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Pension Benefits Administration For Social Protection. A Case Study Of The Zimbabwe Construction Industry's Pension Fund

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Abstract:
This study was conducted in order to establish and proffer solutions to the challenges facingthe Pension Fund of the construction industry in Zimbabwe. The process from the collection and remittance of members'pension contributions up to the actual payment of the benefits usually at retirement, was causing disgruntlement among beneficiaries and a disgrace to social protection. The economic climate was manifesting the situation in the construction industry culminating in a number of company closures, retrenchments, failure to pay workers their pension benefits on time. The qualitative paradigm was used and data was collected using an unstructured interview guide. Participants were drawn from those employed in the construction industry in Harare, the National Employment Council (NEC) and the Pension Fund, as well as, the beneficiaries. Major findings were that; there were a lot of inconsistencies in the administration of pension subscriptions and their subsequent remittance to the NEC and ultimately to the Pension fund. There were so much delays at the Pension fund that adversely impacted on the disbursement of the pension to the beneficiaries (those retired). Low revenue inflows were being experienced since a number of large companies were not complying with the Pension and Provident Fund as they were not contributing to the Pension fund. The study recommends the creation of a Pension Protection Fund for the Pension Fund to cushion it against economic turbulence.There was also need to reinforce sound corporate governance on the administration of the Pension Fund including the enforcement of compulsory contributions by all companies in the industry.

Key words; *Construction industry, National Employment Council, Pension benefits, Pension Fund, Social protection.*

IIntroduction

The issue of Pensions is one of the most saddening poignant subjects in Zimbabwe. A number of pensionerswho retired or were getting their pension actually losttheir lifetime savings between 2005 and 2009 without any recourse due to the infamous hyperinflationary period. To date, most Zimbabweans have lost faith and no longer trust pension funds at all (Chivandire, 2021). They treat such institutionswith caution and seem them as instruments for milking them of their money. This has been aggravated by thefact that little is being done at all to educate the general citizenry about this emotivetopic. Financial literacy levels remain generally low among most pensioners. Subsequently, pension fundtrustees face a major challenge to ensure that people are adequately informedabout various pension fund developments.

The construction industry in Zimbabwe is one of the biggest sectors which is very pivotal to the success of the economy. The industry has the potential to account for at least 20% of the country's annual GDP (World Bank, 2012; ZimStat, 2014). This massive industry involves use of engineering, heavy equipment and contemporary technology in order to put up infrastructure such as buildings (work premises, offices, houses, sporting (e.g.. stadiums) and entertainment facilities (halls), roads, bridges, sewer and reticulation system, maintenance works, public lighting, railways etc. as well as maintenance work. The industry falls under the Ministry of local government, Public construction and National housing (Nyoni and Bonga, 2017. The workers and employers in this industry negotiate labour relations issues through the National Employment Councils to which they are affiliated namely, Builders Association of Zimbabwe, and the Construction Federation of Zimbabwe Public Works. The labour relations of late in this sector have been characterised by a number of labour disputes which include no adjustments to low wages and salaries (below poverty datum line), worker retrenchments (lay-offs) as part of downsizing and the three months' notice termination made by the infamous Supreme court ruling in 2015, erratic salary payments, failure to pay agreed rates and pensions. There have been numerous cases of litigation and that has affected the operations of the NECs.

The construction industry Pension fund is a contribution pension fund formed in 1952 to provide for pensions for workers in the construction industry. It is funded by both employee and employer contribution who each contribute 50% each of the contributions. It is run by a board of trustees that constitutes of 50% representation of employers and employees. The fund owns assets in the form of buildings which include the Construction house in Harare, other buildings in Bulawayo and Mutare and its other assets in the stock and money markets.

The construction industry Pension fund is bedevilled by a lot of challenges which is affecting the welfare of its pensioners. The pensions that employees receive on retirement are not able to sustain the lives of the pensioners as they are too little (Mazviona, 2013). The member's expectation and what they eventually get is different. Majority of the Employers deduct contributions but do not submit them to the Pension fund or they delay to submit them. The fund's day to day administration costs are too high to an extent that more that 50% of contributions received are chewed up by administration costs before they are invested. Furthermore the Contributions are collected via a third party, the National Employment Council which retains a whopping 10% as their administration fees. The economic situation has also hurt the fund's ability to make long term investment in the property sector. The economic conditions have precipitated a fall in stock market prices and a low uptake of the fund's property rentable space (Chigara and Moyo, 2014). The Look east policy by government has resulted in the awarding of contracts to the Chinese companies who do not comply with the rules of submitting pension contributions and at the same time they bring a lot of their nationals for employment at the expense of locals.

The National Employment Council (NEC) which collects contributions on behalf of the fund appear not to be transparent on how much would have been collected and how much it then remits to the Pension Fund. There was a loss of value in pensions due to the inflation that occurred in 2008/2009 which culminated in dissatisfaction on the translation value when the multi-currency system was introduced in 2009.

1.1 Statement of the problem

The construction industry Pension fund has not made any meaningful contribution towards social protection of its pensioners whose intendedlifelong benefits (pensions) have become so meagre and insignificant despite having made significant contributions during their working life period.

1.2 Research questions

(i) How compliant are employers on handlingpension premium remittances in the construction industry?
(ii) How transparent is the collection system of premiums and submission to the Pension Fund by the NEC in the construction industry?
(iii) How adequate are the returns on the investments from using the Pension Fund in the construction industry?
(iv) What are the major challenges affecting the Pension Fund?

1.3Literature Review

1.3.1 Theoraticalframework of pension programmes

1. The Financial Theory of Defined Benefit Pension Schemes

Was developed by Exley et al.(1997). They defined benefit pension (also called a 'final salary' pension) as a type of workplace pension that pays a retirement income based on one's salary and the number of years worked for the employer, rather than the amount of money contributed to the pension.A defined benefit (DB) plan, more commonly known as a pension plan, offers guaranteed retirement benefits for employees. Defined benefit plans are largely funded by employers, with retirement pay-outs based on a set formula that considers an employee's salary, age and tenure with the company. Pension funds risk management is grounded in the context of the development of modern risk management in the financial industry more general. The risk-taking capacity is a central element of DB pension funds. In general risk management has become much more sophisticated but that it is often driven more by regulatory and accounting issues than by the pension fund's specific risk profile. Furthermore, changes to the regulatory and accounting standards increasingly impede the risk-taking capacity of DB pension funds. This theory can help the Zimbabwe construction pension fund if they adopt the DB pension fund system and consider the risks involved as articulated by Exley et al. (1997).

2. Theory of insurance

A more refined approach to national insurance is derived from the Theory of insurance (Blanchard and Fischer, 2009). Pensions contain an element of insurance because they are paid when the individual is still alive, thus insuring him or her against the uncertainty of his life span. Without this insurance, the individual would have to plan his consumption out of his assets in the knowledge that he will bequeath an involuntary inheritance. The market for annuities of insurance companies is imperfect due to the asymmetry of information available to the individual and the insurance companies with respect to the life expectancy. Government intervention is therefore required, in the form of universal insurance through a universal pension programme. this theory can help the zimbabwe construction pension fund to consider possibly joining the government initiated pension programme administered by the national social security authority (nssa).

1.3.2 Major guidelines on the operations of the Construction industry pension fund in Zimbabwe

1. **Collective Bargaining Agreement (2010) on the Pension Fund for the National Employment Council for the construction industry of Zimbabwe**

This was made and entered into in accordance with the provisions of the Labour Act, [C*hapter 28:01*], between the Construction Industry Federation of Zimbabwe and the Zimbabwe Building Contractors Association (the employers or the employers' organisations) of the one part, and the Zimbabwe Construction and Allied Trades Workers' Union (the employees or trade union), of the other part being the parties to the National Employment Council for the Construction Industry of Zimbabwe operational in May 2010.

2.The Construction Industry Pension Fund

The Construction Industry Pension Fund, which is a self-administered pension fund, established in terms of Rhodesia Government Notice 509 of 1969, consists of-

(i) contributions and deductions paid to the fund in accordance with the provisions of the agreement;

(ii) allother assets of the fund from time to time acquired or held by or on account of the fund.

1.3.3 Empirical studies

Chikomwe (2013) conducted a study on the viability of pension funds in Zimbabwe during the hyper inflationary environment that prevailed in the period January 2000 – January 2009 and how they adjusted to a multi-currency regime over the period February 2009 –December 2012. The researcher adopted a qualitative research methodology. The major findings were that In order to survive during the period of hyperinflation pension funds changed portfolio composition and diversified investments into non-core activities. He suggested that in order to survive, pension funds should consider investment portfolio composition to hedge against inflation and venture into non core activities offering higher returns above inflation and to adopt decentralised decision making, differentiated services and short term planning horizons.

A study by Nhodo et al. (2013) examined the challenges faced by the pensioners in Masvingo, simultaneously analyzing the survival strategies adopted by these pensioners to improve their strained livelihoods. The central argument is that the current macro-economic challenges in Zimbabwe have led to a huge strain on the livelihoods of the pensioners as well as economic marginalization, leaving them in a state of abjection, where they are struggling to meet life's basics such as heath, food clothing and transport requirements. Notwithstanding the constraining effects of the said economic challenges, the treatise opines that these social actors have an avalanche of livelihood assets which they exude as calculative, strategic, rational and reflexive actors to deal with their constraining social environment. The study was grounded in qualitative methodology and unstructured interviews and focus group discussion were used as the main data soliciting techniques. Giddens' Stracturation thesis and the Sustainable Livelihood Framework were used as the analytical lens for the findings made herein

Silveira et al. (2015) conducted a study on the impact of retirements and pensions on the social welfare of the households in Brazil. They used themethodological approach based on propensity score matching, and microdata from the National Household Sample Survey of 2009. The results showed that income from retirement and pensions represented an important portion of beneficiary households' income, especially lower-income beneficiary households and that social protection has a positive effect on the incomes, access to knowledge and living conditions of the households analysed.

Gonye (2018) conducted a study on the analysis of the effects of longevity risk on pension planning in Zimbabwe with a particular focus on defined benefit pension schemes. The study applied the quantitative methodology with a sample of 128 participants was drawn from randomly selected active employees who are members of pension funds using a structured questionnaire. The study was interested in testing the proposition that mortality is improving in Zimbabwe. Generally there were mortality improvements in Zimbabwe meaning that there was longevity risk which has got direct impact on defined benefit pension funds. Policymakers were recommended to set up a Continuous Mortality Investigations Unit within Zimbabwe and that the Regulator of pension funds put in place mechanisms of ensuring that pension funds and annuity providers fully account for improvements in mortality.

2 Research Method

The research was a case study of the construction industry in Harare, Zimbabwe. The qualitative research paradigm was used. The participants were drawn from current and retired workers and those in Management employed in the construction industry in Harare, including its National Employment Council (NEC) and the Pension Fund. Quota sampling was used in order to accommodate the various categories of all the key stakeholders who constituted the target population (Bryman, 2007; Kothari, 2014). Interviews based on unstructured interview guide were conducted. The researcher observed Research ethicsthroughout the study such as; getting informed consent of participants, confidentiality, honesty and integrity (Cresswell, 2014;Naagarazam, 2006; Porter, 2014). Since the data was qualitative, it was analyzed using the thematic analysis (Gibbs, 2018; Richards, 2020) culminating in the findings (results) discussed below.

3 Results and analysis

3.1 Level of compliance with Premium Remittances

Matters of compliance were being affected by

(i) No efficient and proper database of pension contributing employees in the construction industry

(ii) Money deducted not submitted in full to the NEC or Pension fund.

(iii) No proper tracking of pension contributors

(iv) No audits conducted

These findings (results) showed that there were mixed sentiments over the manner in which pension premiums were being remitted from employers to NEC and ultimately the pension fund of the construction industry. Some felt that the money was not submitted in full, which could raise issues of funds mismanagement. However, a few were satisfied with the manner the pension contributions were being administered since the regulatory framework, the Pension and Provident Fund policy was clear on what should be done.The study showed that generally there were problems of remittances and compliance regarding pension contributions.

3.2 Transparency in collection of contributions and remittance to NEC AND Pension Fund

(i) Majority were not sure if collected premiums were submitted to the Pension Fund not sure if receipts were issued as proof of payment. This obviously creates suspicion and mistrust.

(ii) Members were not given an annual statement that should have been showing each payment made and cumulative totals of amount paid to date (at a particular year-end).

The study established that there was lack of transparency in the handling of pension premiums (contributions) and that was adversely affecting the Pension Fund. Low revenue inflows in the Pension Fund affected business operations as the Fund struggled to meet its overheads and other running costs which require constant funding

A key informant had this to say

> '*'There is no transparency as a lot of subscribers usually queried about the handling of pension contributions. The NEC did not usually submit contribution on time and charged a high commission. Some employers submitted pension contributions without proper records depriving the Pension Fund monies for investment and interest. The failure by NEC to allow the Pension Fund to interfere with contributing companies and members is an indication of lack of transparency in the industry. Such lack of transparency usually brought a lot of mistrust between workers which is not ideal for a sound industrial relations set up''*

3.3 Adequacy of the returns from Pensions Fund Investment

The returns were low owing to**:**

(i) Low uptake of Pension Fund properties renting space

(ii) Low premiums (contributions)
(iii) Lack of maintenance and refurbishments affecting the demand for subletting offices and the increasing of rental charges
(iv) Under performing stock market which cause poor returns
(v) Delays caused by bureaucratic tendencies to make decisions between trustees and the council

The low contributions of pensions, erratic salary payments and delays in making remittances coupled with low investment returns showed that the Pension Fund was facing serious challenges and could be the reasons behind meagre pension payments to those who would have retired. The meagre pension payments do not do any good to help improving welfare of employees which creates a bad relationship between them and the employers.

3.4 Major challenges affecting the Pension Fund

(i) Very low salaries/wages for majority resulting in small premiums
(ii) Numerouslabour disputes which were affecting pension contributions
(iii) A growing number of Chinese companies which do not comply with pension requirements making retirees nothing to show about.
(iv) Lack of corporate governancepractices by employers and NEC.
(v) Perennial economic hardships causing companies closures and retrenchments.

A number of factors strongly affected he Pension Fund. These consist of numerous labour disputes which were affecting pension contributions, a growing number of Chinese companies which did not comply with pension requirements making retirees employed by these companies nothing to show about their entire working life. These were delays in remittance of subscriptions to the Pension Fund, most board of trustees members were not educated about investment dynamics and could not approve viable projects, for example, poor investment with low returns like the Norton project. The macro-economic challenges facing the entire country was also affecting the entire construction industry. Also most Chinese companies were not contributing to pension. All these results showed that the Pension Fund was severely severe cash flow problems and this was also a problem not peculiar to itself as an organization but the entire economy Also the industry was failing to recover from 2007/8 hyperinflation. The multiplicity of such problems do not provide sound industrial relations especially on the welfare of pensioners who feel disgruntled by their meagre earnings (Samuel and Chipunza, 2009) especially under harsh economic situation in Zimbabwe.

4. Conclusion

Generally the level of compliance on pensions administration by employers in the construction industry was very low especially by Chinese owned SMEs. There was hardly any transparency in the manner in which pension contributions were being administered (managed) by the NEC on behalf of the Pension Fund. There were no proper documentation and feedback to the Pension Fund, which was also compounded by the NEC's failure to allow the Pension Fund to interfere with contributing companies or to collect on its own. Returns were meagre and did not help much to improve the coffers of the Pension Fund. Lack of investment was as a result of poor working relations caused by bureaucratic tendencies and rift between Board of trustees and the council. In addition the stock market performances was depressed and there

5. Recommendations

5.1 Review of the Pension and Provident Act

The Pension Fund should be empowered to collect pension from the source, that is, the employer rather than the prevailing scenario were the NEC did that and then remit to the Pension Fund but there were several delays and accountability challenges.

5.2 Implementing sound corporate governance systems

There is need to implement corporate governance systems in the construction industry such as incorporating production of financial statements and audits for transparency and accountability including records of all remittances made.

5.3 Enforcement of mandatory Pension contributions by all firms in the construction industry

There was need to bring on board some companies which were not subscribing to the Pension Fund particularly Chinese firms. That should also boost pension contributions from increased number of employees to the Pension Fund.

5.4 Direct interface of Pension Fund with employers without use of the NEC as 'middleman'

The Pension Fund should interface with employers and collect subscriptions from them. This will also expedite the process and make it easy to follow up and to address issues and queries.

5.5 Creation of a Pension Protection Fund

The protection fund would act to safeguard or cushionthe Pension Fund so that in the event of adverse economic macro changes, the contributors can still get what they were supposed to receive.

5.6Conducting maintenance work and upgrading of buildings and other properties

As part of the investment drive, the Pension Fund should renovate most of its buildings and other properties which are dilapidated in order to give them a face lift so that they can attract tenants at reasonable rates to improve its investment strategy.

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