombero District Council</li> </ul>
Mbeya	<ul style="list-style-type: none"> <li>• Mbeya City Council</li> <li>• Mbozi District Council</li> </ul>
Kigoma	<ul style="list-style-type: none"> <li>• Kigoma District Council</li> <li>• Kasulu District Council</li> </ul>
Dar es salaam	<ul style="list-style-type: none"> <li>• Ilala Municipal Council</li> <li>• Temeke Municipal Council</li> <li>• Kinondoni Municipal Council</li> </ul>
Manyara	<ul style="list-style-type: none"> <li>• Babati District Council</li> <li>• Hanang District Council</li> </ul>
Lindi	<ul style="list-style-type: none"> <li>• Lindi District Council</li> <li>• Nachingwea District Council</li> </ul>
Dodoma	<ul style="list-style-type: none"> <li>• Dodoma Municipal Council</li> <li>• Bahi District Council</li> <li>• Chamwino District Council</li> </ul>

The above Ministries and LGAs were selected due to the fact that they have a large number of Civil servants and the rate of retirement is quite high compared to other Ministries and LGAs.

The Ministry of Finance and Economic Affairs (MoFEA) and President's Office – Public Service Management (PO-PSM) are our main auditees since the two selected Pension Funds are under the MoFEA and PMO-RALG and under the public service employers are under the PO-PSM.

## **1.4 Audit Design**

The audit work was designed by using questions and the audit methodology used is presented in sub-section 1.4.2. The questions were based on Time taken to wait for the terminal benefits to be effected, Supervision, training and effective communication between different pension stakeholders, Workflow of processing terminal benefits, Actions taken by responsible authorities to reduce average waiting time; and Impact of late payment of terminal benefits to retirees. The used questions are as shown in section 1.4.1 and Appendix 1.

### **1.4.1 Audit Questions**

**Question 1:** ***Are important bottlenecks in the Processing of Terminal Benefits for retirees identified?***

This audit question determined whether there is a reliable system for identifying the bottlenecks in the processing of terminal benefits of members of a Fund. Whether long waiting time caused by non-professional management of the Terminal Benefits Processing time, application forms and procedures are too complicated and causing unnecessary problems for the retirees, organization and coordination of the entire process for the payment of terminal benefits.

**Question 2:** ***Are there bottlenecks in the workflow causing queues and idle time?***

This audit question checked whether there are differences in idle times between ministries and local governments and causes of varying performance. It also checked whether the observed long idle times in any step of the flow, were critical in the sense that they needed to be reduced to shorten retirees' waiting times.

**Question 3:** ***Are there ways to reduce average waiting times without additional costs?***

The audit question evaluated whether there is any evaluation conducted whose results were used to come up with ways to reduce average waiting times without additional costs.

**Question 4:** ***To what extent is the lack of supervision, training and effective communication affecting the efficient processing of documents?***

This audit question evaluated whether there are evaluations on the effectiveness of supervision, training and communication of retirees documents between different parties involved, that is Employers and Pension Funds.

**Question 5:** ***What is the impact of inadequate processing or delays in paying terminal benefits?***

This audit question determined whether there are adverse impacts to retirees as a result of delays in receiving their terminal benefits.

**Question 6:** ***Is there mechanism in place to manage terminal benefits processing complains.***

This audit question determines whether there is a proper office set up to deal with or investigate complains about the way both employers and Funds are dealing with peoples' terminal benefits issues.



### **1.4.2 Methods of Implementation**

After preparation of the audit questions mentioned above, the administration of the audit questions were done as follows:

- The staff were interviewed in the following areas:

**Central Government** - Senior officials in the Ministry of Finance and Economic Affairs (MoFEA), President's Office – Public Service Management (PO-PSM), Ministry of Education and Vocational Training (MoEVT), Ministry of Health and Social Welfare (MoHSW), and Ministry of Agriculture, Food Security and Cooperatives (MoAFC).

**Local Government** - City/Municipal/District Directors, Administrative and Human Resource Officers, Representatives of Teachers Service Department in the Council and Health Secretary in the seventeen Local Government Authorities dealt with.

- A number of documents were reviewed including:
  - Operating Policies and Procedures (OPPs)
  - Public Service Retirement Benefits Act No. 2 of 1999
  - Public Service Act No. 8 of 2002
  - Standing Orders for Public Servants, 1994 Edition, Section Q. 45 – 47.
  - Staff Circular No. 5 of 1986.
  - Muongozo wa kuhusu masuala ya Ajira katika Utumishi wa Umma of 2009.
  - Client Service Charter (PO-PSM - Mkataba wa Huduma kwa Mteja) of June, 2007
  - Local Authorities Pension Fund (LAPF) Act No. 9 of 2006.
  - Other documents (see Reference)
- Third parties were consulted on their views of the performance of Pension Funds, Ministries and LGAs. They included:
  - Pensioners Union of Tanzania (PUT)
  - Help Age International - Tanzania

### **1.4.3 Limitations of the Audit**

There are some limitations that need to be acknowledged and addressed regarding this audit as presented hereunder;

Concerning the availability and adequacy of terminal benefits processing data from Ministries and LGAs visited. It was not easy for the audit team to get readily available data or information.

Regarding availability of reliable data: the team received conflicting information from different Ministries and LGAs and from Pension Funds (PSPF and LAPF). This illustrates that information structure is not working or functioning properly but we tried to handle them and present in the best way.

However, according to the complexity of the matter, we have limited our audit on the processing of terminal benefits of retirees to PSPF and LAPF only. The other Pension Funds such as GEPPF, PPF and NSSF were not dealt with.

Three ministries, seventeen LGAs and two pension Funds were examined as samples. Despite the fact that the audit team had examined these few organizations but the broader picture obtained indicated that the conclusions reached in this report can represent and be applicable to other Ministries and LGAs in Tanzania.

## **1.5 Data Validation Process**

The Ministries, Funds and LGAs dealt with were given an opportunity by the Audit Team to go through the figures and information presented in this report. They confirmed the accuracy (situation they reflect) of the figures used and their subsequent information.

## **1.6 Structure of the Audit Report**

This report has been structured in such a way that, Chapter one covers an introduction to the audit area, including the objective, scope and limitations of the audit; it also, discusses the audit methodology and its implementation.

Chapter two presents the key national laws, policies and standards related to processing of terminal benefits in Tanzania. The introduction to findings of the report are presented in Chapter three, while Chapter four and five present the audit findings for the Central and Local Government Levels respectively.

Chapter six presents a summary of the consolidated findings from Central Government and LGAs and Chapter seven presents the conclusions reached. Finally, Chapter eight presents the audit recommendations issued to the Funds, LGAs and to Central Government respectively.

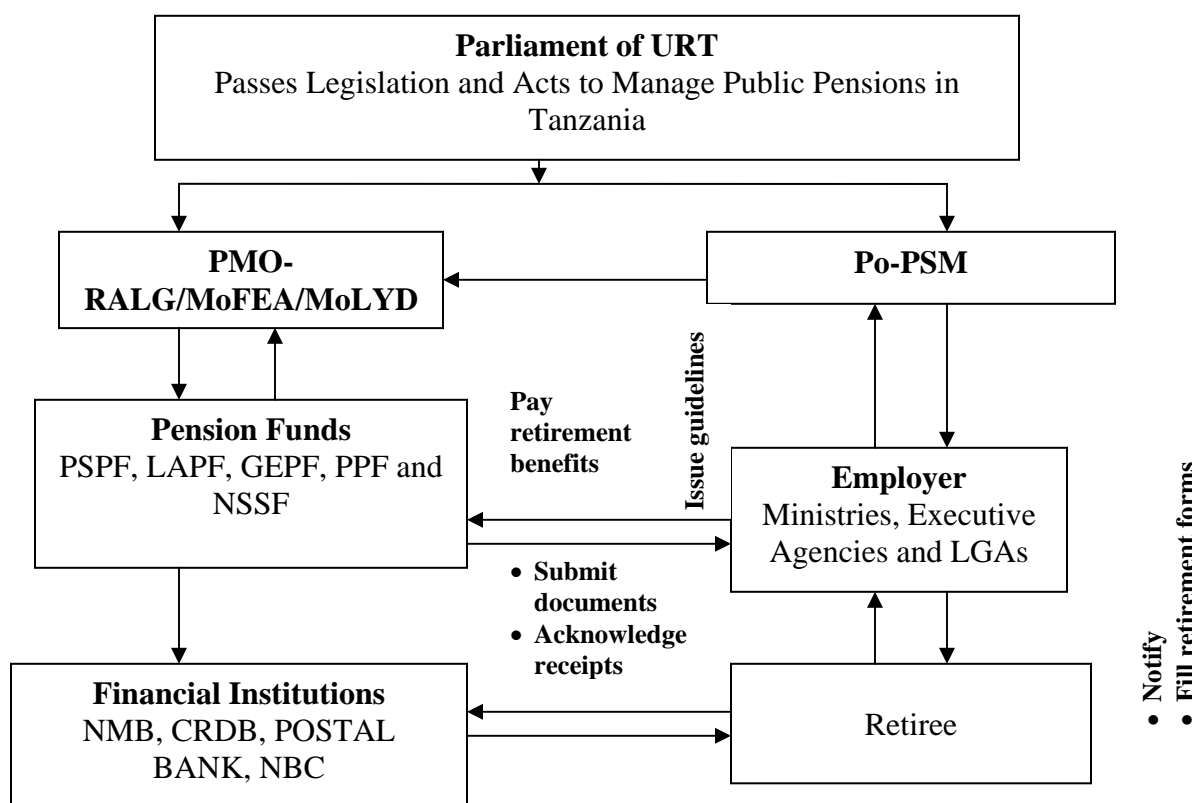
References used and appendices are also presented, whereas, Appendix 1 shows a list of Audit Questions and sub questions, Appendix 2 is highlighting the main laws and regulations regarding terminal benefits processing in Tanzania, Appendix 3 is a description of the payment of terminal benefit system on how it should be rationalized. Appendix 4 shows the chronological development of the Pension Funds in Tanzania. Appendix 5 presents the summary of Tanzania Social Security (Pension) Funds.

## CHAPTER TWO

### TERMINAL BENEFITS PROCESSING SYSTEM IN TANZANIA

This chapter deals with the actors (see the following sub sections) system set up for the terminal benefits processing system in Tanzania. The system of terminal benefits processing in Tanzania is indicated in figure 2.1 below:-

#### 2.1 Stakeholders in the Processing of Terminal Benefits



**Figure 2.1: Stakeholders in the Processing of Terminal Benefits in Tanzania**

#### Public Service Pension Funds (PSPF)

The Public Service Pension Funds (PSPF) was established by the Public Service Retirement Benefits Act No. 2 of 1999 to provide for contributions to and payment of pensions, gratuities and other benefits in respect of the service of officers in the Public Service and to provide for the related matters. The Act applies to Public Service employees in Tanzania including those employed in Executive Agencies established by Acts of Parliament.

The Pension Fund is responsible for collection of contributions from government employees and those working in executive agencies, members' records keeping, sustainable investments of the contributions and ensuring compliance to the scheme to mention just a few.

### **Local Authorities Pensions Fund (LAPF)**

Local Authorities Pensions Fund (LAPF) was established by the Local Authorities Pensions Fund Act No. 9 of 2006 to provide for contributions to and payment of pensions, gratuities and other benefits in respect of the service of officers in the Local Government and to provide for the related matters. The Act applies to all Local Government employees in Tanzania.

The Fund's responsibilities include collection of contributions from local government employees and any other Institution or person who wishes to be a member, members' records keeping, sustainable investments of the contributions and paying out pensioners in compliance to the established scheme.

### **Employee (Expected Retiree)**

- Employee is supposed to understand his/her terms of service which determines the mode of payable terminal benefits payment
- Know the date of birth which will enable the employer and employee to know the date of retirement
- Gives notification to employer (through a letter of notification) six months before retirement date

### **Employer**

- Employer has a responsibility of reminding an employee on the date of retirement
- Has to write a letter of termination or otherwise once notification letter from the employee is received.
- Has a role of filling retirement forms/data sheets within six months and submit them to PSPF/LAPF or other Funds on time
- Has the responsibility of ensuring that all the required documents are in place and intact.

### **Funds (PSPF/LAPF)**

- Funds have a responsibility of capturing all the information/data of staff required to join their schemes and put them into their computer systems. This information should include cheque number, date of birth, date of first appointment, date of confirmation, date of admission to pensionable terms, indicative date of termination etc.
- Assessment of the information/documents submitted.
- Preparation of terminal benefits payment.
- To ensure that all contributors are fully registered.

## Treasury

- To ensure that contributions of employees paid by Treasury are remitted to the Funds on time.

## President's Office – Public Service Management

- To issue guidance, to monitor and conduct merit based recruitment in the public service.
- To ensure that service schemes are formulated and implemented.
- Ensure that all retirees are deleted from the government payroll.
- Issue authority to retire on public interest.

## TYPES OF BENEFITS PAYABLE

Funds are responsible for the payment of eight kinds of benefits to its beneficiaries as shown below:

- Old age Benefits
- Survivor Benefits
- Death Gratuity
- Sickness Benefits
- Invalidity Benefits
- Withdraw (due to marriage, maternity, and giving birth)
- Withdraw (due to Emigration/unemployment)
- Funeral Benefits

This audit will focus more on the Old Age Benefits as provided by PSPF and LAPF. Old Age Benefits are as detailed below:

BENEFIT TYPE	DOCUMENTS NEEDED	FORMULAR USED
<b>OLD AGE BENEFITS</b>  <b>Conditions</b> Attain age of voluntary retirement (55 yrs) or that of compulsory retirement (60yrs)  <b>Beneficiary</b> Member  <b>Period of Payment/Limit</b> Till death	<ul style="list-style-type: none"><li>• Membership Card</li><li>• A letter of notification of retirement from employee</li><li>• A letter of termination from the employer</li></ul>	Specified amount = $1/540 \times$ No. of complete months served $\times$ last annual salary  $CPG^4 = SA/2 \times 15.5$ $MP^5 = SA^6/2 \times 1/12$

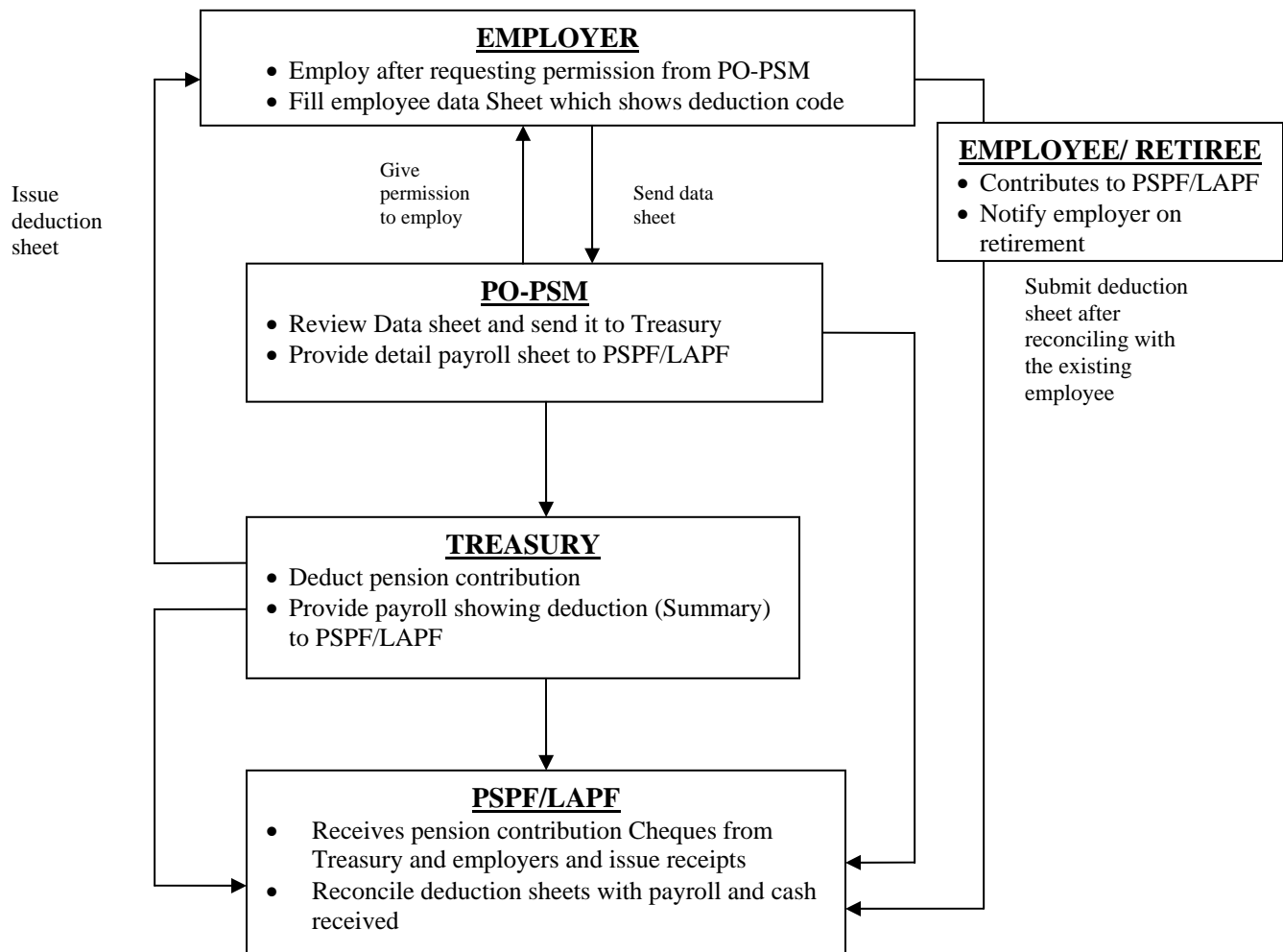
As for other Pension Funds details can be found on Appendix 5 of this report.

<sup>4</sup> Commuted Pension Gratuity

<sup>5</sup> Monthly Pension

<sup>6</sup> Specified Amount

## 2.2 Flow of Receiving and Maintaining Pensions' Information



**Figure 2.2: Flow of Receiving and Maintaining Pensions' Information**

The following is the chronological flow of events in the processing of terminal benefits:

### a) Notification to employer on intention to retire

Employee is required to give notification to employer six months before the retirement date. This notification is normally done through a written notification letter. The employer is then supposed to respond back to the notification letter written by the employee<sup>7</sup>.

### b) Filling Retirement Claim forms (data sheet)

To commence terminal benefits processing the expected retiree starts by filling the forms and the employer submits them to PSPF/LAPF three months before the date of retirement. Therefore, the employer has a

<sup>7</sup> According to standing orders, an authority to cease working on the grounds laid down in the standing order is issued to allow terminal benefits processing take place.

responsibility of ensuring that all relevant documents are in place and intact.

Since, the Employer is the one who maintains the employees' service records, he has to ensure that Retirement Benefits Application Forms have been filled correctly and appropriately, that is to ensure that all required information have been reported on the application form. Also, the employer has to ensure that all information is supported by documentary evidence.

**c) Submission of the Retirement Claim forms of retiree to the Pension Fund**

The Employer is responsible for the submission of the retirement's claim forms to the Pension Fund. This submission of claim form is normally supposed to be done three months before the retirement date of an employee. The Employer has one person in his/her office who is working as a contact/liaison officer to the Pension Fund. Through this office all the correspondences between the Pension Fund and the Employer regarding expected retirees' payments are done. In case of any missing or improper filling of data sheets, this information is communicated to this official.

**d) Assessment of the information/documents submitted**

After the retirement forms/data sheet have been submitted to the Fund (e.g. PSPF or LAPF) by an employer, then the operation officers start to scrutinize that information to see whether what was presented is correct and appropriate.

The scrutiny of the information submitted normally aims at checking if all relevant information are in place and sufficient to enable the Fund grant terminal benefits to the retiree. If all the information submitted is correct and complete, preparations of the terminal benefits start right away. However, if some information is lacking queries will be raised which force the operation officer to communicate back with the Employer. The employer is then required to submit that information so as to allow Terminal Benefits process to continue. Depending on the nature of the query, the terminal benefits will not be processed pending query reply.

**e) Preparation of terminal benefit payments**

The preparation of terminal benefits is done, when the employee's required information are complete and submitted. The computation result on the amount of lumpsum (Commutated Pension Gratuity) payable soon after retirement and Monthly pension collected after every three months (i.e. collected 4 times a year) up to the date of death of a pensioner.



Normally, the computations pass through internal checks within the fund before the cheque is prepared.

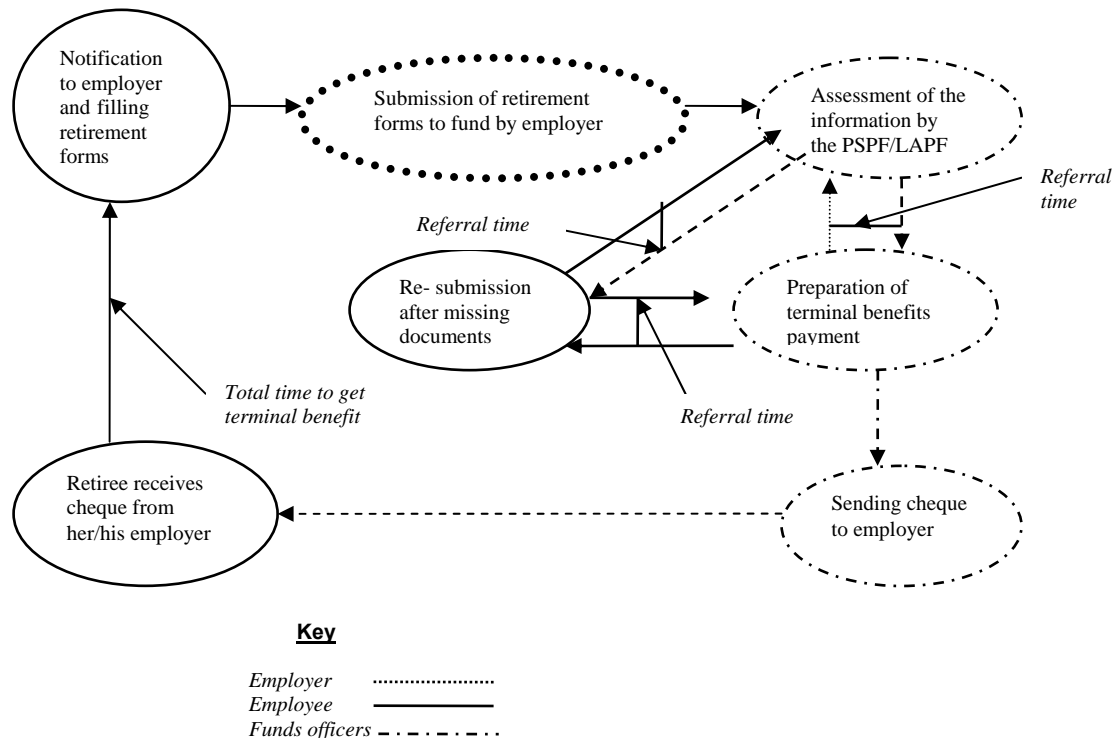
**f) Sending cheque to employer**

When a retirement benefit cheque is ready, the Fund informs the employer and his/her official goes to the Fund to collect the cheque. Only this official is allowed to collect the cheque from the Fund. The cheque is then sent to the employer's office for the collection by the retiree.

**g) Retiree collects cheque from the employer**

Having collected the cheque from the Fund, the employer notifies the retiree about the presence of the cheque. Then retiree comes to the employer to collect the same which will be presented to the appropriate bank for cashing.

The above narrated process can be visualized as shown in Figure 2.3 below



**Figure 2.3: Flow chart for Processing Terminal Benefit**

Appendix 3 provides additional information regarding Processing Terminal Benefit.

**2.3 Sources of funds for the Pension Funds (LAPF and PSPF)**

Pension Funds are financed by two main sources, namely, employees and employers contributions on the one hand, deducted from employees' monthly

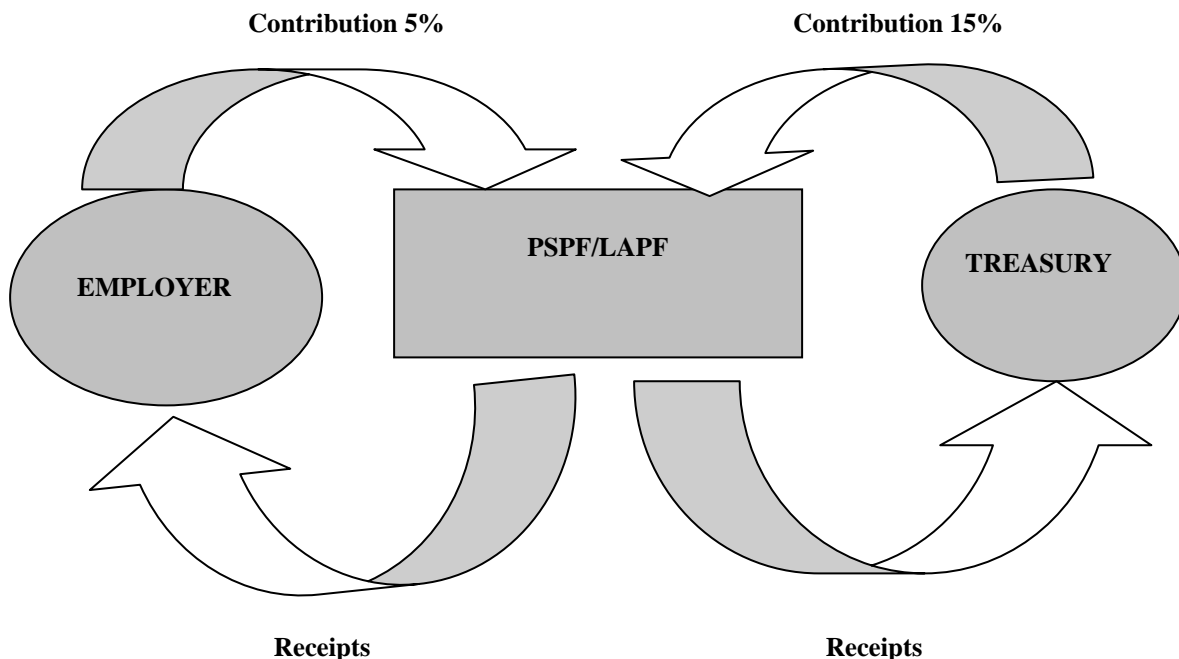
wages and direct remittances to the Funds by the Treasury (Government) respectively and investment income on the other hand.

### **2.3.1 Contributions to the Fund**

PSPF's and LAPF's contributions are of two categories; Employer's 15% and Employee's 5% of the employees' monthly salary. For the case of 5% contributions, a Cheque accompanied by payment voucher and schedules as supporting documents, is sent by respective employers to the Fund's cash office.

The 15% contributions are collected directly from the Treasury, in which case, cheques and vouchers are brought into the Fund's Cash Office where cross checking is done against previous month's pension contribution deduction sheet for verification purposes.

Both Contributions are supposed to be remitted to the Fund within thirty days after the end of each month. The statutory contributions which ought to be contributed by parties concerned are outlined in the Figure 2.4 below.



**Figure 2.4: Funds accounts information flow**

### **2.3.2 Investments income**

According to the investment policies of the Funds, there are two categories of Investments namely short term and long term investments.

Short term investments involves investing in areas like government securities (treasury bills, treasury bonds etc) and commercial papers; while long term investments involves loans, equity participation etc.

See PSPF's income and expenditures for the year 2006 – 2009

**Table 2.1: PSPF's Income and expenditures for the year 2006 – 2009 (TShs billion)**

Item	30 June 09	30 June 08	30 June 07	30 June 06
Member's Contributions Income	232.0	151.6	127.4	85.7
Investment Income	60.6	70.4	177.7	123.6
Benefit expenses	(142.6)	(132.4)	(74.4)	(61.5)
Administration Expenses	(7.9)	(5,.7)	(4.4)	(9.1)

Source: PSPF Financial Records

### **2.3.3 Accountability for Public Pension Management**

The Public Pension Scheme in Tanzania is large and complex to administer. It involves extensive policy formulations and consultations within the Central and Local governments and with numerous special interest groups such as Trade Unions and others. It also involves running one of the most important service operations in the government (public sector), maintaining an enormous computerized record-keeping system, and ensuring that over 15,000 cheques are delivered on time every three months to over 15,000 individuals.

Through Public Service Retirement Act and Local Authorities Pensions Fund Act, the Minister of Finance and Economic Affairs has the sole responsibility for the administration of the Public Pension System. In addition, the same Ministry plays an important role in policy negotiations and discussions on financing with Pension Funds. However, for the case of the NSSF its control and administration are overseen by the Ministry of Labour, Employment and Youth Development.

Similarly, PO-PSM has a responsibility of coming up with different policies regarding public service provision which binds all civil servants. The same office is the one which regulates all the categories of the civil servants which finally determines the level of payment of terminal benefits.

On the other hand, PO-PSM governs all the public services, therefore any dispute in the service administration of an employee or retiree has to be appealed to this office for resolution.

## **CHAPTER THREE**

### **INTRODUCTION TO FINDINGS**

The National Audit Office has audited two key ministries (MoFEA and PO-PSM), two pension Funds (Public Service Pension Fund and Local Authorities Pensions Fund), three ministries (employers) and 17 Local Government Authorities (employers).

The findings of the audit have been presented in the next three chapters of this report. Findings for each Fund (PSPF and LAPF) have been presented separately in chapters four and five respectively of this report.

Based on the scope of the audit, the following issues have been addressed on the findings chapters:

- Length of time to finalize retirement benefits;
- Number of retirees awaiting benefits finalization;
- Notification and retirement for the retirees;
- Average waiting time;
- Reasons for Delays in Processing Terminal Benefits;
- Submission of retirement Documents;
- Employers' response to Issues Raised by Pension Funds;
- Submission of Employees' and Employers Contributions;
- Registration of employees who contribute to the Fund;
- Ways to reduce average waiting time;
- Actions taken by authorities to ensure efficient processing of pension; and
- Impact of delays in paying pensions.

#### **3.1 Time to finalize retirement benefits**

The estimated time to finalize processing of terminal benefits of retirees over a period of years (2006/7 – 2008/9) is presented.

In this part a number of retirees awaiting terminal benefits finalization is also shown.

Similarly, average waiting time for the retirees to receive their terminal benefits is presented. A number of computations and figures done are shown in this part of the report.

### **3.2 Notification and retirement for the retirees**

The requirement for the employee to notify the employer the intention to retire is presented in this part. This section also examined and presents time taken by the employers to respond to employees request to retire.

Notifications were assessed to check whether it was done six months before the retirement. This information is presented in the next three chapters.

Likewise, the date of retirement of different employees were analysed, reviewed and are presented in this part.

### **3.3 Reasons for Delays in Processing Terminal Benefits**

Reasons for the delays in processing Terminal Benefits for retirees have been presented in this part.

The presentation also focuses on the extent or influence of the delay in processing terminal benefits.

Similarly, these reasons have been grouped in such a way as to determine who the source is. Delays presented in this part are either caused by employers, employees or Pension Funds.

These three sources of delays are highlighted in the report.

### **3.4 Employers' response to Issues Raised by Pension Funds**

Employers are responsible for ensuring that retiree's information is submitted to the Pension Funds on time. They are required to make sure that all information submitted is correct and appropriate.

Once any information is found to be missing or inadequate, Pension Funds communicate with the respective employers.

This section reports on the employers' response on all issues raised by the Pension Funds. It tries to assess whether the same kind of information is sought from the employers by the Fund.

### **3.5 Submission of Employees' and Employers Contributions**

One of the responsibilities of the employers is to ensure that they submit their contributions on time. These contributions include employees' and employers' contributions of 5% and 15% respectively.

The findings presented in this section, highlight issues regarding submission of employees' and employers' contributions.

### **3.6 Registration of employees who contribute to the Fund**

PSPF and LAPF are responsible for registration of all members who contribute to their respective Funds.

Once registered members' information is stored on the Funds' data bank and can be used by the Fund to process terminal benefits of their members.

This section also presents findings regarding the level of registration of Funds' members done by PSPF and LAPF.

### **3.7 Actions taken by authorities to ensure efficient processing of pension**

In this section, actions and efforts taken by different government institutions (Central and Local) and Pension Funds (PSPF and LAPF) to reduce the problem of delay in processing terminal benefits are presented. Also, presented are findings on the impact of those actions in reducing delays.

# CHAPTER FOUR

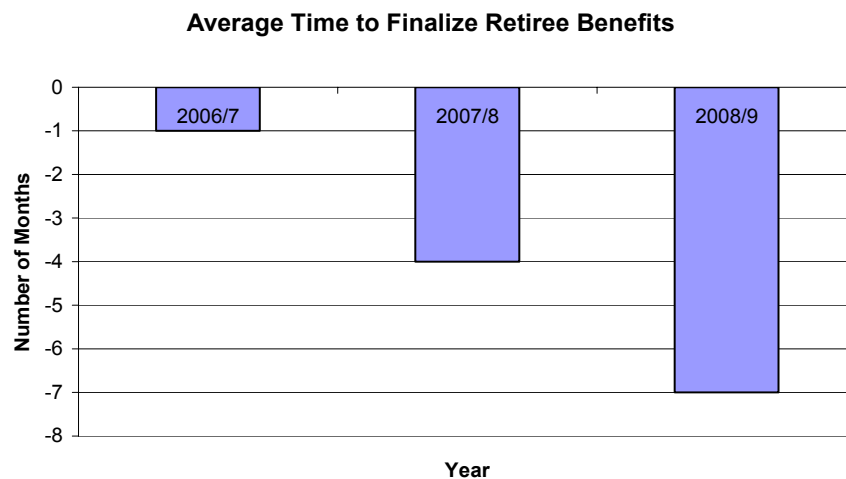
## PUBLIC SERVICE PENSION FUNDS

In this chapter, findings as answers to the audit questions shown in chapter one of this report are presented. The findings are linked to processing of terminal benefits for payment by PSPF.

### 4.1 Increase of time to finalize retirement benefits

Over the past several years, PSPFs' efforts to process final retirement benefits for their members have deteriorated. The finalization process, which is designed to ensure that retirees receive all due benefits that they are due, takes about 1 to 24 months to complete. This audit has found that the PSPF has had difficulties meeting its own benchmark of finalizing benefits within seven days after the date of retirement.

Based on interviews with PSPF officials and our analysis of 1,553 retirees, we found that the current average finalization time has now increased to seven months. This is seven times longer than in FY 2006/2007. Figure 4.1 displays the increasing average time to process a retiree's final benefits.



Source: PSPF

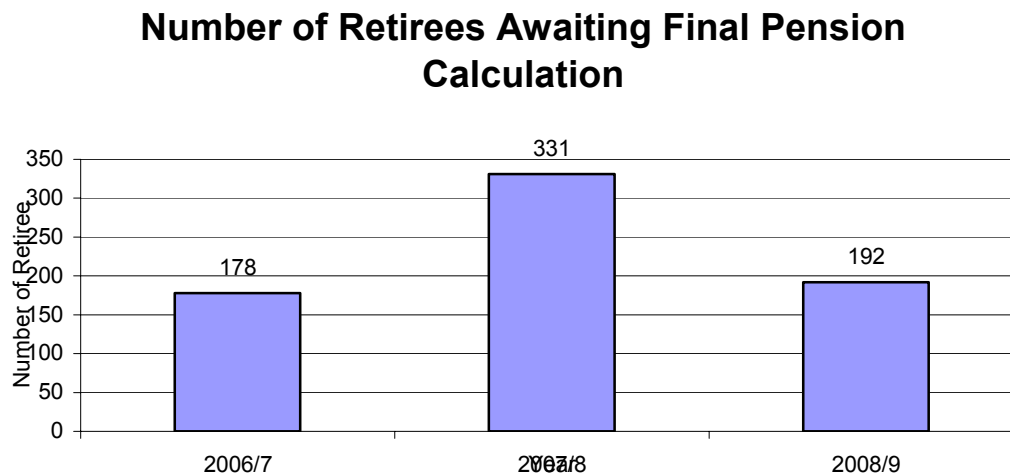
Figure 4.1: Average Time to Finalize Retiree Benefits

PSPF officials also reported that a number of factors have contributed to the increased time in processing payments: This includes submission of incomplete retiree's documents by employers or expected retiree, untimely and inaccurate submission of monthly contributions. Regardless of alleged causes, the poor

quality of service and proper filing of retiree's documents extended by the PSPF to their beneficiaries is inexcusable.

#### 4.2 Increase in number of retirees awaiting benefits finalization

As of June 30, 2007, there were 178 retirees awaiting finalization of pensions. Since then, the number of retirees awaiting finalization has almost doubled in the following year. As of June 30, 2009, there were 192 retirees awaiting finalization.



**Source: PSPF**

Figure 4.2: Number of Retirees Awaiting Final Pension Calculation

Figure 4.2 illustrates that from a reviewed 65 files randomly selected from retirees' already paid their retirement benefits for the FY2006-07 to June 30, 2009, 26 retirees, or about 40 percent of those awaiting benefits finalization, have been waiting for one to four months for their payment of final benefits. Five retirees had been waiting nearly a year for a final pension calculation while eleven retirees had been waiting for more than one year as shown on Table 4.1 below.

**Table 4.1: Time taken to process terminal benefits**

Number of months	Number of Retirees	Percentage (%)
Less than 1 Month	8	12
1 – 4	26	40
5 – 8	15	23
9 – 12	5	8
Above 12 Months	11	17
<b>TOTAL</b>	<b>65</b>	<b>100</b>

**Source: PSPF**



### 4.3 Total waiting time for the processing of terminal benefits

According to the Public Service Retirement Benefits Act No. 2 of 1999, a retired officer is supposed to receive his/her terminal benefits within seven days after the date of his/her retirement.

This is following the process started by the employee (retiree to be) six months before the retirement date.

Table 4.2 below shows a number of retirees with their corresponding total waiting time.

**Table 4.2: Total Waiting Time for the Processing of Terminal Benefits for the year 2006/7 – 2008/9**

<b>Total waiting time (Months)</b>	<b>Number of retirees</b>	<b>Percentage (%)</b>
Less than 1 Month	415	25
1 – 6	760	46
7 - 12	286	17
13 - 18	85	5
Above 18 months	101	7

**Source: PSPF**

Table 4.2 above shows that, the average waiting time ranges between 1 and 6 months. A large part of the retirees waits for an average of 5 months.

According to the interviews with PSPF officials, the total waiting time for the retirees to get their terminal (retirement) benefits is long due to a number of reasons. These include:

- Contributions not remitted on time or in a certain period, and
- Submission of incomplete supporting documents for the processing of terminal benefits such as Letter of first appointment, Confirmation letter, retirement acceptance letter, letter of last promotion and recent salary slip.

Similarly, according to the interviews with employers, the reasons for this long waiting time is due to the fact that employees don't keep their employment records properly, PSPF failed to register some of its members and when they are due to retire then they have to go through registration first before other processes are initiated.

#### ***Late notification for the retirees***

The Public Service Retirement Benefits Act No. 2 of 1999 and its regulations require the employee to notify his employer about his/her retirement six months before the retirement date. The same goes to the employer who is also supposed to inform the employee that he is about to retire three months before retirement date.

The same task of informing employers about the officials who are about to retire is done by PSPF which compiles a list of employees who are going to retire in the next financial year and submits the same to the employers.

The Table 4.3 shows the average time taken by employers to notify their employees on their retirement dates.

**Table 4.3: Notification Times by Employees**

<b>Number of retirees</b>	<b>Average notification time (Months)</b>
9	6 months after retirement date
13	2 months after retirement date
25	3 months before retirement date
12	No notification
59	

**Source:** PSPF

Table 4.3 shows that it has taken an average of three months for the employees to be notified on their retirement dates. The shortest notification time is two months while the longest notification time is six months after the retirement date.

According to the interviews with employees, this is a persistent problem which employers have been facing and it has contributed to delays in processing retirement benefits. Reasons behind this are that some of the employees change employers and information regarding the employee is not requested from the previous employer

According to PSPF, besides the fact that it has notified employers a year before about the employees who are expected to retire in a year's time, Employers have not utilized the information as a reminding note to them. Employers also did not use the information (list of prospective retired employees) to start processing their retirement terminal benefits.

**Table 4.4: Submission time of Employers**

<b>Number of retirees</b>	<b>Average submission time (Months)</b>
15	5 months before retirement
22	1 month before retirement
31	4 months after retirement

**Source:** PSPF

Table 4.4 above shows the average submission time of employees' retirement records to PSPF. Almost half of employers submit records of their employees to PSPF four months after the dates of employees' retirement.

#### 4.4 Reasons for Delays in Processing Terminal Benefits

According to various interviews and documents reviewed, there are different reasons for the delay in processing terminal benefits. These are:

- contributions not remitted on time or in a certain period of time;
- contributions paid on low/less salary compared to the actual salary of the contributor and
- incomplete supporting documents.

The audit team found it fit to assess the frequency of occurrence of key reasons for the delay in processing terminal benefits.

Table 4.5 shows the frequency of key reasons for the delays in processing terminal benefits.

**Table 4.5: Showing frequency of key reasons for delay in Processing Terminal Benefits**

Reasons for delay	Frequency			
	Several times	Often	Occasionally	seldom
Contributions not remitted on time or in a certain period			√	
Contributions paid on low/less salary compared to the actual salary of contributor (not related with the actual salary received)		√		
Incomplete support documents required				
- Letter of first appointment		√		
- Confirmation letter		√		
- Retirement acceptance letter			√	
- Letter of last promotion			√	
- Recent salary slip			√	

**Source:** PSPF

#### ***Delays in processing terminal benefits payments due to submission of incomplete documents***

According to the Public Service Retirement Benefits Act No. 2 of 1999, for the PSPF to effect payment of retirement benefits, there are some documents which are supposed to be in place. These documents are:

- Letter of retirement;
- Confirmation letter;

- Retirement acceptance letter;
- Letter of last promotion;
- Recent salary slip; and
- Filled forms for the request of terminal benefits (FN-6)

These documents are supposed to be submitted by employers to PSPF three months before the date of retirement of an employee.

According to the interviews with the PSPF officials, most of these documents were not submitted on time. This was also confirmed by the reviews of documents conducted by the audit team which revealed that schedule officers wrote a number of queries to different employers asking for a number of documents which were not submitted.

According to the interviews with Employers, the reasons for not submitting the above mentioned documents on time were:

1. Letter of first appointment and a letter of confirmation
  - Employees change a number of employers before retirement
  - Employee firstly employed on a temporary basis and then employed on the permanent terms
  - Employees not keeping the required documents in safe custody for future reference
2. Recent salary slip
  - Lack of awareness
  - Employees did not receive the salary slip on time
3. Retirement acceptance letter
  - Late issuance of notification letter to retirees by employer
  - Poor communication which results in retirees not receiving the letter from employers on time
4. Letter of last promotion
  - Long promotion process whereby retirees end their services before receiving the letters of promotion
  - poor communication whereby employees do not receive promotion letters on time

#### **4.5 Employers not responding adequately to issues raised by PSPF**

The Public Service Pension Fund (PSPF) normally prepares an annual list of retirees and submits it to all employers who are members of the Fund. This list shows the list of all employees who are due to retire in one year's time (normally in the next financial year).

This list shows the kind of documents which are lacking at PSPF and need to be submitted to PSPF. After going through this list, employers then know what kind of documents the PSPF doesn't have and they have to submit them when sending the information of their employees to PSPF during the retirement.

However, according to interviews - the employers sometimes do not respond to the reports as a result they submit retiree forms with incomplete documentation which then results in delay in processing terminal benefits.

#### **4.6 Contributions made not based on the current salary**

According to the Public Service Retirement Benefits Act No. 2 of 1999, Employees and Employers are supposed to contribute to the Fund every month. An Employee is supposed to contribute five percent of his/her monthly salary and an Employer is supposed to contribute fifteen percent of the employee's monthly salary.

These deductions are supposed to be submitted to PSPF within 30 days after the payment of the monthly salary. The Employer is responsible for submitting these deductions to PSPF and must be submitted on time as stipulated in the Act.

The submissions of deductions are supposed to be of the actual deductions and not less than what has been specified. Once an employee's salary has changed, the employer is required to fill in data sheet and submit it to the Treasury through PO-PSM to effect changes on the monthly contributions. According to the Public Service Retirement Benefits Regulations of 2003, Reg. 9 (6), for contributions not paid within one month after the end of each month, a penalty of five percent will be charged for unpaid amount for each month or part of month following the date when the payment was supposed to be paid.

However, some of the retirees were not paid their terminal benefits on time due to non submission of correct contributions to the Fund during the period of their service. For example, one of the retirees was charged Tshs.4,335,187.50 (131% of the unpaid amount) as penalty as shown in Table 4.6 for non submission of monthly contributions amounting to Tshs.3,303,000. Length of defaulting time is 14 months.

**Table 4.6: Analysis of the penalty paid**

<b>Apr 2006 to June 2007</b>	<b>Penalty for late payment (TShs.)</b>
Retiree 1	4,335,188
Retiree 2	10,044,233

**Source:** PSPF

Table 4.6 above shows that penalty imposed may be more than the contribution amount. According to the interviews with PSPF, most of the employers did not pay the penalty imposed on time which resulted into non finalisation of the terminal benefit payments pending payment of the penalty by the employer.

According to the interviews with PSPF, the following are the reasons for non-submission of contributions:-

- Employers did not submit data sheet to PO-PSM to effect deductions
- PO-PSM did not submit data sheet to Treasury to effect deductions
- Employers intentionally want to minimise the amount paid (15%)

#### **4.7 PSPF failure to remind employees to remit their contributions**

One of the main functions of the PSPF is to ensure that all members (contributors) comply with the requirements of the Fund. To ensure that this role is discharged appropriately, PSPF has a Compliance section whose one of its main functions is to ensure that all members comply with all the requirements of the Fund including submission of the employees' and employers' contributions.

This section is charged with the role of reviewing all the contributions submitted monthly and if there is any problem regarding contributions submitted then they have to inform the concerned employer to submit his/her contributions.

Table 4.6 shows that there are a lot of delays in submitting contributions and also some of the employers submit lesser amounts of contributions than the one supposed to be submitted.

The compliance section of PSPF remained silent to this problem of non or under submission of the contributions. There is no evidence showing that the Section has taken efforts to remind employers on the need to submit their contributions on time and make sure the right amount of deductions are submitted on time.

According to the same officials of the PSPF, when an employee is retiring and his/her contributions were not submitted then he/she has to wait for sometimes to get his terminal benefits until all the contributions are paid for by him/her and employer. This has caused a lot of inconveniencies to retirees, since they have to look for the money elsewhere in order to be able to pay the contributions which were not submitted.

This payment is also accompanied by the payment of the penalties which are also paid by parties, employee and employer.

According to the interviews with employers, this problem occurs simply because there are some officials who move from one employer to another and others in fact got promoted and their salary scales have changed a lot and hence they forgot to update their information.

#### **4.8 Failure to register all Employers who contribute to the Fund**

Another major function of the Compliance Section of the PSPF is to register all members of the Fund. In that sense, as stipulated by the Public Service Retirement Benefits Regulations, 2003, PSPF has to register all its members who contribute to the Fund.

Once these members are registered, all necessary documents and particulars concerning individual members are scanned and saved in the PSPF data bank. During this time it is when all the registration forms are filled and stored by PSPF for future reference.

This exercise is quite important since most of the documents and information concerning members are in the hands of the Fund then in the later stages can be very helpful when an employee reaches retirement age.

Requirement of the above mentioned Regulations is that, all employees who contribute to the Fund must be registered by the Fund and this task is normally performed by the Compliance section of the Fund.

Table 4.7 below shows the number of registered members and the total number of those who contribute to the Fund. Similarly, it shows the number of those who have not been registered by the Fund but at the same time they still contribute.

**Table 4.7: Number of registered members and the total number of those who contribute to the fund**

<b>Year</b>	<b>Total members</b>	<b>Registered members</b>	<b>Unregistered</b>	<b>Unregistered (%)</b>
2004/5	202,165	161,126	41,039	20.3
2005/6	196,384	166,497	29,887	15.2
2006/7	222,258	197,965	42,293	19.0
2007/8	240,091	189,792	50,299	20.9
2008/9	260,356	205,409	54,947	21.1

**Source:** PSPF

Table 4.7 above shows that the number of unregistered members is increasing year after year. Even though the increment is slow and steady but it shows that the problem is persisting.

According to the interviews with Employers, this problem seems to increase year after year. If all members could be registered, delays would be minimized since most of the documents found to be incomplete would have been sorted out during the registration period/process.

According to interview, reasons for not registering all of its members is contributed by employers failing to request registration forms from the PSPF offices, which should then be filled in duplicate where by one copy remains with

the employer while the other is sent to PSPF accompanied with other materials as may be required for registration purposes. However, the fund is required to create awareness to employees on the benefit of registration. In addition, the Fund should trace all unregistered contributors to ensure that they are registered accordingly.

#### 4.9 Registration of Retired members

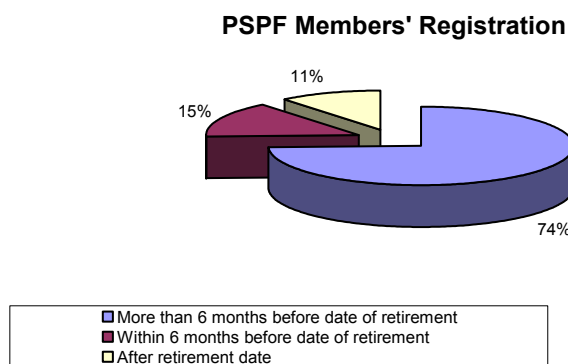
According to the Act, only registered members can be paid their retirement benefits by the Fund. Due to this fact, unregistered members need to be registered first before their terminal benefits could be computed.

For that matter, those who retired without being registered by the Fund have to wait for sometime before their terminal benefits can be processed.

The audit team randomly selected 55 files of members registered by PSPF in year 2007 and 2008. Among the 55 reviewed files of members paid by PSPF, it was found that 11% of the members were registered after their retirement date.

Figure 4.3 below illustrates registration of members at PSPF before and after the date of retirement. Based on analysis, 74% of the members were registered more than twelve months before their actual date of retirement, 15% of the members were registered between one to twelve months prior to their date of retirement and only one member was registered less than one month before the retirement date. On other hand, 5 members were registered between one and twelve months after their dates of retirement passed and one was registered after more than twelve months after the dates of retirement.

According to interview with PSPF officials, for one to be a member of the Fund she /he must first fill the PSPF Form Number one (FN-1). The actual date of registration of a member is the date when FN-1 forms are filled, without filling this form the terminal benefits can not be processed.



Source: PSPF

Figure 4.3: PSPF members' registration



#### **4.10 Delays due to centralization of retirement benefits processing activities**

##### **Workload in Head Office**

According to staff list and job description, the Public Services Pension Fund (PSPF) has 21 regional offices which are headed by a Regional Office In-charge (ROI). At the same time, each regional office has at least one operation officer. In total each region has 2 officials and for the entire country the total number of officers in the regions is 42.

The same staff list shows that in PSPF head office, there are 17 schedule officers who are responsible for the assessment of retirees' files.

These officers at head office normally are supposed to go through 4000 retirees files per annum. On average each Schedule Officers is expected to process 235 file annually.

##### **Workload in Head office and regions on following employees' compliance**

Table 4.8 below shows the comparison of the workload between the regional and head office in terms of number of files to number of compliance officers.

**Table 4.8: Workload in Head Office and regions on following employers' compliance**

<b>Year</b>	<b>2008/09</b>	<b>Number of Compliance Officers</b>	<b>Workload/ Compliance Officers</b>
Number of retirees	840	8	105 retirees
Number of employers	221	8	27 employers

**Source:** PSPF

#### **4.11 Training of Governmental officials on pension's related matters**

The PO-PSM conducts training at least once in a year in sensitization and awareness for processing of terminal benefits. All MDAs and LGAs were represented by Human Resources Officers (HROs), District Administrative Secretaries (DAS), Assistant Administrative Secretaries (AAS) etc to a one day workshop/seminar conducted and hoisted by PO-PSM.

The participants were taught;

- Acts and regulations regarding pensions;
- Processes taken on preparing terminal benefits;
- Filling of retirees data sheets; and
- Disseminating knowledge to other employees within the organization;

After the training, the PO-PSM has not made follow up regarding the development of MDAs and LGAs plans of staff awareness which the participants were supposed to train their employees at organization level and assess whether the conducted training is assisting the MDAs and LGAs employees.

As regards staff awareness, we have noted that the said training did not cut across on pension matters.

The above findings reflect lack of training plans solely aimed at ensuring that employees are conversant about pension processes regarding employees' awareness. This should be seen against the obligations of the PO-PSM to be forward looking and chart out monitoring and evaluation mechanisms.

## CHAPTER FIVE

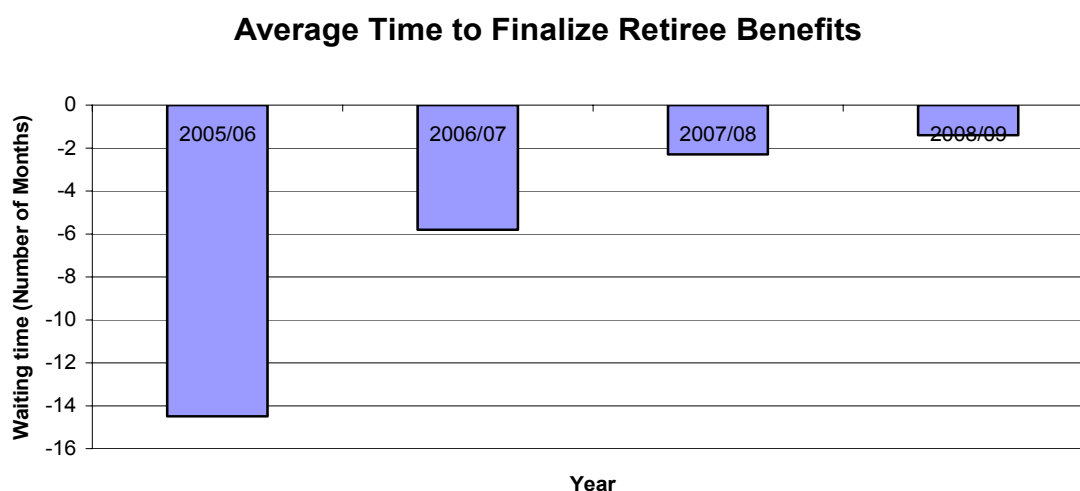
### LOCAL AUTHORITIES PENSIONS FUND

In this chapter, findings as answers to the audit questions shown in chapter one of this report are presented. The findings are linked to Processing of Terminal Benefits for payment by LAPF.

#### 5.1 Time taken to finalize retirement benefits

Over the past several years, LAPF's effort to process final retirement benefits for its members has not been satisfactory. The finalization process at the LAPF head office, which is designed to ensure that retirees receive all benefits that are due, takes about one week to more than 35 months to complete. The LAPF has had difficulties meeting its own benchmark of finalizing benefits within fourteen days after the date of receiving the claims from the employers. Further analysis shows that at LAPF head office, the average processing time is slightly less than 7 months. Only 25% of the claims are finalized within a month; half of the claims are cleared within 4 months and about 25% of the claims are processed for about 11 months.

Based on interviews with LAPF officials and our review of records, we found that the current average finalization time has decreased from 15.5 in 2005/06 to 1.3 months in 2008/09. Figure 5.1 displays the decreasing average time to process a retiree's final benefits.



Source: LAPF

Figure 5.1: Average Time to Finalize Retiree Benefits at LAPF Head Office

LAPF officials also reported that incomplete documents to support the applications have been a major factor contributing to the delays in processing payments. Other factors include, inconsistencies in the information submitted, and inadequate information regarding the beneficiaries' bank accounts.

Regardless of alleged causes, the fact that there are delays in processing of terminal benefits to LAPF beneficiaries is unjustifiable.

## 5.2 Retirees awaiting terminal benefits finalization

As of December 31, 2009, there were 23 retirees awaiting finalization of terminal benefits and the major reason was lack of documents to support their payments.

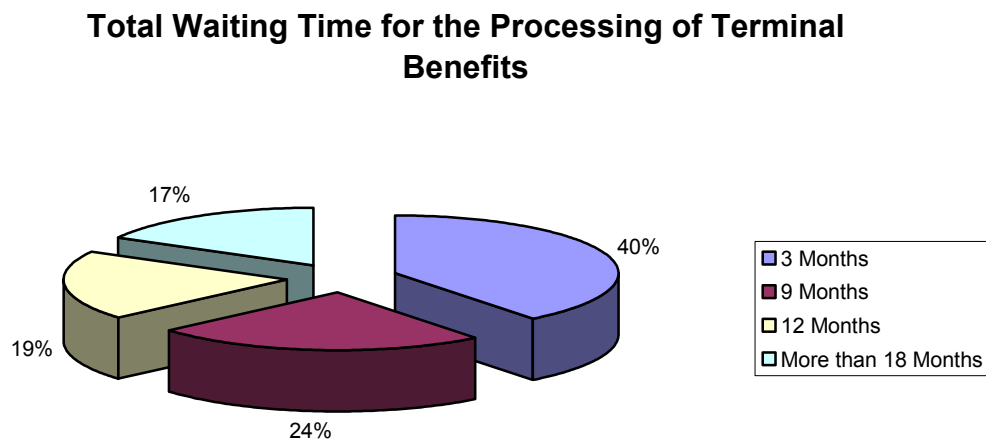
## 5.3 Total waiting time for the processing of terminal benefits

According to the *Local Authorities Pensions Fund (LAPF) Act No. 9 of 2006*, a retired officer is supposed to receive his/her terminal benefits seven days after the date of his/her retirement.

This is following the process started six months before the retirement date.

Figure 5.2 below shows a number of retirees with their corresponding total waiting time.

On average, a retiree has to wait for more than 8 months from the retirement date to the day the payments are ready. In this Fund, waiting time varies from a day to almost 3 years.



**Source: LAPF**

Figure 5.2: Total Waiting Time for the Processing of Terminal Benefits for the year 2006/7 – 2008/9

Figure 5.2 above shows that, it takes at least 3 months to process a quarter of the claims, 8 months to clear half of the claims, 15 months to clear three quarters of the retirees.

According to the interviews with LAPF officials, the total waiting time for the retirees to get their retirement terminal benefits is long due to a number of reasons, these are Contributions not remitted on time or in a certain period and submission of incomplete support documents for the processing of terminal benefits such as Letter of first appointment, Confirmation letter, Retirement acceptance letter, Letter of last promotion and Recent salary slip.

Similarly, according to the interviews with employers, the reasons for this long waiting time is due to the fact that employees don't keep proper records of their employment, LAPF has failed to register some of its members and when they are due to retire then they have to go through registration first before other processes followed.

## **5.4 Length of Average waiting time**

### **5.4.1 Length of time to prepare retirement benefits is high**

Over the past several years, LAPF's effort to process final retirement benefits for its members has not delivered sufficient results. The finalization process, which is designed to ensure that retirees receive all benefits that are due, takes about one week to more than 2 years to complete. However, we found that the Pension Fund has had difficulties meeting its own benchmark of finalizing benefits within seven days after the date of retirement.

Based on interviews with LAPF officials and our review of records, we found that the current average processing time has decreased from 17.1 months in 2005/06 to one month in 2008/09. Table 5.1 displays the average time to process a retiree's final benefits from the retirement date to the time when payments are due.

**Table 5.1: Average Time to Finalize Retiree Benefits**

<b>Year</b>	<b>Average waiting time (months)</b>
2005/06	17.1
2006/07	6.4
2007/08	4.6
2008/09	1.2

Source: LAPF and Employers

LAPF officials also reported that incomplete documents to support the applications have been a major factor contributing to the increased time in

processing payments. Other factors include, inconsistencies in the information submitted, and inadequate information regarding the beneficiaries' bank accounts.

Comparison was made between the average waiting time from retirement date to the day payments are finalised and the average time the LAPF HQ has stayed with the application.

**Table 5.2: Comparison of average delay and average time to finalize Retiree Benefits**

Year	Average waiting time (months)	Average time spent at the HQ (months)
2005/06	17.1	<b>15.5</b>
2006/7	6.4	<b>5.9</b>
2007/8	4.6	<b>2.3</b>
2008/9	1.2	<b>1.3</b>

Table 5.2 displays significant amount of time spent during the finalization process at the LAPF head office.

#### **5.4.2 Late retirement of some of the retirees**

According to the **Local Authorities Pensions Fund (LAPF) Act No. 9 of 2006**, all government officials are allowed to retire at the age of 55 on the voluntary retirement and 60 years for compulsory retirement.

This age of retirement is determined by the date of birth. In this case a retiree and employer are supposed to determine this date upon knowing the date of birth.

Some of the public officials from the visited employers in Central and Local Government offices, failed to honour their retirement dates and retired at later dates.

Table 5.3 shows the number of retirees who failed to retire on the dates on which they were supposed to retire.

**Table 5.3: Late retirement of retirees**

Extended time after required retirement date (Months)	Number of retirees
0-6	19
6-12	7
12-18	1
18-24	5
>24	3
<b>Total</b>	<b>35</b>

Source: LAPF

Table 5.3 above shows that 35 retirees failed to retire on their required retirement dates. The extended period after the age of 60 years varied from one month to almost 8 years. On average the extended time was more than a year.

According to the interviews with LAPF, this is due to failure by employers to notify their employees on their retirement date. The consequence of this is that these officials keep on working for a longer period. LAPF does not deduct part of the money paid to the retirees after working for a period beyond their retirement date. LAPF is not concerned about prolonged public service and the associated contributions because, according to them, more contributions mean additional money to the Fund. This, however, is different from the rules of the game in other Funds where services after 60 years is considered as illegal and will not count in the calculation of retirement benefits.

The same officials of LAPF said that, for those who are given extension of time normally, there is a different approach to be followed and they have to be notified before date of termination. This has never been practised by the employers.

According to employers, some of the employees who are about to retire do not inform their employers, and employers sometimes fail to get details of these officials particularly those who have been transferred from one employer to another and leave behind their details with their previous employers.

#### **5.4.3 Late notification for the retirees**

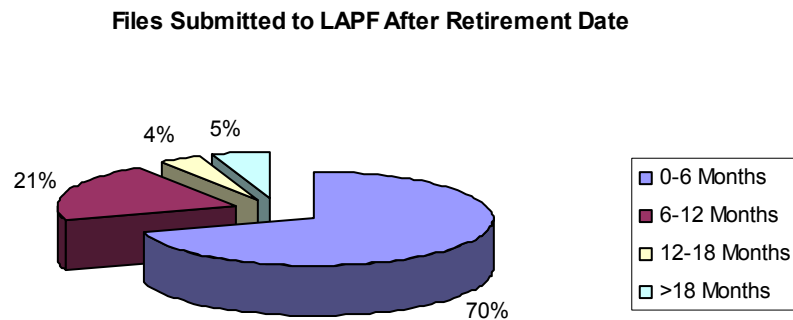
The Local Authorities Pensions Fund (LAPF) Act No. 9 of 2006 and its regulations require the employee to notify its employer about the retirement six months before the retirement date. The same goes to the employer who is also supposed to inform the employee that he is about to retire.

The same task of informing employers about the officials who are about to retire is done by LAPF which compiles a list of employees who are going to retire in the next financial year and submit the list to employers.

Based on records of 17 retirees obtained from Chamwino District Council, 3 retirees were notified prior to notification date. The remaining 14 retirees got a late notification. The extended time after required notification date varied from 2 weeks to 5 years. On average, the delay by employers to notify their employees on their retirement dates is about 11 months.

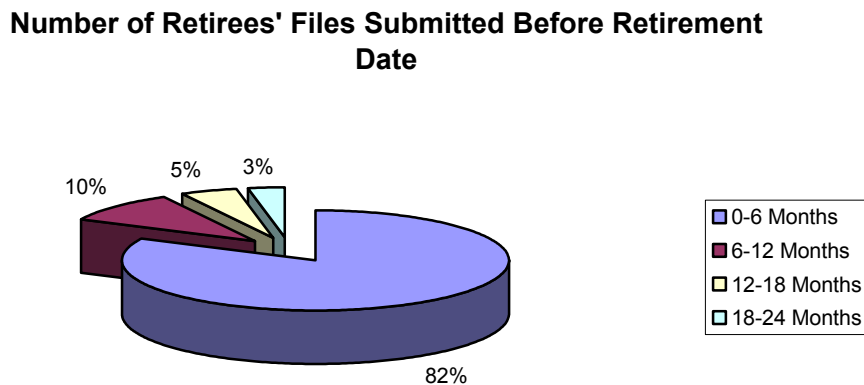
There is no regulation indicating the deadline for submission of claims to LAPF. According to LAPF, claims are accepted for processing at any time from 6 months before retirement date. Review of retirees' records indicated that out of 314 retirees' files, 129 files (41%) were submitted to LAPF before whereas 185

files (59%) were submitted after retirement dates. Figures 5.3 and 5.4 below show periods between submission dates to LAPF and the retirement dates.



Source: LAPF

Figure 5.3: Late Submission



Source: LAPF

Figure 5.4: Early Submission

From the Figures 5.3 and 5.4 above, most late claims (70%) were submitted within the first 6 months after retirement, 21% were submitted between 6 and 12 months after retirement and the remaining 9% were submitted after 1 year.

### 5.5 Reasons for delays in processing terminal benefits

According to various interviews and documents reviewed, there are different reasons for the delay in processing terminal benefits. These are such as



contributions are not remitted on time or in a certain period of time; contributions paid on low/less salary compared to the actual salary of contributor and incomplete support documents.

The audit team deemed it fit to assess the frequency of occurrence of key reasons for the delay in processing terminal benefits.

Table 5.5 below shows the reasons for the delays in processing terminal benefits.

**Table 5.5: Showing frequency of key reasons for delay in Processing Terminal Benefits**

Reasons for delay	Frequency			
	Several times	Often	Occasionally	seldom
Contributions not remitted on time or in a certain period				√
Incomplete support documents required				
- Letter of first appointment	√			
- Confirmation letter	√			
- Retirement acceptance Letter				√
- Letter of last promotion				√
- Recent salary slip			√	

**Source:** LAPF and Employers

## **5.6 Delays in processing terminal benefits payments due to submission of incomplete documents**

According to the Local Authorities Pension Fund Act No. 9 of 2006, for the LAPF to effect payment of retirement benefits, there are some documents which are supposed to be in place. These documents are such as:

- Letter of retirement;
- confirmation letter;
- retirement acceptance letter;
- letter of last promotion;
- recent salary slip; and
- filled forms for the request of terminal benefits;

In addition, LAPF demands the following information:

- retirees' banking details;
- evidence of monthly contributions; and
- Letter of transfer from Central to Local Government

These documents are supposed to be submitted by the employer to LAPF six months before the date of retirement of an employee.

According to the interviews with the LAPF officials, most of these documents were not submitted on time. This was also confirmed by the review of records of pending claims.

Table 5.6 shows the type of documents which are often missing when terminal benefits are processed.

**Table 5.6: Delays in processing terminal benefits payments due to submission of incomplete documents**

Employer	Number of retirees	Letter of transfer from Central to Local Govt	Missing salary slips	Inadequate bank account details	uncertainty in date of birth/retirement
Tabora MC	2		1	1	
Urambo DC	2			2	
Sikonge DC	1			1	
Ifakara DC	2	1	1		1
Mpwapwa DC				1	
Kigoma MC	1	1			
Iramba DC	1	1			
Kibaha TC	1	1			
Kondoa DC	1	1			
Nzega DC	1				1
Kilwa DC	1		1		

Source: LAPF records of pending claims

According to the interviews with Employers, the reasons for not submitting the above mentioned documents on time were:

- Transfer of officers from one station to the other or from central to local government and vice versa was not accompanied by the transfer of employees records such as letters of first appointment and confirmation;
- When documents cannot be found it has been unfairly retirees' responsibility to search for such documents wherever they are (including previous stations) and submit them to the Fund.

### **5.7 Delayed payment to retirees due to non or under-submission of employees' contributions**

According to the Local Authorities Pensions Fund (LAPF) Act No. 9 of 2006, Employees and Employers are supposed to contribute to the Fund every month. An Employee is supposed to contribute five percent of his/her monthly salary and employers are supposed to contribute fifteen percent of the employee's monthly salary.

These deductions are supposed to be submitted to LAPF within a month after the month of salary payment.

Employers are responsible for submitting these deductions to LAPF and as stated above are supposed to be submitted on time as stipulated in the Act.

The submissions of deductions are supposed to be of the actual deductions and not less than what has been specified.

According to LAPF, terminal benefits for the retirees are always processed regardless of contribution gaps as long as the retirees have met the minimum criteria of 180 contributions. In case the retiree has been underpaid, the difference will be paid upon request and submission of evidence that accompanies the claim.

### **5.8 LAPF failed to remind employees to remit their contributions**

One of the main functions of the LAPF is to ensure that all members (contributors) comply with the requirements of the Fund.

To ensure that this role is discharged appropriately, LAPF has a Compliance section whose one of its main functions is to ensure that all members comply with all the requirements of the Fund including submission of the employees' and employers' contributions.

This section is charged with the role of reviewing all the contributions submitted monthly and if there is any problem regarding contributions submitted then they have to inform the concerned employers to submit his/her contributions.

Table 5.7 shows that there are a lot of cases where submissions of contributions are terminated untimely.

Information regarding 278 retirees shows that 20 percent of retirees experience untimely termination of their contributions to the Fund.

**Table 5.7: Untimely curtailing of members' contributions to the Fund**

Termination of contributions	Number of Retirees Involved	Percentage (%)
Timely termination	223	80.2
Early termination	18	6.5
Delayed termination	37	13.3
TOTAL	278	100

Source: LAPF

Contributions to the Fund that were curtailed prior to the members' retirement age varied from 1 to 12 months. On average, the period of discontinued

remittance of contributions is slightly above 4<sup>1</sup>/<sub>2</sub> months. According to LAPF, follow up is generally done by the Fund through their zonal offices to remind employers on the need to submit their contributions on time and make sure the right amount of deductions are submitted on time.

Delayed termination of contributions to the Fund resulted into prolonged remittance of money to the Fund ranging from 1 month to 8 years after the member has retired. On average, the period of continued remittance of contributions is slightly above 12 months.

The compliance section of LAPF remained silent to this problem of prolonged submission of the contributions. There is no evidence showing that LAPF has taken efforts to remind employers on the need to stop remitting contributions beyond the beneficiaries retirement ages. According to LAPF, that the money obtained through prolonged contributions will be reconciled later since the employers owe the Fund substantial amounts of money.

According to the same officials of LAPF, when an employee is retiring and his/her contributions were not fully submitted then the retirement benefits will be computed based on the available information regarding submission if the information is sufficient. This has resulted into complains from some retirees because some of them were underpaid due to insufficient records of their contributions to the fund. This has caused a lot of inconveniencies to retirees, since they have to look for the records elsewhere in order to be able to find proof of their contributions which were not submitted. This proof entails travelling to previous working stations where records of salary deductions are expected to be kept. According to LAPF, where the retiree has evidence that deductions were made from his/her salaries during the period where contributions were not made to the fund, LAPF would pay the retiree and seek the contribution arrears from the employers.

According to the interviews with employers, this problem occurs simply because there are some officials who move from one employer to another and others in fact got promoted and their salary scales have changed a lot and hence they forgot to update their salary information.

## **5.9 Delays due to centralization of retirement benefits processing activities**

### **Workload on compliance officers at the Head office**

According to staff list and job description, the Local Authorities Pension Fund (LAPF) has 5 zonal offices which are headed by Zonal Managers (ZM). At the same time, each zonal office has at least 3 compliance officers.

The same staff list shows that at LAPF head office, there are 4 compliance officers who are responsible for the assessment of retirees' files.

These officers at head office normally are supposed to go through an average of 896 retirees files per annum. On average each compliance officer is expected to process 224 file annually.

## CHAPTER SIX

### A SUMMARY OF FINDINGS OF ALL PENSION FUNDS AND EMPLOYERS

In this chapter, the summary of findings from chapters four and five of this report are presented with the view to make comparisons on the performance of PSPF and LAPF.

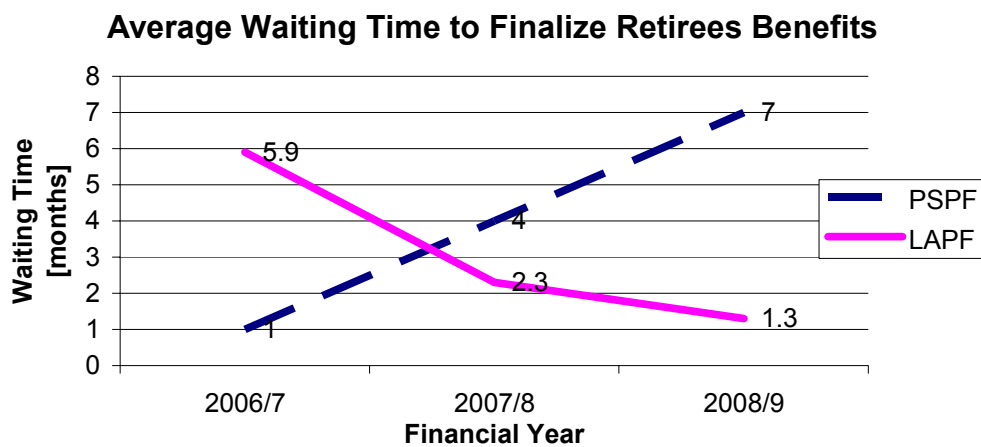
#### 6.1 Average time to finalize retirees' benefits

All pension Funds are required to finalize retirement benefits within seven days after the date of retirement of the concerned retiree.

Once the process of the preparation of terminal benefits starts, six months before the retirement date of an employee, the conclusion needs to be done seven days after the date of retirement. The completion of the final retirement benefits beyond the specified period is termed as a delay.

As stated above, the Pension Funds have to ensure that payments are effected on time. The problem of delays in finalizing terminal benefits can be evaluated yearly to see how it is progressing.

Figure 6.1 shows the average waiting time for the retirees to be paid their terminal benefits among the two Funds.



Source: LAPF and PSPF

Figure 6.1: Average time to finalize retirees' benefits

According to Figure 6.1 above, the average waiting time in each year for PSPF is increasing while that of LAPF is decreasing. Even though the average waiting time of LAPF is decreasing, still a retiree has to wait for more than a month to get his/her terminal benefits.

## 6.2 Number of retirees awaiting final pension

All retirees who served in the public sector and are members of the PSPF and LAPF ought not to wait long to be paid their terminal benefits. As put by the two Acts (Public Retirement Benefit Act and Local Authorities Pensions Fund Act), retirees need to get paid seven days after the retirement date.

The number of retirees who wait long to be paid their terminal benefits after their retirement date is occurring in both the two Pension Funds dealt with.

Table 6.1 shows the number of retirees waiting to get paid by both Funds.

**Table 6.1: Number of retirees awaiting final pension**

Year	Number of retirees awaiting final pension	
	PSPF	LAPF
2006/07	178	NA <sup>8</sup>
2007/08	331	NA <sup>9</sup>
2008/09	182	23

**Source: PSPF and LAPF**

According to table 6.1 above, the number of retirees waiting to receive their terminal benefits is increasing year after year.

All the two Funds seem to face the same challenges of having a backlog of files which are yet to be paid.

## 6.3 Total waiting time for the processing of terminal benefits

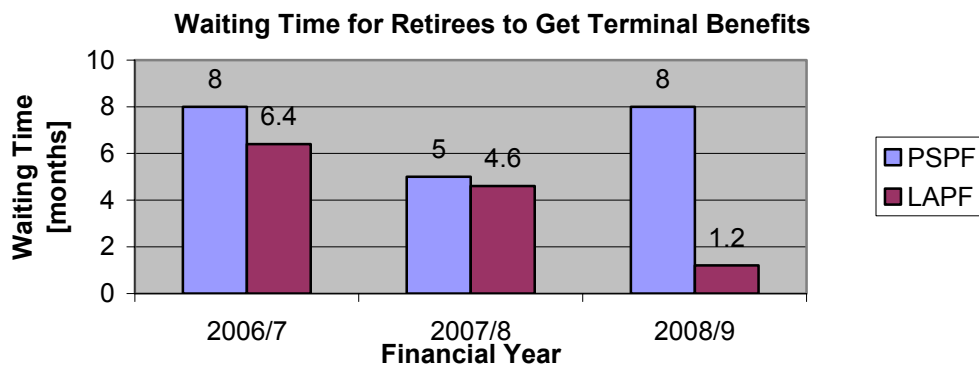
To get an actual picture of the total time taken to wait for the retiree to receive their terminal benefits. The audit team computed the total time taken to process terminal benefits for the central and local government staff.

Figure 6.2 below shows the comparison of time taken by LAPF and PSPF to process terminal benefits. This is also taking into account that LAPF is dealing with LGAs staff while PSPF is leading with Central Government employees and some of the LGAs staff,

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<sup>8</sup> LAPF had to defer their payments for three years. It started to pay terminal benefits three years after its establishment

<sup>9</sup> Not Applicable



Source: LAPF and PSPF

Figure 6.2: Total waiting time for the processing of terminal benefits

According to Figure 6.2, the waiting time is long with PSPF compared to LAPF which takes an average of 1.2 months.

#### 6.4 Late retirement of retirees

According to the laws and regulations which governs the work of PSPF and LAPF, all employees who are members of these two Funds are supposed to retire at the age of 55 years (voluntary retirement age) and 60 years (compulsory retirement age).

One of the reasons for delays in effecting terminal benefits to some of the Fund's members is that the employees fail to retire at the statutory age as stated by the laws and regulations governing public service in the country.

According to the interviews with PSPF and LAPF officials, some of the employees who are members of the two Funds waited for some time before they retired. This is despite the fact that they have reached the compulsory retirement age of 60. On average it took about 12.7 months before some of the officials retire.

#### 6.5 Late notification of an employee

Acts and regulations governing the two Funds of PSPF and LAPF are demanding that, employees who are about to retire have to notify their employers about that intention six months before the date of retirement. This notification has to be done in writing. The employer then has to respond by awarding certificate of retirement to the employee or otherwise.

The notification processes which are done by the staff at central and local governments who are members of the two Funds are as compared on Table 6.3 below.



**Table 6.3: Late notification of an employee**

Employers	Late notification of employees who are supposed to retire (Month)	
	PSPF	LAPF
Central Government	9	-
Local Government	9	11

Source: LAPF and PSPF

According to Table 6.3 above, there are some employees who take long to notify their employers about their retirement date. They fail to notify their employers within a specified period of six months before the retirement age.

### 6.6 Key reasons for delay in processing terminal benefits

According to the document reviews and interviews conducted by Funds officials and employers in Central and Local Governments, a number of reasons were found to be the source of delays in processing of the terminal benefits.

These reasons include submission of incomplete documents, delays in submission of employers' and employees' contributions, failure to fill retirement forms (FN 6) etc.

These factors are compared among the request submitted to PSPF and LAPF by different employers. This is as shown on Table 6.4 below:

**Table 6.4: Key reasons for delay in processing terminal benefits**

Key reasons for delay in processing terminal benefits	Pensions Fund	
	PSPF	LAPF
Incomplete documents	√	√
Delays in submission of employers' and employees' contributions	√	
Inaccurate filling of retirement forms (FN 6)	√	

Source: LAPF and PSPF

According to Table 6.4 above, these factors are the causes for delays and are common to both Funds. Other factors like inadequate work planning which results into higher workload seems to affect PSPF more than LAPF.

### 6.7 Delays in processing terminal benefits payments due to submission of incomplete documents

Delays in processing terminal benefit payments due to submission of incomplete documents have been seen to happen very often.

Most of the documents found to be missing are:

- Letter of first appointment
- Confirmation letter
- Retirement acceptance letter

- Letter of last promotion
- Recent salary slip
- Forms for request of terminal benefits (FN-6)

According to Table 6.5 below, comparison has been made between the two Funds to assess the extent of this problem in each Fund.

**Table 6.5: Delays in processing terminal benefit payments due to submission of incomplete documents**

Pension Fund	Type of missing or incomplete document							
	Letter of first appointment/transfer from Central Government to LGAs	Bank details	Uncertain birth or retirement date	Confirmation letter	Retirement acceptance letter	Letter of last promotion	Recent salary slip	Forms for request of terminal benefits (FN-6)
PSPF	√	√	√	√	√	√	√	
LAPF	√	√	√				√	

Source: LAPF and PSPF

According to table 6.5 above, the problem of the incomplete documents has been found to affect both Funds. The same kinds of documents which are needed by the Funds are submitted incomplete.

## 6.8 Employers response to various issues raised by Pension Funds

Once the retiree's file has been submitted to PSPF or LAPF by an employer for the processing of terminal benefits, officials of the Funds normally review the submitted documents and come up with their comments on the adequacy of the information submitted.

Once the information has been reviewed by the concerned Fund, queries can be raised due to a number of reasons as mention in sections 6.6 and 6.7 of this report.

Queries have to be sent to the employer and come up with responses as soon as possible.

The Funds have been experiencing mixed responses from employers. Table 6.6 below shows the summarized level of responses of the employers who are members of the Funds.

**Table 6.6: Employers responses to various issues raised by Pension Funds**

Pension Fund	Response to issues raised
PSPF	Low <sup>10</sup>
LAPF	Low

Source: LAPF and PSPF

<sup>10</sup> Low means performance is not satisfactory

Table 6.6 above shows that, the level of response of employers to queries raised by PSPF and LAPF is very low. It takes quite long for employers to look for the information or seek clarification of the matter raised by the Fund.

## 6.9 Delayed payment due to non or under-submission of employees' contribution

Employers and employees are supposed to submit their monthly contributions to the Funds. Employer's contributions are 15% of the salary of an employee and employee's contribution is 5% of the same salary.

These contributions as stipulated by the Acts governing the two Funds are furnished before the next month end.

According to different interviews with PSPF officials and review of records, this has been one of the reasons for the delays. If employees' contributions are not submitted on time or if lesser amounts are submitted, PSPF do not pay terminal benefits to the respective retiree until all the unsubmitted sums and penalty have been furnished.

As for LAPF, payments will be processed as long as there is evidence of deductions from the retirees' salaries. If these deductions were not remitted to LAPF, the retiree will be paid and LAPF will claim the unremitted sums from the employers. If the number of monthly contributions is below the minimum criteria of 180 contributions, the retiree will be paid gratuity only and not monthly pensions.

Table 6.7 shows the extent of submission of monthly contributions to the Pension Funds

**Table 6.9: Delayed payments due to non or under-submission of employees' contributions**

Pension Fund	Monthly contributions	
	Non submission	Under submission
PSPF	√	√
LAPF	√	NA

Source: MoFEA, PSPF and LAPF Financial Records (2009)

According to Table 6.7 above, the problem of the non and under-submission of contributions is facing both the two Funds.

According to LAPF, this problem of non and under submission of contribution is existing in small extent. But under-submission may not lead to under payment. The same officials admit that payments are delayed for non-submission of contributions but not for the under-submission unless under-submission has led to not meeting minimum criteria of 180 contributions.

### 6.10 Work load in Funds' offices (Head offices)

PSPF and LAPF are processing different number of files of retirees. While PSPF is processing 4,000 files per annum and it has 17 schedule officers, LAPF is processing 896 files per annum with four compliance officers.

The above information provides a basis for computing the workload in each Fund.

Table 6.8 shows the workload of each staff at PSPF and LAPF.

**Table 6.8: Work load in Funds' offices**

<b>Fund</b>	<b>Workload (Number of files/staff/year)</b>
PSPF	235
LAPF	224

**Source:** LAPF and PSPF

Table 6.8 shows that the difference in workload between PSPF and LAPF is not significant, while that of PSPF is higher by 11 files/staff/year compared to that of LAPF.

# CHAPTER SEVEN

## CONCLUSIONS

Audit findings presented in the previous chapters give us reasons to draw the following conclusions.

### 7.1 General

The main employers i.e. Ministry of Finance and Economic Affairs (MoFEA) and President's Office – Public Service Management (PO-PSM) being the overall overseers of Pension Funds on behalf of the Government have not to a large extent fulfilled their responsibilities of ensuring that the processing of terminal benefits of retirees is done on time and without recourse to duress.

### 7.2 Specific

The following are more specific conclusions drawn from the relevant Pension Funds respectively

### 7.3 PSPF and LAPF

#### ***7.3.1 Clear written policy guidelines for processing and reviewing applications and appeals not provided during audit***

Virtually no written policy guidelines for processing and reviewing applications, entitlements and appeals for establishing boundaries within which decisions for the payment of terminal benefits were provided during the audit despite several requests. Very little information about the procedure or directives was being disseminated to the public, particularly the public servants. DAP's Office, usually the initial contact point for retiring applicants, were having considerable difficulty in informing individuals of the status of their applications. There were no really useful procedures for measuring and reporting productivity and level of service.

Due to the weaknesses mentioned above, the audit team noted that:

- i.) It was taking an average of 90 days to process an initial application;
- ii.) More than 45 per cent of the rejected initial applications were being taken back to employers for further processing due to a number of reasons such as :
  - Missing information
  - Non or under-submission of employees and employers contributions
  - Inaccurate filling of retirement forms
- iii.) It was taking an average of 90 days up to two years to process incomplete files of a retiree.

#### ***7.3.2 Ever increasing number of retirees waiting processing time***

The two audited Pension Funds have continually not exerted efforts to provide quality retirement service to their members. This could be evidenced by ever increasing number of retirees awaiting payments for terminal benefits.

The Pension Funds have allowed both processing time and the number of retirees awaiting finalization of terminal benefits to increase significantly. For example, we found that the current average processing time has now increased to about 7 months resulting in *three* times longer than the average processing time reported by Pension Funds in previous years.

For example, the Pension Fund allowed a retiree's final terminal benefit to remain for 24 months without being settled. This case could be abnormal for letting the retiree to wait for an average of 24 months which is considered to be too long and not acceptable.

The number of retirees awaiting for final pension calculation increased from 178 in June 30, 2007 and 192 in June 30, 2009 respectively resulting in an increase of over 8 percent.

Such delays become even more acute in view of the fact that no interest is paid on any underpayment or delay of a retirees' estimated pension.

### **7.3.3 Poor record keeping by Pension Funds**

Pension Fund's system of keeping records is appallingly inefficient and ineffective, hindering the retirement system's ability to fulfil its mission. Pension Funds failed to properly manage and control the necessary documents for the processing of retirement benefits of their respective members resulting in reciprocal delays and trading of blames between the Funds and employers. In addition, the kind of missing documents/information was found to be the same all years long and there is no action taken by the Funds to address this endemic and ever increasing problem.

The missing documents were identified to be:

- Letter of first appointment
- Letter of confirmation
- Letter of transfer from Central Government to LGAs and vice versa
- Bank details
- Birth Certificate

### **7.3.4 Inordinate delays in processing retirees' benefits.**

The processes to finalize terminal benefits of retirees continued to be problematic. The process takes too long both in terms of time effluxion before benefits are received and bureaucracy in place which ostensibly were meant to reduce backlogs but to the contrary add up and even unnecessarily complicates the approval of the pension benefits.

Pension Funds are by all reasonable expectations responsible in providing identified retirees with timely and accurate pension payments. Initially, the employer is supposed to fill the data sheet and submit relevant documents to the Fund. Then, the Fund reviews them and then calculations are performed and payments are remitted to retirees based on an estimated pension calculation.

Generally, even before the calculations are done, lots of files are returned back to employers due to a number of queries mainly, missing information which makes it very problematic for helpless retirees to make unpredictably numerous follow ups to obtain meagre pension benefits.

### **7.3.5 Pension Funds Mismanagement as unwarranted burden to retirees**

Significant delays in finalizing retirement benefits do pose an unnecessary burden on retirees. The interviews with different employers revealed that failure to finalize terminal benefits on time place a notable burden to retirees in terms of costs to make follow ups of retirement benefits. These costs are incurred particularly when a retiree is looking for the missing data/document at a delicate moment in life when he/she no longer has access to official documents by virtue of the retirement and also, during which the retiree has no any kind of income thus making life very difficult and miserable.

It becomes quite expensive for a retiree to follow his/her terminal benefits in the Head office or even at regional/zonal offices of the Pension Funds let alone to travel to his /her station of first appointment just to look for some information.

## **7.4 MoFEA and PO-PSM (Main Employers)**

### **7.4.1 Lack of clearly defined public awareness programs**

There is lack of clearly defined awareness programs by the two main employers. The MoFEA and PO-PSM have not given consideration on public education program.

Nevertheless on average, terminal benefits, represent almost 100 per cent of the retirees' income. Given this and the fact that not all programs are targeted against specific levels of income, individuals who are expected to provide adequately for their retirement must know the extent to which public pensions will supplement their income from private savings and employer sponsored plans.

This public awareness program should be seen to cover educational programs and levels of benefits available, eligibility requirements, advice on tax, retirement income planning and available services such as direct deposit and tax deducted at source.

#### **7.4.2 *Poor record keeping by employers***

Employer's system of keeping records is appallingly inefficient and ineffective, hindering the retirement system's ability to fulfil its mission. The Employers have failed to properly manage and control the necessary documents for the processing of retirement benefits of their respective employees resulting in reciprocal delays and trading of blames between the Funds and employers. In addition, the kind of missing documents/information was found to be the same all years round and there is no action taken by the employers to address this endemic and ever increasing problem.

The missing documents were identified to be:

- a. Letter of first appointment
- b. Letter of confirmation
- c. Letter of transfer from Central Government to LGAs
- d. Bank details
- e. Recent salary slip
- f. Letter of last promotion
- g. Retirement acceptance letter

#### **7.4.3 *Inaction by the main employers***

MoFEA, and PO-PSM as main Employers have not taken any tangible action to ensure efficient processing of terminal benefits is instituted despite the fact this is a known and repetitive problem throughout the period of the audit i.e. 2006/07 to 2008/09.

The audit team noted that, the same weaknesses identified on the first financial year happened again in the following year, but no corrective actions were ever taken to address them let alone reduce the problem. It has been business as usual!

With this trend, it is evident that, the concerned authorities will not be able to improve the services rendered to retirees and in that sense keeping them in difficult situations for no cause of the concerned victims something that could be resolved just by applying ordinary diligence and accountability.

The audit team noted that, the above mentioned authorities failed to even:

- address the ways to reduce average waiting time;



- identify areas where idle time observed more frequently in different steps of terminal benefits processing and try to reduce that time and if possible remove it; and
- Causes of delay in processing terminal benefits and varying performance among Pension Funds and Employers in dealing with matters related to terminal benefits of retirees.

#### ***7.4.4 Lack of a proper Office set up to deal with or investigate complaints***

There is no proper office which is responsible or has been set up to deal with complains. This includes complaints and investigation about the way Pension Funds and employers are dealing with peoples' terminal benefit issues as they are raised by the desperate retirees with a view of resolving them satisfactorily.

#### ***7.4.5 Un-harmonised Pension Schemes in the country***

Public servants whether they are in Central Government or in Local Government in Tanzania, where salaries of both Central Government employees as well as Local Government employees are paid from the center, there are no apparent justification of having different Pension Schemes dealing with virtually the same group of retirees i.e. public servants.

Merging of the Funds could lead to substantial reduction of operational overhead costs and lead to efficiency and effectiveness in managing pension matters.

# CHAPTER EIGHT

## RECOMMENDATIONS

Serious and devastating problems in the processing of terminal benefits with Pension Funds, Ministries and Councils visited have been pertinently noted.

This performance audit has been able to identify problems which can be addressed by individual employers and Pension Funds themselves and problems which are supposed to be addressed through joint efforts of all key stakeholders.

The following are recommendations of the problems that need to be addressed in order to bring out improvement in the Management of Pension Fund in the country:

### **PSPF and LAPF**

#### **a) Review of the processing of terminal benefits of retirees' workflow**

- The Pension Funds should ensure that the processing of terminal benefits of retirees' workflow is reviewed in order to reduce the bureaucracy.
- The Pension Funds should prepare a flow chart to identify areas of unnecessary requirements that can be discarded in order to avoid bureaucracy.

#### **b) Improve communication among the key stakeholders**

- The Pension Funds should improve communication between Employers, Retirees and Pension Funds (PSPF and LAPF) respectively.

#### **c) Conduct training on pension matters**

- The Pension Funds should ensure that regular training of officials dealing with pension matters is conducted on how to process terminal benefit payments without unnecessary delays.

#### **d) Manage staff resources appropriately and reduce the waiting time**

- The Pension Funds should better manage staff resources with a view of reducing time taken to process retiree's terminal benefits;

- e) **Carry out data purification process**
  - The Pension Funds should prepare a checklist and complete the data purification process to verify that active membership service credit information is accurate to allow for the expeditious processing of terminal benefit applications;
- f) **Monitoring of resources**
  - The Pension Funds should professionally plan, assess and monitor their resources by way of regular actuarial valuation to ensure that members receive adequate retirement benefits and counseling service sustainably
- g) **Development of Client Service Charter on processing terminal benefits of retirees**
  - The Pension Funds should prepare Client Service Charters which will incorporate all core activities and the whole process of terminal benefits indicating exact the time a certain activity is going to be initiated and completed and who will be accountable.

#### **MoFEA and PO-PSM (Main Employers)**

- h) **Proper record keeping of employees**
  - Employers should ensure that proper records of employees is accurately kept and submitted to Pension Funds for processing terminal benefit payments.
- i) **Improve coordination among the key stakeholders**
  - Employers should ensure that a clear coordination and transferability of benefits in favour of those who are paid by LAPF and PSPF exists for those public servants who served both Local Government Authorities and Central Government
- j) **Training of employees on pensions related matters**
  - Employers should come up with training programs solely aimed at ensuring that employees are extensively trained on record keeping and understand the importance of retirement procedures.
- k) **Development of schedule of staff who are about to retire**
  - Employers should prepare schedules of employees who are about to retire in the near future at least a three years schedule. This schedule should be used as the basis for reminding employers on the date of retirement of staff, when to notify and also the right time to look for the necessary documents. This will ensure timely access to information for efficient decision making on terminal benefit matters

- l) Carry out monitoring and evaluations of training conducted**
- Employers should ensure that monitoring, evaluation and feedback mechanism for the training conducted on staff awareness on pension matters is done. Through this monitoring and evaluation, it will be easy for the employers to identify areas that need to be addressed for future improvement.
- m) Establishment of a complaint mechanism**
- As noted in the report, there is a lack of a complaint mechanism through which aggrieved retirees can seek redress; we strongly recommend that such a complaint mechanism be established as a way of enhancing efficiency and accountability in the management of pension matters.
- n) Harmonization of Pension Schemes in the country**
- MoFEA and PO-PSM should ensure that Pension Funds are merged together and come up with only one Pension Fund serving all public servants in both Central and Local Governments. This will lead to substantial reduction of operational overhead costs and lead to efficiency and effectiveness in managing pension matters in Tanzania.

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8. Parastatal Pensions Fund (PPF)
  - Parastatal Pensions Act N°.14 (1978)
  - PPF Act Amendments of 1988, 1992 and 2001
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10. National Social Security Fund (NSSF)

- National Social Security Fund Act N°.28 (1997)

11. Photo on the cover

- The photo on the cover page shows a Retiree complaining about his long outstanding terminal benefits. Retirees living in rural areas/villages lead a pathetic life, a factor which demoralizes them.

## APPENDIX 1

### AUDIT QUESTIONS

This report provides the results from applying the following five audit questions:

#### Question 1: Are important bottlenecks identified?

Sub Questions
1.1 Is the long waiting time explained by non- professional management?
1.2 Are the application forms too complicated, causing trouble for the clients/retirees?
1.3 Is the mix of resources, especially the mix of personnel, optimal?
1.4 Are there any problem associated with inadequate organization processing of terminal benefits payment?

#### Question 2: Are the bottlenecks in the work flow causing queues and idle time?

Sub Questions
2.1 Are the bottlenecks in the work flow causing queues and idle time?
2.2 Could long idle times be observed in any step of the flow, critical in the sense that that they have to be reduced to shorten clients' waiting time?

#### Question 3: Are there ways to reduce average waiting times without additional costs?

Sub Questions
3.1 Are there ways to reduce average waiting times without additional costs?

#### Question 4: To what extent is the lack of supervision, training and effective communication affecting efficient processing of documents?

Sub Questions
4.1 To what extent is the lack of supervision, training and effective communication affecting the efficient processing of documents?

#### Question 5: What is the impact of inadequate processing or delays in the paying pension?

Sub Questions
5.1 What is the impact of inadequate processing or delays in the paying of pension?

#### Question 6: Is there mechanism in place to manage terminal benefits processing complains.

Sub Questions
6.1 How to channel complains about delays in processing terminal benefits?
6.2 Where to channel complains?

## **Main laws and Regulations Governing Payment of Terminal Benefits in Tanzania**

### **2.1 Social Security (Regulatory Authority) Act No.8 of 2008**

This Act is intended to implement the National Social Security Policy of 2003.

Generally, the Act deals with established mandatory schemes, and establishment of supplementary and private schemes. It introduces competition amongst mandatory schemes and mechanisms for the establishment of minimum benefits.

The Act also introduces the indexation of benefits, portability of benefit rights of a member from one scheme to another and reviews of taxation policies after consultation with the Minister for Finance.

### **2.2 The Public Service Retirement Benefits Act No. 2 of 1999**

The Public Service Retirement Benefits Act No. 2 of 1999 was enacted to provide for the establishment of the PSPF and to repeal some older laws, such as the Pension Ordinance of 1954 which was enacted to regulate retirement benefits to civil servants in Tanzania Mainland. PSPF started operating in July 1999 and for the first five years of its existence, no benefits were paid. Benefit payments started in July 2004.

PSPF is responsible for the payment of benefits to any civil servant who retires from service. The years of service taken into account in the pension formula includes the whole period the person was in government service. This means that PSPF started operating with a potentially substantial unfunded liability. PSPF covers the permanent and pensionable employees of central Government and the contribution rate is 20 percent of gross salary (5 percent for employers and 15 percent for employees).

#### **2.2.1 Benefits Package**

Benefits offered by PSPF are:

- a) old age (retirement);
- b) gratuity;
- c) death benefit;
- d) invalidity benefit, and
- e) withdrawal benefit due to either maternity, marriage, emigration or departure from service.

### **2.3 Local Authorities Pension Fund (LAPF) Act**

The Local Authorities Provident Fund began operating in 1944. It operated as a provident fund until July 2005 when the Local Authorities Pension Fund (LAPF) was established as a defined-benefit pension scheme which offers retirement



benefits similar to those of PSPF. LAPF covers local authorities' employees. The Act allows for inclusion of employees of other institutions.

### **2.2.1 Benefits Package**

The benefits package provided by LAPF includes the following:

- a) Old age;
- b) Pension and gratuity;
- c) Death benefit;
- d) Gratuity;
- e) Invalidity benefit;
- f) Pension and
- g) Withdrawal for maternity, marriage, emigration and departure from service.

### **2.3 Parastatal Pensions Fund Act No. 25 of 2001**

The Parastatal Pension Fund was established by Act No. 14 of 1978 (amended with PPF Act No, 25 of 2001) to provide pensions and related benefits to its members, who initially were workers in parastatal agencies. It is made up of two schemes:

- The “traditional” Parastatal Pension Scheme (PPS) covers the employees of parastatal organizations and public institutions or private companies in which the Government owns shares or registered private companies not covered by any other social security fund.
- The Deposit Administration Scheme (DAS) covers employees who do not qualify for membership of the “Traditional” Parastatal Pension Scheme or employees already covered by any scheme who want a supplementary scheme. This scheme is a Defined-Contribution (DC) plan.

The contribution rates for the traditional parastatal pension scheme are:

- 5 and 15 percent of the member's gross salary for the employee and employer respectively for parastatals organizations and institutions
- 10 and 10 percent of the member's gross salary for the employee and employer respectively for all others (Private)

The Deposit Administration Scheme's contribution rate is the same as that of the Parastatal Pension Scheme. Contribution rates are flexible for members of the supplementary scheme.

### **2.3.1 Benefits Package**

Benefits offered under the “traditional” parastatal pension scheme are:

- a) Old-age (retirement) benefit;
- b) pension and gratuity benefit;
- c) invalidity benefit;
- d) survivors benefit;
- e) death benefit;
- f) withdrawal benefit and
- g) Education benefit.

## **2.4 The National Social Security Fund (NSSF) Establishment Act No. 30 of 1997**

The National Social Security Fund was established by Act No.30 of 1997 by conversion of the then National Provident Fund (NPF) system which was established in 1964 into a pension scheme covering employees in the private sector. Some of the previous provident fund conditions were carried forward to the pension scheme and a member can still withdraw his/her contributions and accumulated interest, in case of unemployment.

In terms of membership and income revenue, NSSF is the largest pension scheme in Tanzania; it has been extended to cover employees in the private sector (informal economy) on a voluntary membership basis but this has remained on paper for a long time now with no serious implementation of the same. The contribution rate is 20 percent of gross salary, shared equally between employee and employer.

### **2.4.1 Benefits Package**

There are long and short term benefits offered by NSSF, which include the following:-

- a) Old age Pension;
- b) Invalidity benefit Pension;
- c) Survivors' benefits Pension;
- d) Funeral grant;
- e) Withdrawals;
- f) Maternity benefit;
- g) Employment injury benefit and
- h) Health insurance benefits.

## **2.5 PUBLIC SERVICE ACT NO 8, 2002 & REGULATIONS ON RETIREMENT BENEFITS**

- i.) Section 85,(1) where a public servant's service is terminated on grounds other than disciplinary, he /she shall be granted his retirement benefits in accordance with the law applicable to the grant of those benefits for the time being in force.
- ii.) Section 2, the Public servants retirement benefits shall be governed under:
  - The Public Service Pensions Fund for all public servants other than employed in the Local Government Authorities.
  - The Local Authority Pensions Fund for all public servants in the employed in the Local Government Authorities.
- iii.) Section 86, where a public servant is transferred from one service to another within the Public Service ,his terminal benefits in respect of the

service he is transferred from ,be frozen and shall be payable on his retirement on grounds allowing payment of terminal benefits.

- iv.) Sub-section 2, the Public servant transferred pursuant to the provisions of sub-regulation (1), of these regulations shall decide whether to continue with his membership in the scheme he was formerly governed with or join and contribute to the scheme governing the service to which he is transferred.
- v.) Section 87, the benefits payable under these Regulations are any benefits payable under any law providing for the grants of any pension, compensation to persons in respect of their service as public servants to their widow, widowers, children, dependants or personal representatives of such persons in respect of that service.
- vi.) Section 89,(1) ,It shall be the duty of both employer and employee to keep employment records for the purposes of reference for calculation of the employee terminal benefits.
- vii.) Sub-section (2), Employment records kept by both employer and employee shall be regarded as original copies duly signed by authorized person.
- viii.) Sub-section(3), where there is no possibility to get hold of employment records from the employer's end ,records in custody of the employee shall used for any purpose provided that such records are in the original form.

## **2.6 National Social Security Policy - 2003**

In 2003, the Government developed the National Social Security Policy.

The policy identified the following three shortcomings in the current social security system:

- i.) Fragmentation and lack of coordination; as a result, contribution rates, benefit structures, qualifying conditions as well as plans and priorities differ from one institution to another.
- ii.) Lack of Mechanism for Portability of Benefit Rights; there is no established mechanism that can allow benefit rights of a member to be transferred from one scheme to another.
- iii.) Inadequacy of benefits paid (number and meaningfulness); the number of benefits offered by most of the existing schemes fall below the ILO Minimum Standards in terms of number, quality and indexation to the current levels of earnings.

Basically the objectives of the policy are:

- To widen the scope and coverage of social security services to all citizens;
- To harmonize social security schemes so as to eliminate the current fragmentation by rationalizing contribution rates and benefit structures;

- To reduce poverty through improved quality and quantity of benefits offered;
- To institute mechanisms for good governance and sustainability of social security institutions through establishment of a regulatory body;
- To establish social security structure that is consistent with ILO standards but with due regard to the socio-economic situation in the country; and
- To ensure more transparency and involvement of social partners in decision making with respect to social security institutions.

In order to improve benefits offered by the existing mandatory schemes, the Government decided to:

- make concerted efforts to enhance awareness and sensitisation of the society regarding the provision of social security services as a right and not a privilege;
- ensure minimum number of benefits that each social security scheme must offer and that the benefits are indexed to the current levels of earnings of contributors;
- establish a mechanism to enable portability of benefit rights when a member moves from one scheme to another;
- review tax policies to ensure contributions, benefits and incomes from investments to enable mandatory schemes offer meaningful benefits to members;
- establish a regulatory body that would regulate performance of social security institutions and that the social security sector shall be co-ordinated by the Ministry responsible for social security matters, and
- take full responsibility of guaranteeing members' benefits in the event the established mandatory schemes become insolvent.

Furthermore, the Government committed itself to ensure that social security schemes are managed efficiently.

## **2.7 ILO Social Security (Minimum Standards) Convention - 1952**

On 28<sup>th</sup> June, 1952 during the 35<sup>th</sup> Session of the General Conference of the International Labour Organisation (ILO) at Geneva (Switzerland), the ILO Social Security (Minimum Standards) Convention was adopted.

The Convention provides guidelines for setting minimum benefits a social security scheme should provide. It states that the following contingencies must be covered:-

- a) Old-Age (Retirement).
- b) Invalidity.
- c) Employment Injury.
- d) Survivors
- e) Medical Care
- f) Sickness
- g) Unemployment

- h) Maternity
- i) Family allowance

Part XI of the Convention deals with periodical payments i.e. pension benefits. It recommends that:

- A social security scheme should provide to beneficiaries retirement, survivors and invalidity pension that is equal to at least 40 percent of the income of a middle income worker who has worked for 30 years;
- In case of sickness, unemployment and maternity benefits, the replacement rate is 45 percent while for invalidity and incapacity to work, the rate increases to 50 percent.
- On retirement age, the Convention states that normal retirement age should not exceed 65 years or such higher age as may be fixed by the relevant authority with due regard to the working ability of the elderly in that particular country.

## **2.8 PO-PSM CLIENT'S SERVICE CHATTER**

Role and responsibility of the Office of the President - Public Service Management among others are:

- To formulate and supervise the implementation of policies governing the Public service.
- To coordinate reforms in public service
- To supervise for ; public service regulations, code of ethics and conduct in public service, reforms of systems of public service delivery, employment records and other documents in the public service.

## **APPENDIX 3**

### ***Description of the Payment of Terminal Benefits System on how it should be rationally***

#### **SUBMISSION OF EMPLOYEE AND EMPLOYERS CONTRIBUTION**

Every employer who is a member of the Fund has to ensure those employees' contributions and employers' contributions of 5% and 15% respectively are remitted monthly to the Fund.

This monthly contributions are payable in respect of the member at the rate of fifteen per-centum of the member's salary likewise an employer shall contribute in respect of a member by deducting that member's contribution from his salary at the end of each month

These deductions are in effect as from the date of becoming a member, a contribution to the Fund at the rate of five per-centum of his salary and that contribution are deducted from his/her salary at the end of each month.

#### **MEMBERS REGISTRATION**

One of the main functions of the Funds in Tanzania is to ensure that all employees who contribute to the Fund are registered. During the registration it is when all necessary documents concerning personal particulars of a member a stored by Fund.

According to the laws, the Fund are required to establish and maintain for each member of the Fund an account to his/her contributions made to the Fund in respect of such member and all the payments made are charged.

#### **EMPLOYER AND EMPLOYEE RESPONSIBILITY**

All ministries/Independent Department/Regions will maintain full record of the particulars of services of all their officers. These details will be recorded on personal record form in the format given. A copy of the form duly filled should be sent to the Principal Secretary (Establishment)

Furthermore it shall be the duty of both employer and employee to keep employment records for the purposes of reference for calculation of employee terminal benefits. Employment records kept by both employer and employee shall be regarded as the original copies duly signed by authorized person. Where there is no possibility to get hold of employment records from the employer's records in custody of the employee shall be used for any purpose provided that such records are in the original form.

## **RETIREMENT NOTIFICATION**

An officer serving on permanent and pensionable agreement must notify his employer at least six months before the engagement is due to expires. Similarly the employer shall inform the officer through writing him/her letter of award acknowledging the receipt of a notification from the officer three months before retirement date.

## **FILLING RETIREMENT BENEFIT FORM**

After all the correspondences between the employer and employee, the employee is supposed to fill the retirement benefit form which designed by the Fund and submit them to the employer who is in turn distribute the form to employees who are about to retire in the near future.

Similarly, employer has to ensure that these forms are dully filled and all information of employee presented is correct and appropriate.

## **SUBMISSION OF INFORMATION TO THE PENSION FUND (PSPF and LAPF)**

The employer is supposed to submit retiree particulars to the Fund on time for pension processing purpose. Employer should also ensure that the retiree documents sent to the Fund are intact and including all necessary information such as:

- Letter of first appointment
- Letter of permanent and pensionable terms
- Confirmation letter
- Letter of last promotion
- Last salary slip
- Passport size photographs

## **PAYMENT OF TERMINAL BENEFITS**

After receiving all the particulars regarding the retiree from employer, the Fund has to check the authenticity and appropriateness of the particulars submitted by employers.

The Fund has to ensure that a retiree receives his/her terminal benefits seven days after the retirement date. This is determined by the cheque handed over to retiree.

Cheque is collected by from the Fund by an employer's representative from the institution concerned who then dispatches the cheque to the retiree.

## **DATE OF RETIREMENT**

The age of voluntary retirement from service shall be fifty five years. An officer who attains the age of fifty five years may at any time opt to retire but an officer who does not so opt shall continue in office in the service on pensionable terms until he attains the age of sixty year which is the age of compulsory retirement.

## **INSPECTION AND REVIEWING FILES**

Human Resources Department (Administrative and Personnel Directorate) has a responsibility of making sure that the retiree's information is correct and appropriate. This is done by inspecting the retiree's file and retirement forms filled. This department has to carry out inspect and review of retiree personal information to make sure that they are in good order and submit them to the Fund.

Once files are received by the Pension assessment by an officer of the Fund who received them is needed. To check whether all necessary documents are in place and if some are lacking the files have to be returned to the appropriate employer with a request to bring the missing information as soon as possible. Therefore, before accepting files remitted by employers, inspection and verification of necessary documents in place have to be done.

## **COMMUNICATION**

The Fund communicates with the retiree less than two weeks after receiving retiree particulars. The mode of communication between the Fund and employee (retiree) is through letters. These letters need to be posted to the addressed indicated by retiree in his/her retirement forms.

The fund should make sure that the addressed indicated by retiree is the one which is easily accessible by him/her.

Similarly, procedures require that once Fund is communicating with retiree his former employer also need to get a copy of that communication.



## **APPENDIX 4**

### ***Chronology of Events***

#### **Chronological development of the Pension Funds in Tanzania**

<b>Year</b>	<b>Event</b>
1942	The Government Employee Provident Fund (GEPF) was established in 1942 to provide for the benefits of government employees who are not eligible for pension. Such employees include those working under contracts and under operational service for the central government, independent government departments, executive agencies and donor financed government projects.
1944	The Local Authority Provident Fund (LAPF) was established in 1944 with the aim to create a single fund for all local authorities' employees in the then colonial Tanganyika.
1954	Civil Service Pension Scheme was established under Pension Fund Ordinance CAP 371
1964	National Provident Fund (NPF) was established by an Act of Parliament no. 36 of 1964 as a mandatory savings scheme to provide retirement income to private sector workers.
1978	(Parastatals Pension Fund) PPF was established in July 1978 by an Act of Parliament no. 14 of the same year with a purpose of providing pensions and other social security benefits to its members (Parastatals Organisations)
1997	The National Social Security Fund (NSSF) was established by the National Social Security Fund Act No. 28 of 1997 after the transformation of the National Provident Fund (NPF). Its functions are to register employers and employees, collect contributions, account for the money collected, invest and pay out benefits to members, according to the provisions of the Act.
1999	Changing Civil Service Pension Scheme from non-contributory to contributory- formation of Public service Pension Fund (PSPF).
2002	Amendment in PPF to cover also private sector.
2003	The Social Security Policy is endorsed
2006	Formation of the Local Authorities Pension fund (LAPF)
2008	Enactment of the Social Security (Regulatory Authority) Act

## APPENDIX 5

### SUMMARY OF TANZANIA SOCIAL SECURITY (PENSION) FUNDS

Item	GEPF	SSSS	PPF	NSSF	PSPF	LAPF
Act and Year of Establishment (Precursor)	1942	1968	Act N°. 14 of 1978 Amendments 1988 [% , CF, PF] 1992 [CPG], 2002 Act N°. 25 [Pvt]	Act N°. 28 of 1997 (National Provident Fund)	Act N°. 2 of 1999	Act N°. 9 of 2006 (Local Auth. Provident Fund)
Governing Body Parent Body	Board of Management Ministry of Finance	Board of Trustees National Insurance Corp.	Board of Trustees Ministry of Finance	Board of Trustees Min. of Labour, Youth & S/Welfare	Board of Trustees Ministry of Finance	Board of Trustees P.M.O – R.A.L.G.
Membership	Every non-pensionable Employee who is a "Depositor"	Senior Academic Staff of the University of Dar Es Salaam	Employees and Employers of: <ul style="list-style-type: none"> <li>Parastatal Organizations and Public Institutions;</li> <li>Restructured Parastatals;</li> <li>Companies in which the Gov't of Tanzania has shares;</li> <li>Private Sector Companies not covered by any pension fund;</li> <li>Informal Sector</li> <li>The Self-employed not covered by any other pension fund</li> </ul>	Employees & Employers from: <ul style="list-style-type: none"> <li>Private Sector</li> <li>Government of Tanzania Ministries and Departments not covered by PSPF;</li> <li>Self-employed, and</li> <li>All others not covered by any pension fund</li> </ul>	Employees from the Central Government & its Agencies as established by Acts of Parliament who are under "permanent" employment with retirement benefits.  <b>NOT ALL Public Servants are PSPF Members</b>	Employees and Employers from: <ul style="list-style-type: none"> <li>Local Government Authorities &amp; Institutions</li> <li>LAPF</li> <li>Local Government Loans Board</li> <li><u>Any other Institution or person who wishes to be a member</u></li> </ul>
Contributions Employee-Employer (% of gross salary)	10% - 10%	5% - 15%	<ul style="list-style-type: none"> <li>5% -15% : Parastatals</li> <li>10% - 10% : Private Sector (Flexible limits are negotiable)</li> </ul>	10% - 10%	5% -15%	<ul style="list-style-type: none"> <li>5% -15% : L/Authorities</li> <li>10%-10% : Others</li> </ul>
Benefits	<b>Provident scheme</b> ✗ ✓ Gratuity; ✗ ✗ ✗ ✗	<b>Endowment scheme</b> ✓ Old Age Retirement ✗ ✗ ✓ Death ✗ ✓ Withdrawal	<b>Traditional Pension Scheme(PPS)</b> ✓ Old Age (Retirement); ✓ Gratuity; ✓ Disability ✓ Death Gratuity ✓ Survivors'/Dependants ✓ Withdrawal ✓ Education; <b>Deposit Admin. Scheme (DAS)</b> <ul style="list-style-type: none"> <li>Defined Contribution scheme</li> </ul>	✓ Old Age (Retirement); ✗ ✓ Invalidity ✓ Funeral Grant ✓ Survivors' Pension ✓ Withdrawal ✓ Medical (Insurance) ✓ Maternity	✓ Old Age (Retirement); ✓ Gratuity; ✓ Invalidity ✓ Death Gratuity ✓ Survivors' Pension ✓ Withdrawal	✓ Old Age (Retirement); ✓ Gratuity; ✓ Invalidity ✓ Funeral Grant ✓ Survivors' Pension ✓ Withdrawal ✓ Marriage, Maternity, Emigration, and/or Unemployment ✗ Medical (Insurance)

Conditions for Full Benefits Coverage	Age: 55, 60 yrs max. Maturity: 15 years	Age: 55, 60 yrs max. Maturity : Annually	Age: 55, 60 yrs max. Maturity: <u>10</u> years	Age: 55, 60 yrs max. Maturity: 15 years	Age: 55, 60 yrs max. Maturity: 15 years.	Age: 55, 60 yrs max. Maturity: 15 years
Item	GEPF	SSSS	PPF	NSSF	PSPF	LAPF
Pension Factor(s), PF	-	-	<i>1/960</i> for 1978 – 30th June, 1988 <i>1/600</i> for 1 <sup>st</sup> July 1988 onwards	1/720....1/600	1/540	1/540
Commutation Factor, CF	-	-	12.5	18	15.5	15.5
Basis for Calculations	TOTAL Monthly Contribution	Annual Salary	Annual Pension Emolument (APE)	Average Monthly Earning (AME) based on the BEST 5 years of the LAST years	Last (Monthly) Salary Annualized (LMS-A or LAS)	Last (Monthly) Salary Annualized (LMS-A or LAS)
Computation		<i>Not yet available Done SOLELY by NIC</i>	APE = Annualized Highest Monthly Average for BEST 5 years		<i>Specified Amount SA = PF x PS x LAS</i>	<i>Specified Amount SA = PF x PS x LAS</i>
CPG Formula	-	-	$CPG = APE \times PS \times PF \times CF \times 25\%$	$CPG = AME \times 24 \text{ months}$	$CPG = 0.5 \times SA \times CF$	$CPG = 0.5 \times SA \times CF$
Initial Lumpsum % of Total Pension	One-Off Lumpsum	-	CPG 25%	CPG	CPG 50%	CPG 50%
Monthly Pension, MP	-	<i>None</i>	$MP = APE \times PS \times PF \times (1/12) \times 75\%$ <i>Guaranteed for ONLY 36 months and thereafter as long as the pensioner is alive</i> (Approx. 25 - 30% of the HMS)	$MP = 30\% \times AME$ Minimum 80% of Minimum Statutory Wage monthly salary currently [2008] about <u>33,200/-</u>	$MP = 50\% \times SA \times 1/12$ <i>For as long as a pensioner is alive</i>	$MP = 50\% \times SA \times 1/12$ <i>For as long as a pensioner is alive</i>
Gratuity	Accrued TOTAL Contributions <b>Plus INTEREST</b>	<i>None</i>	$GB = 5 \times APE \times PS \times PF$ <i>One-off payment No Monthly Pension</i>	$Gratuity = CPG$ <i>One-off payment No Monthly Pension</i>	$Gratuity = CPG$ <i>One-off payment No Monthly Pension</i>	$Gratuity = 5 \times SA$ <i>One-off payment No Monthly Pension</i>
Taxation on • Contributions • Benefits • Investment income	(Yes / No) (Yes / No) (Yes / No)	(Yes / No) (Yes / No) (Yes / No)	Not to be taxed Not to be taxed Taxed	Not to be taxed Not to be taxed Taxed	Not to be taxed Not to be taxed Taxed	<i>Taxed (by employer??)</i> Not Taxed Taxed

Key:	AME = Average Monthly Earnings (NSSF)	APE = Annual Pension Emolument (PPF)	CF = Commutation Factor
	CPG = Commuted Pension Gratuity (PPF)	GB = Gratuity Benefit (PPF)	HMS = Highest Monthly Salary (PPF)
	LAS = Last Annual Salary (PSPF, LAPF)	MP = Monthly Pension	PF = Pension Factor (PPF, PSPF,
LAPF)	PS = Period of Service	SA = Specified Amount (PSPF, LAPF)	

# THE UNITED REPUBLIC OF TANZANIA



## National Audit Office of Tanzania

### Services

Contributing to better stewardship of public funds by ensuring that our clients are accountable for the resources entrusted to them

Helping to improve the quality of public services by supporting innovation on the use of public resources

Providing technical advice to our clients on operational gaps in the operating systems

Systematically involve our clients in the audit process and audit cycles