FACTORS AFFECTING EARLY WITHDRAWAL OF RETIREMENT BENEFIT ON SOCIAL SECURITY SYSTEM: INSIGHT FROM PARASTATAL PENSION FUND
FACTORS AFFECTING EARLY WITHDRAWAL OF RETIREMENT BENEFIT ON SOCIAL SECURITY SYSTEM: INSIGHT FROM PARASTATAL PENSION FUND

By
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A Dissertation Submitted to the Mzumbe University Dar es Salaam Campus College in Partial Fulfillment of the Requirement for the Award of the Degree of Masters of Business Administration (MBA – CM) of Mzumbe University

2013
CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University, a dissertation entitled “Factors Affecting Early Withdrawal of Retirement Benefits on Social Security System: Insight from Parastatal Pension Fund” in partial/fulfillment of the requirements for award of the degree of Masters of Business Administration, Corporate Management.

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Above all I thank God for keeping me with good health during my study until this time.
DEDICATION

This dissertation is dedicated to my beloved husband Mr John Gumbi, my sons Andrew, Dereck and Williams, for their patience, untiring support and encouragement during my studies. I also dedicate this work to my parents Mr Andrew Napacho and Ms Anna Mbalamula who pioneered my academic success throughout the entire period of my studies.
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<td>CRDB</td>
<td>Cooperative and Rural Development Bank</td>
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<tr>
<td>GDP</td>
<td>Growth Domestic Product</td>
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<td>GLS</td>
<td>Generalized Least Squares</td>
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<td>GMM</td>
<td>Generalized Method of Moments</td>
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<tr>
<td>IOPS</td>
<td>International organization for Pension Survey</td>
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<tr>
<td>IRA</td>
<td>Individual Retirement Account</td>
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<tr>
<td>LSDVC</td>
<td>Least Squared Dummy Variable</td>
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<td>MPF</td>
<td>Mandatory Pension Fund Authority</td>
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<tr>
<td>NSSF</td>
<td>National Social Security Fund</td>
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<tr>
<td>OLS</td>
<td>Ordinary Least Squares</td>
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<tr>
<td>PPF</td>
<td>Parastatal Pension Fund</td>
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<tr>
<td>RBA</td>
<td>Retirement Benefit Authority</td>
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<tr>
<td>SACCOs</td>
<td>Savings and Credit Cooperative Organizations</td>
</tr>
<tr>
<td>SPSS</td>
<td>Statistical Package for Social Science</td>
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<tr>
<td>SSRA</td>
<td>Social Security Regulatory Authority</td>
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<tr>
<td>UK</td>
<td>United Kingdom</td>
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<tr>
<td>URT</td>
<td>United Republic of Tanzania</td>
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<td>USA</td>
<td>United States of America</td>
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ABSTRACT

In Tanzania members of existing social security funds such as Parastatal Pension Fund (PPF) and National Social Security Fund (NSSF) had been allowed through withdrawal benefit, to take away their retirement benefits upon termination of contracts, resignation, and dismissal. However the practice is becoming more prevalent as more members opt to withdraw their retirement savings once they quit their jobs. The main objective of this study was to examine factors affecting early withdrawal of retirement benefit on the social security system in Tanzania. Specifically study aims at identifying types of pension schemes used in the social security system in Tanzania; determining strategies adopted by the social security funds to control early withdrawal of retirement benefits; find out factors that influence early withdrawal of retirement benefits; and examining the impacts of early withdrawal of retirement to members, government and social security funds.

The study adopted case study design which dealt with various processes and their interrelationships. It was conducted at the Parastatal Pension Fund (PPF) headquarters and three branches located at Temeke, Ilala and Kinondoni districts in Dar es Salaam region. Data were collected using interviews, questionnaire and documentary survey. From this study, two types of schemes were involved which are traditional and deposit administrative schemes. The findings revealed that, the rate of withdrawal had increased up to 1000 withdrawals per months. A number of reasons for early withdrawal were outlined including income level and age of respondents. Considering the impact of early withdrawal to member, government and social security funds, several strategies were adopted to control early withdrawal. These include provision of education to members and offering short term benefits such as education benefit. This study concludes by recommending some structural and policy changes that could help to build members trust, improve retirement benefits and offer more alternative short term benefits to members. This can help to control early withdrawal of retirement benefits.
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CHAPTER ONE

INTRODUCTION

1.1 Background to the Problem

The ongoing reforms in social security systems in various parts of the world and the growing economic and social uncertainties have changed the way people plan for their retirement arrangements. The decision of when to retire is critical to retirement spending. In recent years the world has witnessed significant increase in layoffs, retirements, resignations, dismissal, as well as termination of contracts which left most individuals with little income to spend that make their life miserable (Argento, et al., 2012).

With the potential problems surrounding social security funding, and the decline of defined benefit retirement plans, more individuals are saving on their own for retirement. On the other hand governments have been emphasizing on mandatory pension schemes that can guarantee employees wellbeing after retirements, while discouraging early withdrawal from retirement benefits accounts to protect workers from financial difficulties to meet their basic amenities after retirement (Butrica and Issa, 2010).

Across the world policy makers have been searching for ways to increase retirement savings through mandatory pension schemes. For example, in USA government through Pension Protection Act of 2006, compel the employers to automatically enrol new employees into pension schemes to ensure their security after retirement. More recently, the government calls for employers with more than 10 workers to set up automatic individual retirement account for their employees (Butrica and Issa, 2010). This is also the case in Chile where all wage earners and salaried workers are required to have 10% of their earnings deducted to fund their retirement benefits. In Hong Kong and Australia the mandatory pension scheme require 9% contribution from the employers (MPF, 2011). For the case of Africa, Tanzania in particular a 10% mandatory contribution is required from an employee while 10% has to come
from the employer or 5% from an employee and other 15% from employer to make a total of 20% contributions.

Parallel to that, governments have hardly been discouraging early withdrawals of retirement benefits in fear that, employees might face economic hardships in time of retirement as they will have little or no support during their old age. Several measures have been designed to help discouraging withdrawals. For instance early withdrawals often generate tax penalties or restrictions to further withdrawals by individual employer pension plans. Some states in USA introduced 10% tax penalty for any early withdrawal done by an employee before retirement age. In Asia and pacific countries such as India, and Sri Lanka, Singapore early withdrawal before retirement is not allowed; this is because the recent estimates indicate that, over 5% of individual retirement accounts are withdrawn annually by individuals under retirement age (Butrica and Issa, 2010).

However given the unstable employment, low level of income, economic instability and unforeseen events, early withdrawal of retirement benefits is allowed under certain conditions to provide relief for the poor employees. For instance in Hong Kong and Australia early withdrawal is only allowed in case of permanent departure from the country, disability, financial hardship or specified compassionate grounds (MPF, 2011).

In Tanzania workers who leave their jobs before reaching the normal retirement age of 60 may withdraw their own contributions as well as 100 percent of employers’ contributions, provided they contributed to the occupational pension plan for at least 5 years (URT, 2003). The approach is slightly different in Kenya where member may withdraw their own contributions with accumulated interest, as well as 50 per cent of employer contributions, provided they contributed to the occupational pension plan for at least 3 years. Any remaining funds must stay in the account until the worker reaches the normal retirement age. This decision comes amid concern that many workers would not live long enough to receive their retirement funds. According to estimates by the World Health Organization, life expectancies at birth
are 53 years for men and 55 years for women, and are thus significantly lower than the normal retirement age of 60 years old (WHO, 2010).

Although governments and social security funds in various parts of the world have been hardly discouraging early withdrawal of the benefits, but there is a need to have comprehensive review of the pension system in order to develop a balanced withdrawal plan for the beneficiaries based on the prevailing social economic conditions.

1.2 Statement of the Problem

In Tanzania early withdrawal of retirement benefit before the retirement age had been practiced for quite some time. Members from existing social security funds such as Parastatal Pension Fund (PPF) have been allowed through withdrawal benefit plan, to take away their retirement benefits upon termination of contracts, resignation, and dismissal. The existing legal framework and the schemes’ design do not provide for untimely withdrawal from the pension system (NSSF, 2012). However the practice is becoming more prevalent in all social security funds as more Tanzanians opt out of retirement savings once they lose their jobs.

A survey conducted by the National Social Security Fund (NSSF) showed that, from 2007 to 2011 withdrawals across all pension funds soared from Tsh. 46.6 billion ($29.125 million) to Tsh. 119.66 billion ($74.788 million), equivalent to 29.7 percent of total benefits paid, hurting the schemes’ long-term plans. Such a pace of withdrawals could create social insecurity and place a higher burden on the working generation. The study indicates that the number of members withdrawing their contributions surged from 45,239 in 2007 to 85,760 in 2011. This is equivalent to 9.4 percent of total number of contributing members’ amount to 913,799 (NSSF, 2012).

Although withdrawals have no clear long-term impact on schemes pension liability, it is worth noting that the schemes lose liquid funds needed for investment that is meant to increase the value of their reserve funds. By allowing members to withdraw a total of Tsh. 119.66 billion ($74.788 million) in 2011, schemes were denied the
opportunity to increase pensions in payment by five per cent to the detriment of pensioners. This amount of money is equivalent to five per cent of pension paid in 2011 (NSSF, 2012).

Several factors have been associated with early withdrawal of retirement benefits. For instance, some members withdrew their pension funds in order to meet basic financial obligations, such as paying school fees for their children. In the wake of high inflation and pay for medical expenses, other factors include an unstable employment environment whereby most of the victims of retrenchments and job losses lack alternative benefits (NSSF, 2012). Difficulty in accessing credit from banks and financial institutions make social security savings an easy target for capital needs, contrary to its objective of life insurance contingencies.

As remedy, government, social security funds and the Social Security Regulatory Authority (SSRA) have been educating members not to access their retirement funds until the retirement age. But such efforts do not seem to materialize as the number of early withdrawals kept on increasing. Instead, the government has recently introduced a new legislation to restrict member’s early withdrawal upon resignation, termination of contracts, or dismissal. For members, the legislation seems to be controversial as it infringes what they think to be their right. As a result, the government was forced to withdraw the bill from the parliament April, 2012 until it is agreed by the parties.

In the light of such disagreements, this study seeks to establish factors that influence member’s early withdrawal of their contributions from retirement benefits and examine the impacts of such early withdrawal to the beneficiaries. The answers to these questions might help to develop a new paradigm that can mitigate the conflicts between the government, social security funds and its members since both parties are mutually dependent to this arrangement.
1.3 Research Objectives

1.3.1 General Objective
The main objective of the study was to examine factors affecting early withdrawal of retirement benefit on the social security system in Tanzania.

1.3.2 Specific Objectives
(i.) To identify types of pension schemes used by social security funds in Tanzania.
(ii.) To determine strategies adopted by the social security funds to control early withdrawal of member’s contributions from their retirement benefits.
(iii.) To find out factors that influence member’s early withdrawal of their contributions from the retirement benefits.
(iv.) To examine the impacts of member’s early withdrawal of their contributions from the retirement benefits.

1.4 Research Questions
(i.) What are the types of pension schemes used by the social security funds in Tanzania?
(ii.) What strategies adopted by the social security funds to control members not to withdraw their contributions from the retirement benefits?
(iii.) What are the factors influencing member’s early withdrawal of their contributions from the retirement benefits?
(iv.) What are the impacts of member’s early withdrawal from the retirement benefits?

1.5 Significance of the Study
This study offers significant contributions to the beneficiaries of social security system by creating a level playing field towards achieving better social security services for employees. This means that, findings from this study provides
information through which government can review its policies and legal frameworks for the purpose of preventing further conflicts and mistrust between social security funds and their clients. For researchers and academicians the study helps to deepen the discourse, by analysing structural and systemic weaknesses in the social security system as well as pension system, identify challenges faced by social security funds in offering services and fill the gaps which other researchers did not manage to study. Also, since the welfare of employees and their communities depend on how efficient social security benefits can sustain their lives; this study is expected to be the basis of analysis and understanding of employee’s behaviours and actions towards the on going social security reforms in Tanzania and how such reforms affects their life. Finally, the research helps to stimulate the interest and morale of other researchers to undertake an in-depth study in the field of social security in order to improve the performance of social security funds in Tanzania.

1.6 Scope and Delimitation of the Study
The study was focused on understanding factors affecting the early withdrawal of retirement benefits on the social security system in Tanzania. In the process of establishing the basis for such factors and its impacts, the study was critically looked at the level of income, marital status, life style, employment stability, economic shocks, age, size of pension benefit, household size and conservativeness of investment preference may influence members to withdraw their retirement benefits. The study was centred at Parastatal Pension Fund (PPF) as the case study. The reasons for choosing PPF is that, it is among the few social security funds which provide early withdrawal of retirement benefits. Also it is among the institutions hit by the increasing wave of early withdrawal of retirement benefit by members.

1.7 Organization of the Study
This study is divided into five main chapters. The first chapter is an introductory which involves the background of the study, statement of the problem, objectives of the study, research questions, study significance, scope and delimitation of the study, conceptual framework and organization of the study.
The second chapter deals with literature review which provides a theoretical foundation of early withdrawal of retirement benefits as it manifest in various social security funds, the definitions of the main concepts and empirical review of various literatures on the concept of early withdrawal of retirement benefits.

The third chapter focuses on the methodology and research methods used in data collections during the research. The methodology includes research design, unity of inquiry, sample procedures and sample size, parameter of interest, data collection techniques, data analysis and limitation of the study.

Fourth chapter involves presentation of major findings and discussion on the topic. It gives an overview of what was discovered during the research study, pertaining the type of schemes, strategies adopted control early withdrawal, factors influencing early withdrawal of retirement benefits and the impacts of early withdrawal of retirement benefits to the members, government and social security funds. Furthermore this chapter went further to discuss the alternative strategies adopted by social security funds to control an increase rate of early withdrawal of retirement benefits. Finally this part provides the summary of key findings as presented and discussed by the researcher.

The fifth chapter constitutes conclusion and recommendations. The conclusion presented was based on the analysis and discussions made under the study. The chapter also provides recommendations for further research in the future.
CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction
The recent trend shows that, most of the working population who quit their jobs prefers to withdraw their retirement benefits earlier than expected. While the existing legal framework and the pension schemes design do not provide for untimely withdrawal from the pension system, the practice is becoming more prevalent in all schemes as more Tanzanians opt out of retirement savings once they lose their jobs (NSSF, 2012). The motives for early withdrawal might differ from one individual to the other; some people are motivated by economic factors while others by non-economic factors. Therefore policy makers need to understand the nature of early withdrawal especially in a country such as Tanzania before introducing any change which might affect the life of individual employees.

This chapter presents the theoretical and empirical understanding of the literature on early withdrawal of retirement benefit. It provides detailed review of existing stock of knowledge on the concept of early withdrawal of retirement benefit as explained by different scholars with due respect to explore the gaps which needs to be filled by this study.

2.2 Definition of Key Concepts

2.2.1 Withdrawal Benefit
The rights of an employee who has a qualified pension plan to cash-out any accumulated benefits upon leaving an employer. Withdrawal benefits under a defined contribution plan may allow the employee to have immediate rights to any contributions, plus any earnings on those contributions. The employee may not be entitled to receive any employer contributions unless he or she is vested. Under a defined benefit plan, most likely the benefits will stay with the retirement plan until you become eligible to receive them (MPF, 2011).
If an employee is fully vested, he or she may decide to withdraw the accumulated benefits, but in some countries like USA and UK one might be subject to certain tax liabilities and/or penalties, or transfer it to an individual retirement account or, in some cases, to another employer plan.

### 2.2.2 Retirement Benefit

A monthly payment made to someone who is retired from work, old age pension, retirement check, retirement fund, retirement pension, superannuation pension a regular payment to a person that is intended to allow them to subsist without working (RBA, 2012).

### 2.2.3 Social Security

Social security is defined in its broadest meaning by the International Labour Organization (ILO) as the protection measures which society provides for its members, through a series of public measures against economic and social distress that would otherwise be caused by the stoppages or substantial reduction of earnings resulting from sickness, maternity, employment injury, unemployment, disability, old age, death, the provision of medical care subsidies for families with children. (ILO, 2000).

The ILO framework of social security is based on a three-tier structure namely, tier one – social assistance schemes, tier two - mandatory schemes and tier three - voluntary or supplementary schemes. All these seek to utilize various funding sources for provision of better protection to the country’s population. This structure also seeks to address needs of different groups in the society with respect to income and degree of vulnerability.

### 2.2.4 Social Security System

Social security systems mean the systems to enable every citizen to lead a worthy life as a member of cultured society. Social security systems provide countermeasures against the causes for needy circumstances including illness, injury, childbirth, disablement, death, old age, unemployment and having a lot of children by
implementing economic security measures through insurance or by direct public spending. (WHO, 2010).

According to the definition, social security systems play the following three roles. First, the systems deal with the factors that may cause needy circumstances such as illness, injury, childbirth, old age, disablement, and unemployment by providing economic security through insurance (social insurance) or by direct public spending (social assistance). Second, the systems ensure the minimum level of living to the needy by implementing public assistance programs. Third, in line with the aforementioned measures, the systems promote public health and social welfare (Holden, Sarah, and Schrass, 2010).

2.3 The Concept of Early Withdrawal of Retirement Benefits
Withdrawal benefit is one of several benefits provided by social security funds in various countries around the globe. It is one of its kinds that give members of social security funds, the flexibility and opportunity to access part or total cash lump sum of their retirement contributions earlier before the retirement age (Argento, et al, 2012). This benefit is granted under certain circumstances such as retrenchment, resignation, dismissal, abolition of office, or termination from office and economic hardship etc.

The concept however tend to vary greatly depending on the policy of the country and the type of the scheme where member is registered. In some countries like South Africa, a member can receive a lump sum payment equal to members and employers’ contributions plus accrued interest payable to a member who has resigned, dismissed, terminated from contract or absconded (IOPS, 2011).

However with such variations in the modality of how benefits are being offered, partial early withdrawal of retirement accounts is allowed in USA and Australia among employees under retirement plan. But for those who are not covered by retirement plan can fully withdraw their full contributions (Butrica and Issa, 2010). Usually, if a worker resigns and withdraws from a pension fund, only the worker's
own contributions to the fund are paid out, plus very small interest on those contributions. The worker might not get the employer's contribution to the fund (RBA, 2012). Early withdrawals also tend to differ, between social security funds. For instance most of the provident funds pay out better withdrawal benefits than pension funds. However efforts are being done to change the rules so that, a level playing field could be observed to all funds.

2.4 Withdrawal Benefit and Development of Social Security System in Tanzania

Although there are few studies done on the origin and the development of social security system in Tanzania and the associated benefits offered by social security funds; the history of social security system can be traced in three phases. The first phase is that of pre-colonial era, where informal social security was predominant (Mchomvu, et al, 2002). Communities used to live in groups while producing, consuming together. There was mutual assistance and economic cooperation, where each group was obliged to help the other in case of social or economic difficulties. There were no formal benefits provided, but rather members benefited from reciprocal relationship within the kinship.

The second phase can be traced back to the period of colonial penetration, first by Germans, (1885-1918) and then by British (1918-1961). The colonial government introduced a formal social security system, just to serve their exploitative purposes. Several schemes were introduced starting with medical field, old age, and workmen compensation scheme. During this era withdrawal benefit was granted due to contractual nature of the jobs and working relationships which involved frequent hiring and firing. Members in the social security funds allowed withdrawing their contributions in case of resignation, termination of contracts or disability (Mchomvu, et al, 2002).

The third phase covered the period from 1961-1980s, which was known as the post independence period. This period characterized by political, economic and social changes. The change includes the introduction of structural adjustment programme
which led to the loss of jobs due to retrenchment. It was during this time when early withdrawal of retirement benefit became famous; as many members opt to withdraw. This led to resources drain because a lot of money was used to pay thousands of members withdrew their contributions prematurely (Mchomvu, et al, 2002). As part of the needs created by structural reforms, more pension and provident funds have been established, including Local Authority Provident Fund, Public, Service Pension Fund, Government Employees Provident Fund, National Social Security Fund and National Health Insurance Fund to cover for the health of the citizens.

Social security, by its simplest definition, is a contract between a government and its constituents. Under this contract, citizens provide funding to a social security system, and in exchange they receive benefits from the system during their nonworking years, generally during old age or prolonged illness (disability). This is a system in which workers provide financing through a Social Security tax; these contributions provide benefits to the currently retired or disabled. The system requires an implicit guarantee that future generations will then provide the same support for them. In contrast, fully funded (FF) social security system requires that benefits on individual contributions paid over time. In such systems, future obligations are fully funded by earlier contributions. Social Security system is an important because of the aging population, particularly the baby boom cohorts.

2.5 The Role of Parastatal Pension Funds

Demographic change is a growing concern for both developed and developing countries. Increasing longevity and reduced fertility threaten the sustainability of traditional pay-as-you-go pension fund systems. The pension contributions from the working population are not sufficient to support the elderly. In response, countries are increasingly shifting their pension systems toward partial or full funding. In addition to the main purpose of coping with demographic pressures and unsustainable fiscal positions, other motivations for countries to reform their pension systems often include the hope that funded pensions can contribute to economic development by promoting national savings and capital market development. In this study, we seek to determine the impacts of pension funds on the governments,
individual members and the social security funds. The study reaches further than previous studies by separating countries according to their level of financial development to account for potential heterogeneity in the results, by using new estimation techniques that have been shown to produce less bias, and by basing results on a larger panel dataset, both in terms of the number of countries and the number of time periods.

The introduction of funded pension systems allows pension funds to accumulate assets that can be invested in financial markets. Even in the case that pension savings crowd out other household savings such that the total savings in the economy do not increase, the accumulation of pension fund assets is expected to potentially promote depth and liquidity in the capital markets because of the different investment behaviour between households and pension funds. With accumulating assets and the longer-term nature of their liabilities, pension funds have incentives to invest more in illiquid and long-term assets that yield higher returns, and thus provide a long-term supply of funds to the capital markets (Davis, 1995). As well, Catalan, Impavido, and Musalem (2002) argue that with their stake in illiquid pension funds, households will increase their liquidity by holding deposits in the banking sector, open-end mutual funds, and traded securities, at the expense of other illiquid assets such as real estate or non-traded financial instruments. Such behaviour can also stimulate financial market development.

Pension fund activities may also induce capital and financial market development through their substituting and complementary roles with other financial institutions, specifically commercial and investment banks. As competing intermediaries for household savings and corporate financing as noted by Impavido, Musalem, and Tressel, (2002), pension funds foster competition and may improve the efficiency of the loan and primary securities markets. This results in a lower spread between lending rates and deposit rates, and lower costs to access capital markets. On the other hand, Davis (1995) argues that pension funds may complement banks by purchasing long-term debt securities or investing in long-term bank deposits. Other potential impacts from the growth of pension funds include an inducement toward
financial innovation, improvement in financial regulations and corporate governance, modernization in the infrastructure of securities markets, and an overall improvement in financial market efficiency and transparency. Such impacts should ultimately spur higher long-term economic growth.

Some studies have sought to quantify the impacts of pension funds on capital markets, but the literature is still relatively sparse. Catalan, Impavido, and Musalem (2002) conduct Granger causality tests on 14 OECD countries and 5 developing countries, separately, to see the causal relationship between stock market development and contractual savings institutions including pension funds. They conclude that contractual savings predominantly Granger cause stock market development. To a lesser extent, the causality happens simultaneously between them, and very slightly, the causality runs the other direction. Even though they find such causal evidence, their estimation might suffer from the small number of time period observations. For example, the number of observations is only 6 for Austria, 8 for Portugal, and 9 for Australia.

Impavido and Musalem, (2002) study the impact of contractual savings and non-life insurance institutions on stock markets using Ordinary Least Squares (OLS), Error Component (EC), and Error Component Two Stage Least Squares (EC2SLS) estimators on a panel of 26 countries, 5 of which are developing countries. They find a statistically significant impact of contractual savings financial assets on stock market capitalization, but not on stock value traded.

Walker and Lefort, (2002) carry out a panel study using a Generalized Least Squares (GLS) estimator for 33 emerging markets and find positive links between pension reform and capital markets. They find that pension fund assets reduce dividend yields and increase price-to-book ratios, thereby implying a decrease in the cost of capital. However, they also admit that some of their estimation results may suffer severely from measurement error problems, and their conclusions are preliminary and need to be verifying again when a longer period of observations becomes available.
In their study Impavido, Musalem, and Tressel, (2003) incorporate dynamic panel models to estimate the impact of contractual savings institutions on stock market and bond market development. With the use of an Arellano and Bond (1991) differenced GMM estimator on 32 developed and developing countries, they find that contractual savings financial assets have significant impacts on stock market and bond market development. Nonetheless, with a small number of cross-section units and short time periods (six years on average in their study), the GMM estimators suffer from potentially large finite sample bias.

Identifying the impacts of pension funds on capital market development is important. The analysis requires a reliable estimation method to be convincing. In this paper, we employ the recently developed bias-corrected Least Squared Dummy Variable (LSDVC) estimator, which produces reliable estimates for dynamic panel data models with a finite number of cross-section units and time periods. This LSDVC estimator has been shown to outperform instrumental variable (IV) and GMM estimators in dynamic panel models in terms of bias and efficiency (Kiviet, 1995; Judson and Owen, 1999). In addition to developing more reliable estimates, the other main contribution is the finding that the impacts of pension funds vary by a country’s level of financial development. Though we find a significant impact of pension funds on capital market development in the overall sample, this result is driven by countries with high financial development.

For countries with low financial development, pension funds do not show a significant impact. Countries with different levels of financial development have different financial market climates that can directly impact the role and performance of pension funds. Differences include pension fund investment regulations, market efficiency, transparency, the legal framework, market activities, and macroeconomic and financial conditions. The investment behaviour and asset allocation of pension funds in the two types of markets are different, suggesting that countries with low financial development must do more to create conditions for their pension funds to positively impact capital market development.
2.6 Models of Early Withdrawal of Retirement Benefits

Early withdrawal of retirement benefits in Tanzania allows for members to access up to 100% of their pension benefits upon dismissal, resignations or termination of contract. This is different in other countries such as United States of America where the 401(K) plans apply and in New Zealand (Kiwi Saver Model). We examine various models that have been used for early withdrawal of retirement benefits in some countries (Daniela, 2008). For instance the government of UK has proposed four potential models of early withdrawal to pension savings as follows:

(i.) Loans and Withdrawal Model

This model allows members to access loans from the pension funds. The loans have to be repaid with interest. The model is based on the 401(k) model used in the United States of America (Daniela, 2008).

(ii.) Permanent Withdrawal Model

This model allows members to withdraw permanently. Unlike the loan model where interest is charged on repayment, members can access all their benefits and are not obliged to pay. The model is based on the Kiwi Saver used in New Zealand (Daniela, 2008).

(iii.) Feeder Funds Model

This model allows members to have a pension fund and an individual savings account to enable members to access a determined amount of liquid savings (Daniela, 2008).

(iv.) Early Withdrawal of Lump sums

The model permits early access to 25% of members’ pension benefits at any age if the size of benefits is above the set minimum amount and below the set maximum amount (Daniela, 2008).
2.7 Theoretical Literature Review

2.7.1 Theories of Early Withdrawal of Retirement Benefits

There are number of theories that can explain the factors for early withdrawal of retirement benefit. Since what motivate members to withdraw their contributions earlier differ from one locality to another; the policy makers needs to identify and understand those differences. In order to understand different factors they require knowledge on various theories related to early withdrawal. The theories can be categorized into two namely;

(i.) Life cycle theory and,

(ii.) Economic theories.

2.7.1.1 The Life cycle Theory

Retirement benefits are intended to safeguard pensioners against shocks during their sunset years. The amount of benefits at retirement depends on many factors such as income, composition of households and age. Savings is considered as one of the most important pillars of the economic system Modigliani, Kotlikoff, and Hogarth (1963; 1982; 1991).

More often than not, in countries where there are no jurisdictions on preservation of retirement funds, benefits are withdrawn before retirement age. Research shows that lower to medium income group and younger persons have the tendency to withdraw early. The main drive for saving is to build up resources to be used during retirement. This is why there is no certainty that, the income after the retirement age will be sufficient to maintain the desired level of consumption, individuals save a portion of that income in order to increase the allocation of wealth available when they reach retirement (Argento et al., 2012).

Various studies suggested that, the life cycle model is the most useful framework of studying the link between ageing, consumption and saving Modigliani, Kotlikoff, and Hogarth (1963; 1982; 1991). The main result obtained from this framework is that the consumption is smoothed; the individuals will save in order to transfer
purchasing power to the period of the retirement. While main predictions of the life cycle theory tend to be supported by empirical evidence. The life cycle approach in its simplest version implies that financial life of individuals occurs in three phases after starting a professional activity. In the first phase, each person earns a wage from his or her labour supply and has insufficient income to cover their needs; therefore they become indebted in order to finance their needs of durable goods (furniture, car, etc.), the purchase of a home and the education of their children (Bronson, et. al., 2007).

In a second phase, they pay off their debts run up in the previous phase and begin a process of accumulation of wealth to be able to finance their retirement period. In a third phase, they use up what they had saved during retirement. Studies on precautionary saving, has shown that, people with uncertain future earnings who are sufficiently prudent will never borrow, if there is the possibility, however remote, that they will not earn enough to be able to repay their debts. Other studies indicate that, wealth is build up during working years in order to finance, consumption during retirement in the life cycle theory (Daniela, 2008). They suggested that precautionary, bequest, and other motives must be taken into consideration.

Taking into consideration other motives that may impact the life cycle theory, there are the risks of accidents during the active life (illness, unemployment, death, etc.), which require precautionary savings or specific insurance policies, including unemployment benefits of public welfare. In this scenario the bequests usually are involuntary assuming a finite life cycle horizon. Secondly, longevity risk associated with the number of years in retirement can result in an undesired level of consumption. Last but not the least; political risk related to changes in the regulations regarding pensions, for instance, early withdrawal of retirement funds may cause uncertainty (Bronson, et. al., 2007).

2.7.1.2 The Economic Theories

Traditional economic theory suggests that, people make decisions by maximizing a utility function in which all of the relevant constraints and preferences are included
and weighed appropriately. The theory assumes that, individuals are rational beings with full information and knowledge on relevant aspects of their environment and they are able to process this information. The theory added that, such individuals have stable system of preferences and skills in computation that enables them to calculate for alternative course of action available for themselves. In this dimension the theory suggests that, individuals are rational decision makers, and therefore their preferences are well-defined and constantly evaluated over time (Huggett, 2004).

The reality facing today’s members of social security funds is that, social security will not nor was it intended to, constitutes the entirety of workers' retirement income has highlighted the importance of personal financial responsibility. This means that, decision by the members of the social security funds to have early withdrawal of retirement benefits is based on the rational analysis of available information and their ability to compute and evaluate alternatives course of actions (Bronson, et. al., 2007). For them early withdrawal is the best alternative that could guarantee not only their current social and economic stability but also create a base for future investments. However in doing that, risks attached to such decisions cannot be avoidable, members might face a multitude of simple and complex problems related to their retirement savings, when making all kinds of decisions.

2.8 Empirical Literature Review

The concept of early withdrawal of retirement benefit attracts various researchers to look on the link between decisions behind member’s to withdraw their contributions prematurely and the possible impacts attached to such decisions after retirement. The risks attached to members survival after retirement attract a number of researchers to study on the topic. However most of the studies focused on investigating the short term impacts rather that the long term. Foristance empirical study conducted in Kenya by the Retirement Benefit Authority (RBA) revealed that, there is great link between fears of inflation among the members of the funds; thus is why they decided to pull out their funds early. Most of the employees believed that, a shilling of today is not a shilling of tomorrow; therefore it is worth for them to have their money spent in today’s investments rather than tomorrow which is uncertain. The study further
indicated that, as far as the economy is concerned there is risk of low returns for individual investments when there is a market failure. A member might lose his money at glance (RBA, 2012).

Another study by Butrica and Issa (2010) revealed that, there is relationship between employees’ early withdrawal and involuntary job loss. The study discovers that employees tend to withdraw their contributions because of unexpected job loss. It has been established that, most of the employees in USA were not prepared, for unexpected job loss as a results they ended up depending on their retirement benefits accounts. This has further impact in the life after retirement as it reduces the amount of the retirement benefits or cause total bankruptcy to the employee.

Furthermore another study by Daniela, (2008) find that half of all boomers born between 1946 and 1965 receiving lump-sum distributions did not roll over the money. Older boomers and those with more education and higher incomes are more likely to save the money for retirement. A majority of those who spent the money used at least some to pay off debt. Using data from the Health and Retirement Study in USA, they find limited leakage at job change for workers age 51 and older; leakage tends to be concentrated among individuals vulnerable to poverty in old age.

A survey by Holden, Sarah, and Schrass (2010) indicated that, about 5 percent of member in IRA scheme took a withdrawal at job change in 2008. More than half of workers spend at least some of their retirement savings when offered the option. The studies also indicate that younger workers and those with small balances are more likely to spend the money than older workers and those with large balances. Still, this leakage amounts to a significant loss in retirement income. If left untouched, savings at younger ages can grow over time into considerable sums at retirement.

2.9 Strategies Governing Early Withdrawals

The strategies on early withdrawal from retirement savings accounts differ between one pension and provident fund to the other. Foristance in USA active workers with 401(k) balances can only access these accounts to purchase a primary residence, help
cover higher education expenses, or meet other spending needs during times of economic hardship. While withdrawals are subject to employer adoption (administration can be costly), most employer plans allow them.

Withdrawals usually are limited to the employee’s own contributions (excluding earnings). Employees younger than 59 years old must pay a 10 percent tax penalty in addition to regular taxes on the amount withdrawn. Employees incur another penalty because a hardship withdrawal suspends their contributions, including the employer match, for six months. The tax penalty does not apply to withdrawals due to total disability or death, or for medical costs in excess of 7.5 percent of the taxpayer’s adjusted gross income (Holden, Sarah, and Schrass, 2010).

Workers can also access their account balances through loans. Over half of 401(k) plans offer this option, covering 88 percent of all participants. The amount of the loan is limited and must be repaid within 5 years or 15 years if used to purchase a home. (Holden, Sarah, VanDerhei, and Alonso, 2009) reported that, 18 percent of plan participants eligible for loans had outstanding loan balances at year-end 2008. The Federal Reserve Survey of Consumer Finances reports that 9.5 percent of all plan participants had outstanding loans in 2007 (Argento et al., 2012). The data suggest that the number of loans would increase if more employers offered this option. Loans generate a loss in retirement savings only to the extent that employees default. The study estimates that loan defaults reported in 2006 were $561 million, a tiny share of all 401(k) assets.

Most withdrawals from 401(k) plans occur at job separation. Private sector plan sponsors can compel individuals to close their account and take a lump-sum payment if the balance is less than $1,000. For balances between $1,000 and $5,000 employers must now roll over the amount to an IRA or another employer plan unless the employee requests a lump-sum payment.
2.10  The Impact of Early Access of Retirement Benefits

In this part the impact of early access to members of schemes, the scheme and the economy was assessed and several repercussions had established as follows:

2.10.1 Impact of Early Access to Members

A survey by RBA, (2012) suggested that, assets among the social security funds as at December 2010 amounted to Ksh. 451 billion. Membership of retirement benefits arrangement as at 31st December, 2008 was 1,505,833 members. This is inclusive of 1,115,241 members covered under NSSF. The change on the amount that could be accessed affected only occupational scheme members and those who had transferred the locked in benefit to individual pension scheme. Statistics from registered scheme administrators shows that as at 31st March, 2011, over 6,400 members had withdrawn their benefits. This represents 72% of the deferred members. This may look like a drop in the ocean, however when we analyse it based on the amount accessed, it amounts to over Ksh. 2 billion.

Based on the data received from administrators, we observe that there are some schemes which were severely hit. Members of schemes are also highly affected by early withdrawal. About 103 schemes had at least 10 members withdrawing from each scheme with the highest recorded to be 163 members exiting from one scheme. The amounts withdrawn from these schemes amounted to Ksh. 716 Million, an average of 7 million per scheme. A drastic withdrawal of this amount from schemes implies that these particular schemes made lower returns since the opportunity cost of saving has been inhibited. This will further affect active members who have not withdrawn from their schemes.

2.10.2 Taxation of Benefits

Retirement benefits are subject to the income tax act provisions. Foristance in USA, members of schemes who leave earlier before their retirement age must pay a 10 percent tax penalty in addition to regular taxes on the amount withdrawn are taxed at PAYE rates (Butrica and Issa 2010).
This means that, members who exit early ends up paying so much tax as compared to a member who has stayed in the scheme for 15 years and above.

2.10.3 Impact of Early Access to Schemes
Early access to retirement benefits lowers the amount of the fund by the initial withdrawal. Secondly, from the schemes’ perspective, the scheme might lose out on the amount of investment return that the withdrawn money would have generated (Daniela, 2008). In addition, constant withdrawal by members may result to higher administration, fund management and custodial fees. The costs could be borne by the member who is withdrawing or could be borne by the scheme or both.

2.10.4 Impact of Early Access to the Economy
In some countries social security funds continue to grow at exponential rate. In 2002 the Kenyan pension industry was at Ksh 40 Million, this grew to Ksh. 450 Billion as at 31st December, 2010. This represents 17.7% of the Gross Domestic Product (GDP). The effects of early access to the economy can effectively be assessed once a trend is established on the number and the amounts withdrawn annually (IOPS, 2011).

(i.) Pension Holding on Government Securities
The industry total holding of government securities stood at Kshs. 143.6 billion or 20.5% of total outstanding government securities as at December 2010. Retirement Benefits schemes have played an important role in assisting the Government to lengthen the maturity structure of its debt by being majority holders of longer dated bonds. This has helped to increase bond interest rates in the financial markets (RBA, 2012).

(ii.) Pension Holding on Quoted Equity
As part of investments strategy social security funds invest part of their wealth in various capital markets. Foristance the total retirement benefit industry investment in stock markets in the East African Community amounted to Ksh. 130.4 billion almost all of which was in the Nairobi Stock Exchange (RBA, 2012). The portfolio was well diversified with the Industry and Allied, Commercial and Finance and Investment
Segments all having significant investment from retirement benefits assets. Such investment helps to stabilize financial position of the funds as it increase the capital base.

2.11 Conceptual Framework
The conceptual framework is the system of concepts, assumptions, expectations, beliefs, and theories that supports and informs your research (Chambua and Kester, 1993). It explains, either graphically or in narrative forms, the main issues to be studied; the key factors, concepts, or variables and the presumed relationships among them, and thus will be used to guide collection of data from the respondents.

2.11.1 The Study Variables
The study examines the factors that affecting early withdrawal of retirement benefits on social security system in Tanzania. In the research process two major variables namely independent and dependent were distinguished. Independent variables were those which have direct influence towards dependent variables. In this case they include age, level of income, marital status, household size, and the size of pension benefit. These independent variables may influence both negatively and positively. On other hand, the dependent variable refers to those variables affected by independent variables. In this study early withdrawal of retirement benefits constitute the dependent variable as shown in figure 1.1 below.

The intervening variables in this case are those factors that do not direct influence the early withdrawal of retirement benefits but they are very important in determining the implementation of those independent variables. The intervening variables include the government policy and regulation, employment stability. The diagram below shows the different variables and their relationships.
2.12 Research Gap

Despite several studies conducted on early withdrawal of retirement benefits there were number of issues which had not yet been explored or covered properly. For instance on the impacts of early withdrawal, most of the previous studies focused on the short term or immediate impacts rather than its long term effects. Such approach did not offer a complete picture of the problem, its possible long term implications and how to deal with them. This means that government, members and the social security funds were denied an opportunity to have a thorough understanding on the long term impacts of early withdrawal for the purpose of planning and forecasting its future investments. Contrary to that this study is meant to offer different perspective by exploring the long term impacts on early withdrawal of retirement benefits.

Alternatively this study offers unconventional strategies which could be adopted by the social security funds as means to control an increase in early withdrawal. This implies that, the study had managed to go beyond the existing body of facts on factors affecting early withdrawal of retirement benefits, and provide the new knowledge that can help the government, social security funds and members to control the ongoing wave of early withdrawal.
CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction
According to Patton (1986), research methodology is defined as an approach used by researcher to investigate a particular phenomena. It is based on the philosophical assumptions on which the research is found. For the purpose of this research a qualitative research methodology was used as the most appropriate approach, since the researcher wants to get in-depth information on factors affecting early withdrawal of retirement benefits. The concept of interpretivism is central in qualitative research, referring to the ways in which individuals interpret their social world (Bryman, 2008). This corresponds well to the type of information that researcher is looking for. A qualitative approach enabled researcher to get detailed insights on the factors affecting early withdrawal of retirement benefits.

3.2 Research Design
Research design is simply defined as the framework for the collection and analysis of data. In research there are various number of designs include quasi experiment, cross-sectional or survey design, longitudinal design, case study design and comparative design, (Bryman, 2008). This study however adopted a case study design which deals with various processes and their interrelationships. It entails the detail exploration of a specific case, which could be a community, person or organization. This provided an opportunity for the researcher to have full analysis of different situations and their interrelationships. Therefore, the rationale for selecting case study was to enable researcher to get in-depth information about the research subject through careful collection and analysis of facts.

3.2.1 Area of the Study
The study was conducted at the Parastatal Pension Fund (PPF) headquarters and other three branches located at Temeke, Ilala and Kinondoni districts in Dar es Salaam region. Researcher decided to study the Parastatal Pension Fund since it is
among several social security funds which offer early withdrawal benefit, and it is also among the institutions hit by the increasing wave of early withdrawal of retirement benefit by its members.

3.2.2 Population of the Study
The study population comprised of Parastatal Pension Fund (PPF) employees, works in various departments and units. These include the director of operations, planning and investments, finance, and risk management. Others were section supervisors, branch managers and operations staff from their respective departments. The study was also involved PPF members who have already withdrawn their retirement benefits as an attempt to establish facts about the phenomena.

3.2.3 Sampling Procedures
In the process of selecting respondents, the researcher employed the purposive and convenience sampling techniques. These techniques derived from non-probability form of sampling, aimed at selecting interviewees in a strategic way depending on the research questions (Bryman, 2008). The research interviewees were chosen based on their familiarity to the topic. Initially researcher used purposive sampling, to select four departments to be used in the study namely; Planning and Investments department, Operations department, Finance department and Risk Management department. Also researcher employed purposive sampling to identify special categories of respondents such as heads of departments, zone managers, and section supervisors. Apart from that, researcher used convenience sampling to collect information from members who have already withdrawn their retirement benefits. That was necessary in order to ensure validity and reliability of data. The total sample size was 30 employees and other 30 key informants.

3.2.4 Sample Size
The four departments were represented by 30 respondents, while the other batch of 30 members from public and private organizations were consulted as key informants to make a total of 60 respondents.
Table 3.1: Sampling Unit

<table>
<thead>
<tr>
<th>S/N</th>
<th>Target population</th>
<th>Sample size</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Heads of Departments</td>
<td>4</td>
</tr>
<tr>
<td>2</td>
<td>Zone Managers</td>
<td>3</td>
</tr>
<tr>
<td>3</td>
<td>Section Supervisors</td>
<td>5</td>
</tr>
<tr>
<td>4</td>
<td>Operation staff at middle and lower cadre</td>
<td>18</td>
</tr>
<tr>
<td>5</td>
<td>Members who have already withdrew retirement benefits.</td>
<td>30</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>60</strong></td>
</tr>
</tbody>
</table>

Source: Parastatal Pension Fund, (2013)

3.3 Methods of Data Collection

Data collection refers to the process of obtaining objective evidence about the research problem (Kothari, 2008). In this research, the main instruments which were employed in data collection include interviews, documentary survey and questionnaires. While deciding about the method of data collection to be used for any study, the researcher should keep in mind two types of data namely primary and secondary data. Primary data refer to the data, which are collected afresh and for the first time i.e. original. Secondary data are those which have already been collected by someone else and which have been passed through the statistical process.

This study combined different data collection methods in order to achieve its objectives, since hardly does one method become adequate in accomplishing research task. This implies various methods were adopted in order to have both qualitative and quantitative information on board. In that sense interviews, documentary survey and questionnaires were used as research methods, since it is sometimes difficult to find a meaningful research which was conducted using qualitative or quantitative methods and techniques alone. The two always compliment to each other.

3.3.1 Interview

Interview is the method of collecting data which involves presentation of oral – verbal stimuli and reply in terms of oral verbal responses. This method can be used through various ways such as personal interviews or telephone interviews (Kothari,
Personal interviews refer to conducting discussions with a targeted population either through structured or unstructured questions. For this study un-structured in-depth interview was used as an appropriate method for data collection, because it enabled respondents to discuss and comment on various issues freely. That was much helpful in obtaining qualitative data. This technique allows flexibility in the questioning process and do not follow a system of pre-determined questions and standardized techniques of recording information. Also they minimize biases of the interviewer, which could be introduced into the research process through structured interview.

### 3.3.2 Questionnaires

A questionnaire is simply a list of written questions, which a respondents answers (Chambua and Kester, 1993). It is referred to as either open-ended, if the questions are such that the respondent is free to supply answers or information in an unstructured manner or closed ended, if the respondent is confined to a pre-arranged response category and then answers questions by checking categories or by providing a brief written response. For the purpose of this study an open - ended and close – ended questionnaires were designed for respondents’ in order to get detailed information about the topic.

### 3.3.3 Documentary Surveys

Documentary data source involve any activity in which evidence, data is extracted from documents of any record (written or oral) text which contains information about human behaviour, social conditions and social processes (Chambua and Kester, 1993). Since it is impossible to correctly understand the present unless one knows the past, it implies that researchers, especially in the social sciences cannot afford to ignore the rich store house of data, which have been accumulated in the past. This study used documentary survey to get secondary data from previous researches and publications on the factors affecting early withdrawal of retirement benefits in the social security system.
3.4 **Data Processing and Analysis**

Processing implies editing, the process of examining the collected raw data to detect errors and omissions and to correct them where possible. Coding, which refers to the process of assigning numerals or other symbols to answers so that responses can be put into a limited number of categories or classes. Classification is the process of arranging data in groups or classes on the basis of common characteristics. Tabulation is the arrangement of the collected data in some kind of concise and logical order so that they are amenable to analysis. Analysis, moreover, refers to computation of certain measures along with searching for patterns of relationship that exist among data groups (Kothari, 2008). Also, it is the process of bringing order to the data and organizing what is there into patterns, categories, and basic descriptive units (Patton, 1986). Data can be analysed either quantitatively or qualitatively.

This study employed a qualitative approach in analysing the data. Such analysis helped to probe underlying issues and phenomena that were not readily apparent through quantitative analysis. Data collected from the respondents through questionnaires, interviews and documentary evidence were analysed using a qualitative approach because the purpose of qualitative evaluation methods is to understand the perspective and the experience of people (Patton, 1986).

3.5 **Limitations of the Study**

3.5.1 **Methodological Constraints**

The fact that the study intends to employ questionnaires as an instrument of data collection, there were dull and precisely filled questionnaires. Initially there were problems related to quality and availability of data during the study, this made analysis of information difficult. However efforts were made by the researcher to obtain secondary and primary data from various sources including PPF resource center, NSSF and SSRA archives and the national central library.
3.5.2 **Financial Constraints**
Financial constraint was one of the challenges that affected this study. Since the research is self-sponsored, change in some operating costs did jeopardize research study particularly during data collection, processing and interpretation. The cost of preparing documents, purchase of software, travelling and accessing information from various sources brought a huge challenge to the researcher. However researcher managed to overcome those challenges by using her network of friends and work colleagues to access information, obtain downloadable free software and preparation of documents.

3.5.3 **Respondents and Time frame**
Among other things time was one of the major constraints which affected the study. Getting respondents for interviews at the right time and place was difficult. Also some respondents spent quite a long time to return questionnaires; therefore the study took a little longer time than expected. This challenge overwhelmed through researchers owns efforts to pay frequent visit to the respondents and sometimes take further steps to administer questionnaires herself in order to ensure that all required answers were available on time.
CHAPTER FOUR

RESULTS AND DISCUSSION

4.1 Introduction
This chapter presents results and discussion on the major findings of the study. It provides in depth analysis of core issues, which answer the key questions of the study. The main areas of discussion includes, the demographic characteristics of respondents such as age, sex, level of education, and working experience; the types of pension schemes, the rate at which early withdrawal of retirement benefits occurs, and strategies adopted by Parastatal Pension Fund (PPF) to control the rate of early withdrawal. Other areas of discussion were factors influencing early withdrawal and the impacts of early withdrawal to the members, social security funds and the government.

4.2 Demographic Characteristics of Respondents
This study employed several demographic variables to describe respondent’s profiles. They form an essential part of the study, as they help to describe the causal effect relationship between variables and help to answer the key questions as to why early withdrawal occurs. These variables include age, sex, level of education and working experience.

4.2.1 Respondents Distribution by Age
Age is very important factor in determining early withdrawal of retirement benefits. It helps to show variation between and among age groups. The study examined a total of 60 respondents who were asked to identify their age groups. In their responses the research found that, majority of respondents (57%) of those with high rate of early withdrawal fell under the age category of 26 to 35 years, followed by (23%) who were at the age category of 36 to 45 years old. This implies that age is one of the strong determinants of early withdrawal among the young employees. To justify the findings the study established that early withdrawal is higher among young employees because most of them at the age between 26 and 35 years were said
to be at the middle of planning their future life. They have a lot of social and economic obligations to fulfil including buy a car, getting marriage, build a home or getting advanced degree. All these require a lot of money. Therefore they are in constant change of jobs just to look for highly paid jobs that could enable them to earn more income. The fact that these young employees cannot always get what they want, they ended up withdrawing their savings, every time when they change jobs.

### Table 4.1: Respondents’ Distribution by Age

<table>
<thead>
<tr>
<th>S/N</th>
<th>Age</th>
<th>Number of respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>18 - 25 years</td>
<td>4</td>
<td>7</td>
</tr>
<tr>
<td>2</td>
<td>26 - 35 years</td>
<td>34</td>
<td>57</td>
</tr>
<tr>
<td>3</td>
<td>36 - 45</td>
<td>14</td>
<td>23</td>
</tr>
<tr>
<td>4</td>
<td>46 - 55</td>
<td>6</td>
<td>10</td>
</tr>
<tr>
<td>5</td>
<td>55 and Above</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>60</td>
<td>100</td>
</tr>
</tbody>
</table>

**Source:** Field data, (2013)

Not only that, but also results from table 4.1 shows that there were (10%) of respondents at the age category of 46 to 55 and other (3%) of respondents aged between 55 years and above as illustrated in Figure 4.1. This indicates that, early withdrawal is lower among individuals with older age than those with younger age. This was also noted in other study by Argento, et al., (2012), which discovered that early withdrawal is lower among employee at the age category of 46 to 55 and 55 years and above compared to those at age between 26 to 35 and 36 to 45. This is because most of these employees who are also members of social security funds have already decided to settle down in one type of job with aim of developing their career and focus more on higher positions within their field, that could make the earn more income. However contrary to that withdrawal rate found to be as lower as (7%) for respondents with the age between 18 to 25 years as illustrated in table 4.1. This provides conflicting results if comparison has to be made with their counterparts aged 26 to 35.
The reason for such difference was said to be little experience at work compel these young employees to stay at job for quite some time to acquire more knowledge skills and competence before start changing jobs.

**Figure 4.1: Respondents’ Distribution by Age**

![Figure 4.1: Respondents’ Distribution by Age](image)

**Source:** Study findings, (2013)

### 4.2.2 Respondents’ Distribution by Sex

This section presents gender of the respondents; it comprises the gender of PPF employees and members who participate in the study. All respondents were asked to identify their gender. In this research sex of respondents were analysed in order not on to come up with views for both sex categories, but to make the research gender sensitive respectively. Study revealed that (63%) of respondents were male, while other (37%) were females as illustrated in table 4.2. Organisms of many species are specialized into male and female groups, each known as a sex (Galdas, et al., 2010). It should be noted that sex is different from gender which is the range of physical, mental, and behavioural characteristics pertaining to, and differentiating between, masculinity and femininity. Also, depending on the context, the term may refer to biological sex (i.e. the state of being male, female or intersex), sex-based social structures or social roles), or gender identity.
A gender role is a set of social and behavioural norms that are generally considered appropriate for either a man or a woman in a social or interpersonal relationship. There are differences of opinion as to which observed differences in behaviour and personality between genders are entirely due to innate personality of the person and which are due to cultural or social factors, and are therefore the product of socialization, or to what extent gender differences are due to biological and physiological differences. However, gender roles differ according to cultural-historical context. In this study, the variation of equity was due to availability of male respondents than women. Nevertheless, there was no great significance between the number of males and females involved in this study in terms of information provision. In that case therefore, it worthy to conclude that the research was not gender biased.

Table 4.2: Respondents’ Distribution by Sex

<table>
<thead>
<tr>
<th>S/N</th>
<th>Gender</th>
<th>Number of respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Male</td>
<td>38</td>
<td>63</td>
</tr>
<tr>
<td>2</td>
<td>Female</td>
<td>22</td>
<td>37</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>60</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Field Data, (2013)

The study findings indicates that majority of the respondents (63%) were male, this is due to fact that the large number of male are in the formal sectors compared to female. The studies found that, minority of the respondents (37%) were female as indicated in table 4.2.

4.2.3 Level of Education

Numerous definitions of education exist (Rooney, 2004). For the purpose of this study; the level of education represents the level of knowledge and skills that individuals possess which can help them to master their environment. The important thing to note is that how does the level of education can influence one decision to withdraw his or her retirement savings early. It is a fact that people with different levels of skills and knowledge can have different perceptions towards particular
phenomena, provided that each of them have made logical reasoning and calculate the risks attached to such decision. In this study members were expected to calculate the risks attached to their decision of whether to withdraw their savings before retirement or otherwise. In scenario like this good or bad decision depends on how much information does one has at hand, but the most important thing is the level of education by an individual. Because it is the skills and knowledge which comes from education that can make him judge

In this study, the level of education was used to determine the decision to withdraw retirement savings earlier. Respondents were asked to reveal their education levels. In their response the research shows that (60%) of respondent held first degree/advanced diploma as shown in Table 4.3, while others (7%) of respondents attained secondary education followed by (10%) with diploma and (12%) with postgraduate education. Apart from that the study indicated that there were (8%) of respondents who attained the level of certificates, while (3%) of respondents managed to have primary education. Therefore, from the findings it was concluded that, respondents interviewed in this study had good education background to the extent of judging the fate and impact of early withdrawal. This implies that most of the people who withdrew benefits from the pension schemes are well educated, as presented in Table 4.3.

Table 4.3: Respondents’ Distribution by Education

<table>
<thead>
<tr>
<th>S/N</th>
<th>Level of education</th>
<th>Number of respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Primary school</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>2</td>
<td>Secondary school</td>
<td>4</td>
<td>7</td>
</tr>
<tr>
<td>3</td>
<td>Certificate</td>
<td>5</td>
<td>8</td>
</tr>
<tr>
<td>4</td>
<td>Diploma</td>
<td>6</td>
<td>10</td>
</tr>
<tr>
<td>5</td>
<td>First Degree/Advanced diploma</td>
<td>36</td>
<td>60</td>
</tr>
<tr>
<td>6</td>
<td>Post graduate</td>
<td>7</td>
<td>12</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>60</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Field Data, (2013)
Data from table 4.3 shows the level of education of the respondents, majority of the respondents (60%) have first degree/advanced diploma, (3%) and (7%) have primary school and secondary school education respectively. This revealed that small number of respondents have lower education; this is because most of the people with lower education are not involved in a formal employment. Also the study found (12%) of the respondents were postgraduate and diploma holders, as illustrated in Figure 4.2.

**Figure 4.2: Respondents’ Distribution by Education**

![Bar chart showing the distribution of respondents by education level.](chart.png)

**Source:** Study Findings, (2013)

### 4.2.4 Working Experience

Working experience of the respondents was examined, in order to find out whether it has any influence on early withdrawal of the benefits. Respondents were asked to provide their experience by showing how long had they been working. In their response the study found that majority of the respondents (52%) has the experience between 0 to 5 years, while (13%) of respondents have working experience between 11 – 16 years, as presented in Table 4.4.
Table 4.4: Respondents’ Working Experience

<table>
<thead>
<tr>
<th>S/N</th>
<th>Working Experience</th>
<th>Number of respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0 - 5</td>
<td>31</td>
<td>52</td>
</tr>
<tr>
<td>2</td>
<td>6 - 10</td>
<td>12</td>
<td>20</td>
</tr>
<tr>
<td>3</td>
<td>11 - 15</td>
<td>8</td>
<td>13</td>
</tr>
<tr>
<td>4</td>
<td>16 and Above</td>
<td>9</td>
<td>15</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>60</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Field Data, (2013)

Data from table 4.4 present respondents working experience whereby, a significant number of respondents (52%) identified to have experience of 0 to 5 years. This implies that members of the pension funds tend to withdraw their benefits when they have low working experience. Moreover the study found that (20%) of respondents have 6 to 10 years of working experience, while other (13%) have 11 – 15 years. This indicates that, there is relationship between working experience and early withdrawal of retirement benefits. The data in figure 4.3 shows that, as working experience increases the rate of early withdrawal also drop. The reason for such relationship was that, members with many years of work experience had fear of disrupting their career and future savings rather than those with small number of working experience. Most of them are not ready to take risk of spending their savings before retirement. Similarly the study discovered that (15%) of respondents has work experience above 16 years. This group constitutes members with older age and work experience than other groups and it is perceived to be more conservative when the issue of early withdrawal is involved. For them withdrawal is not the best option as they approach the retirement age. They prefer to wait until retirement rather than withdraw their savings earlier.
4.3 Types of Pension Schemes

Respondents were asked to identify types of schemes available at PPF; in their response the research subjects stated two types of schemes namely traditional scheme and deposit administration. Majority of the respondents (87%) pointed the traditional scheme, and minority of them (13%) identified deposit administration scheme.

Table 4.5: Types of Pension Schemes

<table>
<thead>
<tr>
<th>Types of schemes</th>
<th>Number of respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Traditional scheme</td>
<td>52</td>
<td>87</td>
</tr>
<tr>
<td>Deposit administration scheme</td>
<td>8</td>
<td>13</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>60</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Field Data, (2013)

Table 4.5 present the types of schemes available at PPF, majority of respondents contributed to traditional scheme, this is the potential scheme, with the largest number of members. Only (13%) of respondents identify themselves to contribute in deposit administration scheme.
4.3.1 Traditional Scheme

This is the potential scheme under PPF; the study found majority of the respondents (87%) were covered under traditional scheme. It is a mandatory and basic scheme which operates under clearly defined criteria for the guaranteeing and awarding of benefits to members as stipulated in the Act. It covers by law all workers employed in the following sectors: All Parastatal organizations and public institutions, all private companies in which the government own shares registered private companies that are not covered by any other social security fund.

Large number of the Fund member fall under this scheme, because of its mandatory nature. It provides members with benefits such as education, old age, disability, death, survivor and withdrawal benefits. Under this scheme the rate of contributions is 10% for employee and 10% for employer, or 5% for employee and 15% for employer. Employee's contributions are deducted from worker’s salary at an agreed rate. Employer is also required by law to contribute in respect of each worker at the corresponding rate. Contributions are required to be remitted to PPF by the employer within 30 days from the end of each month. Late or non-remission of members’ contributions is an offence. A penalty of 5% on any delayed or non-remitted contributions is charged by law for each month of delayed contributions.

4.3.2 Deposit Administration Scheme (DAS)

The study found that, minority of the respondents (13%) identified deposit administration scheme, this is because the scheme covers employees who do not qualify for membership into the traditional pension scheme. For example, all workers who get into employment when they are above the age of 45 years, expatriates, self-employed people or any other person with seasonal income qualifies for this scheme. Small number of respondents were fall under deposit administration scheme because, it is also designed to serve as a supplementary scheme for all members who are covered under the traditional pension scheme, or any other mandatory scheme in any social security fund. Similar contribution rates and procedures to that of traditional pension scheme do apply to a member under this scheme only if it is mandatory and basic.
4.4 Rate of Early Withdrawal

The fund employees were asked to identify the withdrawal rate of the fund whereby the heads of department and middle and lower cadre staffs were involved, in their response the study found that, majority of the respondents (45%) identified the fund withdrawal rate to range from 501 to 1000 members per month.

Table 4.6: Rate of Early Withdrawal

<table>
<thead>
<tr>
<th>S/N</th>
<th>Withdrawal rate/month</th>
<th>Number of respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Below 500</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>2</td>
<td>501 -1000</td>
<td>27</td>
<td>45</td>
</tr>
<tr>
<td>3</td>
<td>1001-1500</td>
<td>12</td>
<td>20</td>
</tr>
<tr>
<td>4</td>
<td>1501- 2000</td>
<td>10</td>
<td>17</td>
</tr>
<tr>
<td>5</td>
<td>2000 and above</td>
<td>8</td>
<td>13</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>60</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Field Data, (2013)

The findings in table 4.6 show the rate of withdrawal per month, majority of the respondents identified the average rate of withdrawal to range from 501 to 1000 members per month. This implies that PPF has large withdrawal rate, which affect its performance and lower investment capability of the social security schemes. Withdrawal rate represent the lump sum payment equal to members and employer’s contributions plus accrued interest payable to a member who has resigned from employment, retrenched, dismissed or terminated on medical grounds, abolition of office, or any other cause stipulated in the Act.

Figure 4.4 show withdrawal rates at PPF whereby managers, middle and lower cadre employees were asked to identify the fund rate of withdrawal. In their reply study found that (5%) of respondents identified member’s withdrawal rate to be as lower as 500 members per month, while other (20%) of respondents identified the average rate of withdrawal at PPF to range between 1001 to 1500 members per month. Moreover the study revealed that, (17%) of respondents said that the rate of withdrawal per months was between 1501 to 2000 members and other 13% indicated
the rate of withdrawal to reach above 2000 members per month. These figures indicate a significant increase in the rate of early withdrawal of retirement benefits among members of social security funds which need to be addressed. Such findings confirms other study increase conducted by NSSF which shows that, the number of members withdrawing their contributions surged from 45,239 in 2007 to 85,760 in 2011 which is not healthy for the survival of social security funds. (NSSF, 2012).

**Figure 4.4: Rate of Early Withdrawal**

![Rate of Early Withdrawal Graph]

**Source:** Study Findings, (2013)

### 4.5 Strategies Adopted by PPF to Control Withdrawal Rate

The study was interested to determine strategies adopted by PPF to control the rate of withdrawal. All respondents were asked to identify the strategies; in their reply the study found most of the respondents (38%) identified provision of education to members the best strategy to reduce/control the rate of withdrawal.
Table 4.7: Strategies Adopted by PPF to Control Withdrawal Rate

<table>
<thead>
<tr>
<th>S/N</th>
<th>Strategies adopted by PPF to control withdrawal rate</th>
<th>Number of respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Provide education</td>
<td>23</td>
<td>38</td>
</tr>
<tr>
<td>2</td>
<td>Provide short term benefits</td>
<td>7</td>
<td>12</td>
</tr>
<tr>
<td>3</td>
<td>Loans through SACCOs</td>
<td>14</td>
<td>23</td>
</tr>
<tr>
<td>4</td>
<td>Influencing legal and regulatory reforms</td>
<td>10</td>
<td>17</td>
</tr>
<tr>
<td>5</td>
<td>Improve old age benefits</td>
<td>6</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>60</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Field Data, (2013)

Results from Table 4.7 shows that, most of the respondents (38%) stated the provision of education to members on the effects of withdrawal benefits had reduced the fund withdrawal rate. This is because some member’s lacks awareness on the importance of social security benefits. In the formulation of this strategy only the board of trustees was concerned. Provision of education was among the early strategies intended to control withdrawals, though the problem still persist. PPF provide education to members concerning the effect of withdrawal benefits to members and scheme during trade fare, public seminars, internet, media interview programmes, and annual members meeting. One respondent revealed that;

“PPF provide education to members to curb withdrawal rate, the fund withdrawal rate is still mounting, thus the Fund provide education to members concerning the effects of removing contribution of the social security schemes, but joint efforts must be made through Social Security Regulatory Authority (SSRA) to ensure all social security schemes provide education to members during registration”

In order to ensure that members are relieved from social and economic strains, (23%) respondents said that PPF had introduced soft loans through savings and credit cooperative organisations (SACCOs), especially for those who are members of the fund. This means that PPF members must join together to form a SACCOs or must be a members of one of several SACCOs which receive loans from PPF. To access the loan member is required to apply through SACCOs. Giving loans to some extent seems to attract more members to save in the social security as well as abstaining from early withdrawal of retirement benefits, since it help to reduce member’s
financial problems. To appreciate the positive part of loans respondents admitted that provision of loans ensures members with secure source of funds at low interest rate in case of job loss, or when member change job or other life uncertainties. During interview, one employee said that;

> **PPF have been exploring ways to unhook its members from the jaws of poverty, and in 2004, PPF embarked on the special loan to employee based SACCOs project to PPF members. This is done as the one of the strategies of lowering withdrawal rate, also employee-based loans are of great advantage to the members as they will have a reduced payment burden due to long tenure of payment at an interest rate of 12% per annum.**

Despite having positive contributions some members and critics of this process argued that, there is still good number of members who have not yet joined the SACCOs because they don’t have enough information on how do they benefits by being members; while others consider the whole process with little help in the sense that, it does not give them direct opportunity to access loans from PPF. They said that, it could be better if they get direct loan from PPF rather than passing through SACCOs, which they consider to be inefficient.

Moreover the study revealed that, influencing legal and regulatory reforms was among the strategies adopted by the PPF to lower the rate of early withdrawal as reported by (17%) of respondents. Under this strategy PPF and other social security funds had been pushing for legal reforms and regulatory in order to eliminate withdrawal benefits. For them withdrawal seems to reduce the source of capital and therefore lower the investment capability and reduce the stability of the pensions fund. However their efforts to change the legal framework faced a setback as the bill to amend the law was rejected by members of public despite approval by the parliament in April, 2012. As a result the implementation of the Act was halted to allow further consultations between government, social security funds, representatives of the workers unions and other stakeholders.
The provision of short term benefits was also said to be one of the strategies adopted by the PPF Fund. It was reported by (12%) of the respondents that, provision of short term benefits could be the useful strategy to lower the withdrawal rate. However the strategy is regarded as weak because currently the fund provides few options on short term benefits such as education in comparison to other funds which offers wide varieties of short term benefits. This tends to limit members options to use other types benefits services such health insurance and maternity when they need. Absence of such options forces members to withdrawal their benefits early when they face life difficulties such as job loss, diseases, need for money to pay school fees, accidents or giving birth, as a result the rate of withdrawal continues to increase. A study by Davis, (1995) revealed that, if properly designed and managed the provision of short term benefits can help to reduce withdrawal rate because some times, withdrawal rate is high due to existence of long term benefits which takes up more than 120 months for member to qualify, such long period encourage early withdrawal of retirement benefits in case member is terminated from the job or any other kind of life hardship.

Finally a small number of (10%) of respondents reported that, PPF had been trying hard to improve old age benefits by increasing the amount of monthly pension so that it could reflect the social and economic reality as well as attracting members and non-members to continue save their money with them. To make that happen, the fund had been working with the government and other stakeholders to find a way of improving benefits provided to retirees. This strategy however considered to be weak because PPF does not have full mandate to increase the amount of pension without approval from the government. This means that the legal and regulatory framework does not allow change to be made in terms of how much has to be paid to the members without seeking approval of the government. This became a huge setback to the funds as they failed to convince members that, by being their service provider they can offer enough benefits at the time of retirement.

4.6 Factors Affecting Early Withdrawal of Retirement Benefits
Among others, one objective of the study was to establish reasons for early withdrawal of retirement benefits. The knowledge of such factors was necessary, as
it helps researcher to generate logical explanation on what exactly cause members of social security funds to withdrawal their retirement benefits earlier than expected. The following discussion provides reasons for early withdrawal as reported by respondents.

4.6.1 Conservative Investment Preferences

Through research findings it was noted that many factors existed pertaining early withdrawal as illustrated in table 4.8. One of the major factor as pointed out by (10%) respondents was conservative investment preferences. Respondents argued that, during their working time they spent most of their time in implementing employment activities which of course had to come to an end, and therefore failed to have their own investments which would assist their survival after termination of the contracts. Failure to have investments as an alternative means of sustaining their lives in time of economic instability forced many respondents to withdraw their benefits in order to support their families. However study did found that, life is much more comfortable for respondents who had investments such as houses for renting, transportation business, retail business, restaurants and livestock keeping business. This is a challenge to PPF and other social security funds that, in their attempt to control an increasing rate of withdrawal, they have to provide entrepreneurship and investments education to the members as one of the strategy to control early withdrawal of retirement benefits.

4.6.2 The Size of the Household

Another factor for early withdrawal as suggested by (14%) respondents was size of the household which forced them to engage on many family obligations of which could not be solved unless the source of income was raised. The study discovered that, most of these respondents had huge family responsibilities within their extended families which need to be taken care. This includes paying school fees, medical expenses, food and other expenses for members of extended families. Once they were laid off from jobs, dismissed, or even sometimes change their jobs they often face financial difficulties. As solution to that they tend to withdraw their benefit just to get enough money to pay for basic services to the extended families.
4.6.3 The Size of Pension Benefits

The size of the pension benefits was also noted by (24%) respondents as shown in table 4.8 to be among the factors that accelerate the rate of early withdrawal. Here respondents were enticed by two factors, one being the large amount of money which had to be taken in order to initiate other development interventions, but also if the amount was too small then the respondent had to effect withdrawal in order to invest for more profits rather than wait until retirement age when the value of money is no longer the same. These reasons have made most of members to take away their money so that they can venture into other profitable businesses such as real estate, transportation and retail business including clothing shops in order to make more profits.

4.6.4 Age of Respondents

The study found that, age had also influenced the rate of withdrawal. Foristance it was indicated that, (31%) of respondents agreed that the young employees are likely to have early withdrawal of their retirement benefits than those with old age. The reasons provided to substantiate their argument were that, young employees at mid 20’s and 30’s years have low risks perception towards their future life and employment security compared to other employees with older age. Another reason given was that young employees at this age said to be at the middle of planning their future life. They need money to buy car, getting marriage, build a home or getting advanced education. The fact that these young employees cannot always get resources they want, they ended up withdrawing their savings, every time when they change jobs.

4.6.5 Income Level

The influence of income level was one of the factors noted to have accelerated early withdrawal as asserted by (18%) respondents. The research has established that, the amount of income generated by individuals affected their decision to withdraw their benefits upon changing jobs. Foristance when cross tab was established to determine which income group is reflected, the results shows that the income group with salary range from TZS 101,000 – 500,000 was involved. The argument was that, the
income was too small to enable them to serve for future unforeseen events such as layoffs, dismissal, accidents, or change of jobs. Once such situation occurs they find themselves with little or no financial base. Therefore they decided to withdrawal the benefits to cover the financial gap.

Furthermore respondents commented that, level of income affected their ability as individuals to acquire enough capital through banks and other financial institutions to open up investments and pay for other basic services such education for their children. Research found that, most of the members have limited access to bank loans because their salaries are too small to enable them to acquire huge amount of money for running their social and economic activities. Alternatively most the financial institutions such as CRDB, requires members to join into SACCOs in order to get easy access to loans. However this has not yet fully materialized especially for low income earners as they have limited amount upon which loan can be granted for them.

In addition to that, study found low income level was among the factors which cause fear of reaching the retirement age without having enough income for sustainable investments and hence early withdrawal of the benefits. Taking example of their fellow member respondents argued that, for those who have low income level they are likely to have little pension at the end whether it is lump sum amount granted on retirement or monthly pension. They had an opinion that, it could be far much better to withdraw their money earlier and invest on other paying business, rather than waiting until retirement, where they receive meagre amount with less market value compared if they could have been withdrew it earlier.

4.6.6 Marital Status

Finally, through this study it was noted that marital status contributed early withdrawal as noted from (3%) respondents. However this factor manifests itself in two dimensions. The first dimension involves consideration that, marriage is the indication of one’s mainstreamed in family responsibilities which not only ends within the conjugal family but also going beyond the extended families of spouses.
Such responsibilities increases financial expenditures within families hence forces spouses to have early withdrawal to cover the financial gaps. Second dimension involves the group of member who were not married. Study found that, members who are single have also the tendency of withdrawing their benefits. The major reasons identified for such act being the low risks perception of future life uncertainties and huge financial demand to purchase various items such as cars, houses, home appliances and land. These findings conclude that early withdrawal under marital status is not limited to the married couple alone but also even for those who live single.

### Table 4.8: Factors Affecting Early Withdrawal of Retirement Benefits

<table>
<thead>
<tr>
<th>S/N</th>
<th>Factors affecting early withdrawal of retirement benefits.</th>
<th>Number of respondents</th>
<th>Percentages</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Age</td>
<td>19</td>
<td>31</td>
</tr>
<tr>
<td>2</td>
<td>Level of income</td>
<td>11</td>
<td>18</td>
</tr>
<tr>
<td>3</td>
<td>Conservative investments preference</td>
<td>6</td>
<td>10</td>
</tr>
<tr>
<td>4</td>
<td>Size of pension benefit</td>
<td>14</td>
<td>24</td>
</tr>
<tr>
<td>5</td>
<td>Size of household</td>
<td>8</td>
<td>14</td>
</tr>
<tr>
<td>6</td>
<td>Marital status</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>60</td>
<td>100</td>
</tr>
</tbody>
</table>

**Source:** Field Data, (2013)

### 4.7 Other Reasons for Early Withdrawal of Retirement Benefits

#### 4.7.1 Lack of Attractive Pension Benefits

On the other hand, lack of attractive alternatives benefits was also noted to be among the factors for many to devote retiring before the pre-described withdrawal time as raised by (47%) respondents. Respondents were of the opinion that, they were motivated to withdraw their benefits earlier than expected as they don’t have any other best short term and long term benefits options to solve their social and economic problems. On top of that, respondents went further blaming the government for interfering with financial affairs of the social security funds by borrowing huge amount of money without paying back on time. This was affected
the ability of the social security funds to create new products and services to its customers (See table 4.9).

4.7.2 Peer Pressure

According to (13%) respondents, pressure from peer group was one of the contributory factors to early withdrawal. Peer pressure is the influence that a peer group, observers or individual exerts that encourages others to change their attitudes, values or behaviour to conform to group norms. Social groups affected include membership groups, in which individuals are “formally” members (such as political parties and trade unions), or social cliques in which membership is not clearly defined. A person affected by peer pressure may or may not want to belong to these groups, but may go desolate with withdrawal ideas. They may also recognize disassociate groups with which they would not wish to associate, and thus they behave adversely concerning that group’s behaviours.

The study revealed that, pressure from work colleagues and other social groups in which members belong forced them to withdraw their benefits earlier. Most of them were attracted by achievements of the few fellow peers who took risk of accessing their money early and invest in other business ventures. This however did not guarantee similar success as some of them ended up losing everything in their investments and became poor.

4.7.3 Life uncertainties

A response from (23%) respondents was that, life uncertainties was forcing agent for early withdrawal. It should be noted that, uncertainty is a term used in subtly different ways in a number of fields, including philosophy, physics, statistics, economics, finance, insurance, psychology, sociology, engineering, and information science. It applies to predictions of future events, to physical measurements that are already made, or to the unknown. Uncertainty arises in partially observable and/or stochastic environments, as well as due to ignorance and/or indolence.
However for the purpose of this study life uncertainty refers to unpredictable situations such as termination from employment due to bankruptcy or completion of the contracts, dismissal, economic depression, resignation, diseases or disability. The study established that (23%) of respondents agreed that, their drive to early withdrawal was enhanced by such situation. Those employees terminated or resigned for various reasons tend to withdraw their money earlier because of the fear of future which is not known. The rising unemployment and sluggish economy cannot guarantee their return to formal employment where they use to be. Therefore they decided to take away their savings and invest in other activities which they think, can sustain their life.

4.7.4 Lack of Other Alternative Sustainable Investments

Lack of other alternative sustainable investments as pointed out by (17%) respondents was among the reasons for early withdrawal of retirement benefits. The research discovered that, apart from salary they got from the employers most members did not have any alternative investments they can depend on after their retirement or in case of unforeseen events such as termination from employment. Majority of them are busy working for their employers just to make ends meet, while forgetting to have other alternative ways to increase their income as well as wealth. Failure to have such investments leaves them with little or nothing to depend on in time of retirement, job loss or economic shocks. As a result the only choice they had at hand was to access their retirement benefits early, just to cover the gap of not having income generating activities and reduce the pinch of living in poverty.

Table 4.9: Other Reasons for Early Withdrawal of Retirement Benefits

<table>
<thead>
<tr>
<th>S/N</th>
<th>Other reasons for early withdrawal of retirement benefits</th>
<th>Number of respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Life uncertainties</td>
<td>14</td>
<td>23</td>
</tr>
<tr>
<td>2</td>
<td>Lack of other alternative sustainable investments</td>
<td>10</td>
<td>17</td>
</tr>
<tr>
<td>3</td>
<td>Lack of attractive alternatives pension benefits</td>
<td>28</td>
<td>47</td>
</tr>
<tr>
<td>4</td>
<td>Peer pressure</td>
<td>8</td>
<td>13</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>60</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Field Data, (2013)
4.8 The Impact of Early Withdrawal of Retirement Benefits

Understanding the impacts of early withdrawal of retirement benefits was another important part of the study. This can help the researcher to provide substantial evidence on what were perceived to be the impacts of early withdrawal and how do they affect members, the government and the social security funds as major stakeholders in the social security system. The following sub sections provide the discussion on the impacts of early withdrawal of retirement benefits.

4.8.1 Impact of Early Withdrawal of Retirement Benefits to the Members.

Early withdrawal to other respondents seems to be of great importance as they help to bring long term change in their lives. The study revealed from (15%) respondents that, money acquired from early withdrawal assisted on improving standard of living through long term individual investments on issues such as education and house purchasing. Such importance had recently recognised by some social security funds including PPF by introducing the education benefit, just to help the children of the deceased members to pay school fees when their parents passed away.

Apart from such advantage perceived by respondents on early withdrawal, they were also in agreement that, withdrawal has several setbacks at the level of individual members. Foristance (30%) respondents as illustrated in Table 4.10 said that, it increases absolute poverty during retirement, as member remain with little or nothing to depend on as monthly payments. This happens because at retirement age most of the senior citizens are no longer able to engage in active income generating activities. Increase of number of family breakdown was also pointed out as among effects of the early withdrawal from (20%) respondents. Deepening poverty due to lack of income was said to be a major contributing factor towards family disintegration. This happens in those families where bread winners depend only on monthly salary as source of income without having any other investments. As a matter of facts, family breakdown has further consequences of producing street children, who became burden to society as they need to be assisted.
On the other hand (13%) respondents said that, unexpected deaths are likely to happen due to number of reasons one being inability to accommodate medical costs. Lack of health assurance prevent members suffering from depression related diseases such as hypertension fail to access medical care, as a results most of these members died earlier than expected. In addition to that (22%) respondents commented that, early withdrawal reduce or diminishes total size of benefits during the retirement age. When a member take away a portion or entire savings of his or her pension account, he or she tend to reduce the size of pension fund that individual expect to receive on retirement. As a result they could end up with little or nothing to earn on during retirement.

Table 4.10: Impact of Early Withdrawal to Members

<table>
<thead>
<tr>
<th>S/N</th>
<th>Impact of early withdrawal to members</th>
<th>Number of respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Increase absolute poverty</td>
<td>18</td>
<td>30</td>
</tr>
<tr>
<td>2</td>
<td>Family breakdown</td>
<td>12</td>
<td>20</td>
</tr>
<tr>
<td>3</td>
<td>Unexpected deaths</td>
<td>8</td>
<td>13</td>
</tr>
<tr>
<td>4</td>
<td>Reduce the size of pension benefits</td>
<td>13</td>
<td>22</td>
</tr>
<tr>
<td>5</td>
<td>Improving standard of living</td>
<td>9</td>
<td>15</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>60</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Field Data, (2013)

4.8.2 Impact of Early Withdrawal of Retirement Benefits to the Social Security Funds

Members were also asked to comment on the impact of early withdrawal to social security funds. As an advantage to the social security funds (10%) of respondents commented that, allowing early withdrawal of retirement benefits encourage more people to save in pension funds and may encourage people to contribute higher percentages of their income. To the funds this is important as it increase the number of members as well as income.

Other (18%) of respondents did have different views that, early withdrawal of retirement benefits tend to reduce the aggregate size of the fund itself. This had further implications on the ability of the funds to meet its future financial obligations.
Allowing members to withdraw their benefits might be drawback to the performance of the funds in terms of pension payback and increasing investments portfolio. The act tends to drain financial liquidity of the funds. Lowering the number of future investments was another problem spotted from (42%) respondents. The argument was that, high rate of withdrawal could limit future investments as the social security funds lose money to its members. Instead the social security funds need to keep members contributions for a longer period of time in order to generate income through both short and long term investments.

A result in table 4.11 indicates that, the performance of social security funds also depends on its ability to solicit funds from its members. Bankruptcy was also identified by (30%) respondents as one of major impacts of early withdrawal if necessary measures to mitigate its effects are not in place. Although with the current arrangements the social security funds seems to enjoy government protection, but poor governance in some of these funds could cause bankruptcy. However most respondents seem to balance their argument saying that, early withdrawal might be good for both parties; the government, social security funds and members, but it need to be controlled to avoid possible collapse of the funds.

### Table 4.11: Impact of Early Withdrawal to Social Security Funds

<table>
<thead>
<tr>
<th>S/N</th>
<th>Impact of early withdrawal to Social Security Funds</th>
<th>Number of respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Motivate people to save in pension funds</td>
<td>6</td>
<td>10</td>
</tr>
<tr>
<td>2</td>
<td>Reduce aggregate size of the fund</td>
<td>11</td>
<td>18</td>
</tr>
<tr>
<td>3</td>
<td>Lowering number of future investments</td>
<td>25</td>
<td>42</td>
</tr>
<tr>
<td>4</td>
<td>Bankruptcy</td>
<td>18</td>
<td>30</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>60</td>
<td>100</td>
</tr>
</tbody>
</table>

**Source:** Field Data, (2013)

### 4.8.3 Impact of Early Withdrawal of Retirement Benefits to the Government

Being a major stakeholder in the pension system, government is also affected by wave of withdrawal. The study revealed from (28%) respondents that, government is affected through the reduction of investments in government bonds. Retirement

55
Benefits schemes have played an important role in assisting the government to lengthen the maturity structure of its debt by being majority holders of longer dated bonds. Bond interest rates have also been on the rise, resulting in a decline in bond valuations. High dependence ratio as noted by (22%) respondents was also among the major impacts early withdrawal whereby respondents pointed out that at if the amount of funds are deducted before maturity, the consequences are obvious to be negative which in turn will lead to dependency.

Although dependency ratio is a measure of the portion of a population which is composed of dependants (people who are too young or too old to work), but for this context dependency ratio refers mainly to the composition of old people. The dependency ratio is equal to the number of individuals aged below 15 or above 64 divided by the number of individuals aged 15 to 64, expressed as a percentage. A rising dependency ratio is a concern in many countries that are facing an aging population, since it becomes difficult for pension and social security systems to provide for a significantly older, non-working population.

Increased burden to the government was reported by (18%) respondents to happen since the amount withdrew could not suffice improving living standard of the family to the particular retirees which will lead seeking assistance from the government. On top of that, the increase number of illiterate was suggested by (15%) respondents as shown in Figure 4.5. The reason for increase in the number of illiterates was that, the amount withdrawn could not be budgeted to carter for education in the households. Furthermore, dwindles country and individual development was also noted from (7%) respondents due to lack of funds for capital investments which would have been taken at early withdrawal. Apart from that, study discovered that government is currently provides tax relief on contributions that individuals make to their pension funds. This means, even the money taken through early withdrawal are not taxed, thus to allow tax avoidance as noted by (10%) respondents. This is why some policy makers are pressing for new legislation to introduce penalty tax for early withdrawals.
4.9 Chapter Summary

The main thrust of this study was to examine factors affecting early withdrawal of retirement benefits on the social security system. To accomplish that objective the study answered the questions on the types of social security systems, strategies adopted to control early withdrawal, factors influencing early withdrawal of retirement benefits, and the impacts of early withdrawal of retirement benefits; which were reflected in the study discussion.

Generally the research revealed that, a number of reasons motivated members to have early withdrawal of retirement benefits. Foristance (47%) of respondents identified lack of attractive alternatives pension benefits as one of the causes for withdrawal, while 13% respondent reported that pressure from peer group was the reason behind their early decision to withdrawal the benefits. In addition to that, income level was mentioned by (18%) respondents as among the reasons contributed to early withdrawal, while other (23%) respondents declared that, life uncertainties was also a reasons for withdrawal. Also the study highlighted several strategies adopted by PPF to control early withdrawal. Most respondents, about 38% recommended provision of education as the best strategy to control withdrawal, although they insisted that there must be a change in the way education is provided.
Other (17%) respondents suggested the provision of loans and change of legal and regulatory frameworks for to limit early withdrawals.

Finally the impacts of early withdrawal to the members, government and social security funds were identified. To members the study revealed that, early withdrawal accelerates absolute poverty as reported by (30%) respondents. It is also said to contribute to the family breakdown which resulted into moral degradation. Others said it is the source of unexpected deaths as results of diseases such as hypertension caused by frustrations. For the case of social security funds, withdrawal lower the number of future investments and reduce the aggregate size of the fund, but (10%) of respondents saw early withdrawal as beneficial to social security funds as it motivates people to save in pension funds. The effects of early withdrawal were also seen to the government through reduction of investments in government bonds, high dependency ratio and tax avoidance, since there is no tax paid during withdrawal. This said to deny important source of income to the government.
CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1 Introduction
This study on the factors affecting early withdrawal of retirement benefit in the social security system was conducted among the members and the staff of the PPF Fund. The conclusion made from this study was based on the findings emanating from the specific objectives. It involved assessment of the members and staff perception on, factors affecting early withdrawal of retirement benefit among members of the social security funds, determine the strategies adopted to control withdrawal tendency and examine the impacts of early withdrawal to the member, social security funds and the government.

5.2 Conclusion
The conclusion drawn from this study lies on the research findings whereby a number of issues were discussed. Demographic variables were analysed and discussed as an attempt to address research problem. The findings concluded that age, education, gender, and working experience did influence the early withdrawal at different levels. For instance studies found that, (57%) of respondents were those between 26 – 35 age group which is actively involved in early withdrawal. The reasons behind such act ware said to be the low risk perceptions towards future employment security and the needy for money to fulfill social and economic obligations such as purchase a house or getting married. On the other hand early withdrawal level was higher among members with higher education as reported by (60%) followed by secondary education (7%) and postgraduate (12%). This indicates that the higher the education level the greater the likelihood of having early withdrawal.

The research identified two major types of pension schemes namely traditional scheme and deposit administration. The study was further established that, the former which was mandatory scheme covered (87%) of respondents, while the later covered
only (13%) of respondents. The deposit administration accommodates members who did not qualify for membership in traditional pension scheme.

PPF was not silent on the strategies to control early withdrawal as there were measures put in place to regulate this problem. These include provision of education to the clients as reported by (38%) of respondents, provision of loans through SACCOs which was suggested by (23%) respondents as effective way of controlling the problem of early withdrawal and influence legal and regulatory reforms for the purpose of limiting early withdrawal which was reported by (17%) respondents. Furthermore (12%) respondents revealed that, PPF had been providing short term benefits such as education in order to encourage its members to save, however study discovered that, efforts need to be done to introduce more short term benefits such as house mortgages, social health, maternity and increase the amount of old age benefits in order to ensure economic security to its members. To large extent this can help to reduce the rate of early withdrawal among members.

Parallel to that, the study pointed out a number of factors which said to influence early withdrawal of retirement benefits. Foristance income level was mentioned by (18%) of respondents as among the reasons contributed to early withdrawal, while other (31%) respondents declared that, age of members was biggest reasons for early withdrawal. Other factors include the size of the household asserted by (14%) respondents, size of pension benefits mentioned by (24%), investment preferences reported by (10%) and finally marital status which was reported by (3%) of respondents.

In addition to that, respondents went further and provide other reasons for early withdrawal as lack of attractive alternatives pension benefits revealed by (47%) of respondents and life uncertainties reported by (23%) respondents. They pointed out that, unpredictable social and economic conditions in Tanzania do not guarantee sustainable and continuous flow of income for majority of the population. To large extent this had affected the social and economic wellbeing of individual members, since they had nowhere to depend on to make their ends meets when they face life
uncertainties such as job loss, diseases, or disability. Also (13%) respondents reported that it was pressure from peer groups which motivated them to withdraw their benefits early, while (17%) of respondents claimed that it was lack of alternative sustainable investments which made them to take such decision.

The impact of early withdrawal of retirement benefits to members, government and social security funds were also discussed to get insights on how it affects the social economic wellbeing of members and performance of the government and social security funds. To begin with the impact to members the study revealed that, (30%) respondents reported that it accelerates absolute poverty to the community. This is caused by depleted funds before retirement. Other (20%) respondents argued that it accelerates family breakdown, while (13%) claimed that it is the source of unexpected deaths, 15% respondents said that it reduces the size of pension benefits and (22%) reported that it improves living standards of members. Apart from that there were other impacts to social security funds, these includes, lowering the number of future investments reported by (42%) respondents, reducing aggregate size of the fund suggested by (18%) and bankruptcy which claimed by (30%) respondents. However other (10%) of respondents saw early withdrawal as beneficial to social security funds as it motivates people to save in pension funds.

In addition to that study revealed that the government was also affected by early withdrawal through reduction of investments in government bonds suggested by (28%), high dependency ratio reported by (22%) respondents, increase illiteracy noted by (15%) respondents, dwindled development reported by (7%) respondents and increased burden to government which claimed by (18%) of respondents. Other 10% of respondents argued that early withdrawal contributes on tax avoidance as there is no tax paid during withdrawal. This said to deny important source of income to the government.

The main challenge in controlling early withdrawal of retirement benefits seems to be complicated by several reasons. Lack of trust due to bad governances in some social security funds, limited growth of formal employment, withdrawal of
government support from essential social services such as health care and education, increased life uncertainties, poverty, unattractive payments which cannot reflect the reality of current economic situation which characterized by high inflation, and high cost of living are among factors which motivates members to withdraw their retirement benefits earlier than expected in order to cover the high cost of living. This made it difficult for social security funds to control the increasing rate of early withdrawal of retirement benefits.

Therefore it is apparent from the study findings that, the social security system in Tanzania is inadequate to ensure social and economic protection against poverty, diseases, disability, famine and other related risks. This is because the benefits provided do not address the immediate needs of members such as food shortages, shelters and school fees, while the quantum benefits are too small to satisfy members’ daily basic needs. As a result members have the tendency of relying on early withdrawal of their retirement savings just to make ends meet in time of layoffs, resignation, or dismissal. Such habits have made their life even far worse as they ended up with little or nothing in time of retirement. To stop these sufferings the study managed to identify factors cause early withdrawal, examine strategies used to control early withdrawal and advise the government and other stakeholders to take more active role in protecting members of social security funds from falling into absolute poverty especially during the time of retirement.

5.3 Recommendations

Recommendations are given forth on rate of early withdrawal that PPF, the government and other stakeholders should come up with strategies in order to control the rate which was said to increase tremendously. Foristance in order to control the rate of early withdrawal, the government must tackle poverty and reducing life uncertainties. This could be achieved by creating conducive environment in which formal and informal employment can be created to help people generate higher income. Government should invest in infrastructure development such as transportation, communication, agriculture, energy, and industrial technology to stimulate economic growth. This could help majority of the population to participate
in income generation activities and therefore being able to manage their economic affairs at the level of individuals and household without tempted to withdraw their savings in the social security funds. Such development can reduce the rate of early withdrawal of retirement benefits among members of social security funds.

Despite the deliberate measures by the government to improve provision of social services to the public, considerable part of the population has either limited or no access to services such as education and health. In some instances, cost sharing in the provision of social services has reduced the capacity of people to access the services, therefore it become burden to individual members who were sometimes forced to have early withdrawal or take loans just to pay for school fees or medical expenses for their loved ones. In this regard government should improve social services by investing more resources in basic social services such as education and health by ensuring that all citizens have access to such services at affordable costs. If this happens members can never be tempted to withdrawal their savings earlier to pay for those services when they are in desperate need of them.

As part of strategy to address lack of alternative attractive pension benefits, the government should ensure that the legal and regulatory frameworks, social security and other related policies such as employment, finance and investment policies are regularly reviewed in order to give more mandates to social security funds to operate as commercial firms. This can help the funds to invest more money in profitable business and use its returns to create more products and services for its members. These products includes short and long term benefits such as house mortgages, maternity, health insurances, burial services to mention few. Such act can attract more people to invest their income in social security funds and therefore to increase the aggregate size of the funds at one hand but also encourage them not to withdraw their benefits earlier as they had been already have other alternative benefits to depend on.
In addition to that, strategies to control early withdrawal rate as suggested by respondents interviewed in this study should be adhered to in order to reduce or stop the increased rate of early withdrawal country wide. For instance there must be a shift of paradigm on how the government and social security funds addressing the increasing rate of early withdrawal of retirement benefits. For example in the provision of education, the focus must shift from awareness creation on the advantages and disadvantages of early withdrawal to members and emphasize on imparting aggressive entrepreneurial skills that could help members to develop strong financial base in two ways. First, to build the culture of saving by having lifelong investments in the social security funds, and second to use their income wisely to open up business investments that can sustain them in time of economic difficulties.

On top of that the social security fund should lobby to the government for the introduction of tax penalties in order to discourage members not to withdraw their cash lump sum earlier before retirement age. This can be done in two ways; first by imposing tax penalties to all early withdrawals regardless members’ age group and second it can be done with considerations of age groups and percentage as a strategy to motivate members and non members continue to invest in social security funds. For instance early withdrawal can be allowed for members aged between 35 to 45 years old, whereby the contributing members may draw up to 25% of the fund as a tax free cash lump sum, and the rest is kept to provide income for life. This income can be in the form of an annuity. However the annuity can be taken earlier if the individual is in poor health or is in an occupation in which it is customary to retire at an earlier age.

The social security funds, should strive to retain their members and attract the non-members to join the fund by offering more incentives to members to in order to motivate keep their money in the funds. This includes giving higher returns for their savings low interests loans, to provide mechanism for portability of benefits rights and using retirement savings as collateral for loans.
All these can help them to have better financial position which enables them to pursue their social and economic activities sustainably. Moreover the current benefits provided by PPF should be maintained with the same purpose to ensure minimum early withdrawal.

Furthermore, PPF must ensure that service delivery at all levels of front office and back offices should be improved in order to build trust and confidence to members and non members. Staff must be trained on how to handle all types’ customers and their complaints, improve communication channels within and between organisation and their stakeholders. PPF must strive to improve efficiency reducing the waiting time for the retiree to process and access their benefits after retirement. In order to make that happen records keeping must be must be improved by investing in modern electronic records keeping facilities that could link clients and PPF itself.

It should be noted that, the key focus of PPF systems is the agency problem that arises when ownership and control are separated. Because managers and shareholders are not identical, managers may take actions that benefit themselves at the expense of shareholders. Hence, PPF governance systems should create mechanisms by which managers are incentivized to act in the interest of the shareholders for the benefit of the organization.

These mechanisms can be either external or internal to the firm, while the interaction of these two controls determines the effectiveness of a firm’s entire governance structure. Competition from other financial institutions should be observed as the beneficiaries of an underperforming fund may leave it for a competitor, which, in a competitive market, and so PPF should discipline its management.

5.4 **Areas for Further Studies**

This study was not exhaustively conducted. Nevertheless, more research is needed to reveal and confirm the impact of the different governance factors using different institutional frameworks and methodologies to address the potential endogenous concerns between governance measures and performance, therefore the researcher
leave these question and problems for future research together with other areas of study which include the following:

(i.) It is suggested that a similar study ought to be conducted for the social security funds to find out the impact of early withdrawal of retirement benefits to the social security funds long term investment strategies.

(ii.) Looking at recent employees reactions towards the rejection of social security laws (Amendments) Act No. 5 of 2012, which intend to end the withdrawal benefits the study suggest that; further research needs to be done to find out appropriate model that allows member of social security funds to have a healthy withdrawal with little or no damage to the government, social security funds or members themselves.
REFERENCES


APPENDICES

Appendix 1: Research Questionnaire for Heads of Departments

Dear respondents,

The purpose of this questionnaire is to investigate the factors affecting early withdrawal of retirement benefits on social security system in Tanzania. The questionnaire is to be administered to respondents drawn from various stakeholders including members, heads of departments and the PPF middle and lower cadre staff. The study findings is expected to provide answers on what should done to control early withdrawal of retirement benefits as well as mitigating its impacts to members, the government and social security funds.

Your identity remains anonymous and the highest degree of confidentiality shall be maintained. I therefore request you to answer the following question as honestly and openly as you can.

PART A: GENERAL INFORMATION

1. Age (years)
   (i.) 18 – 25 (    )
   (ii.) 26 – 35 (    )
   (iii.) 36 – 45 (    )
   (iv.) 46 – 55 (    )
   (v.) 55 and above (    )

2. Sex
   (i.) Male (    )
   (ii.) Female (    )

3. Marital status.
   (i.) Married (    )
   (ii.) Single (    )
4. Education level.
   (i.) Primary school ( )
   (ii.) Secondary school ( )
   (iii.) Certificate ( )
   (iv.) Diploma ( )
   (v.) First degree/Ad. Diploma ( )
   (vi.) Postgraduate ( )

5. How long have you been working with PPF?
   (i.) 0 – 5 ( )
   (ii.) 6 – 10 ( )
   (iii.) 11 – 16 ( )
   (iv.) 16 and above ( )

6. What type of pension schemes offered by PPF?
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7. What type of pension benefits provided by PPF under existing pension schemes?
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PART B: STRATEGIES TO CONTROL EARLY WITHDRAWAL OF THE BENEFITS

8. What are the strategies adopted by PPF to control an increase in early withdrawal of retirement benefits among its members?
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9. In your opinion, why do you think the current strategies have not succeeded to reduce the incidence of early withdrawal of retirement benefits among members?

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10. Why do you think it is necessary for government and social security funds to introduce new measures control early withdrawal of retirement benefits?

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11. What do you think would be the best alternative strategies to be adopted by the social security funds in order to control increase incidences on early of retirement withdrawal benefits?

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PART C: EARLY WITHDRAWAL OF THE RETIREMENT BENEFITS

12. In your opinion, do you think following variables can determine the decisions of members to withdraw their retirement benefits?

   (i.) Age                          1) Yes [    ]  2) No [    ]
   (ii.) Level of income.           1) Yes [    ]  2) No [    ]
   (iii.) Size of Pension benefit.  1) Yes [    ]  2) No [    ]
   (iv.) Size of the Household      1) Yes [    ]  2) No [    ]
   (v.) Conservative investment preferences. 1) Yes [    ] 2) No [    ]
   (vi.) Marital Status             1) Yes [    ]  2) No [    ]
13. In your opinion what are the reasons for early withdrawal of retirement benefits?

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14. On average how many members withdraw their contributions earlier before retirement age per months?
   (i.) Below 500 (          )
   (ii.) 501 – 1,000 (          )
   (iii.) 1,001 – 1,500 (          )
   (iv.) 1,501 – 2,000 (          )
   (v.) 2000 and above (          )

PART D: THE IMPACT OF EARLY WITHDRAWAL OF RETIREMENT BENEFIT

15. What do you think are the long term social and economic impacts of early withdrawal of retirement benefits to the members?

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16. How do you think early withdrawal of retirement benefit can affect the performance of the government and social security funds in longer term?

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Thank You for Your Cooperation
Appendix 2:  Research Questionnaire for PPF Members

Dear respondents,

The purpose of this questionnaire is to investigate the factors affecting early withdrawal of retirement benefits on social security system in Tanzania. The questionnaire is to be administered to respondents drawn from various stakeholders including members, heads of departments and PPF middle and lower staff. The study findings is expected to provide answers on what should done to control early withdrawal of retirement benefits as well as mitigating its impacts to members, the government and social security funds.

Your identity remains anonymous and the highest degree of confidentiality shall be maintained. I therefore request you to answer the following question as honestly and openly as you can.

PART A: GENERAL INFORMATION

1. Age (years)
   (i.) 18 – 25 (          )
   (ii.) 26 – 35 (          )
   (iii.) 36 – 45 (          )
   (iv.) 46 – 55 (          )
   (v.) 55 and above (          )

2. Sex
   (i.) Male (          )
   (ii.) Female (          )

3. Marital status.
   (i.) Married (          )
   (ii.) Single (          )
4. Education level
   (i.) Primary school (          )
   (ii.) Secondary school (          )
   (iii.) Certificate (          )
   (iv.) Diploma (          )
   (v.) First degree/Ad. Diploma (          )
   (vi.) Postgraduate (          )

5. How long have you been a member of your scheme?
   (i.) 0 – 5 (          )
   (ii.) 6 – 10 (          )
   (iii.) 11 – 16 (          )
   (iv.) 16 and above years (          )

6. Do you have any other investment(s) that you can rely in time of retirement other than your retirement benefits?
   (i.) Yes (          )
   (ii.) No (          )

7. If Yes, please mention them
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8. Which income group do you belong?
   (i.) Below Tsh.80,000 (          )
   (ii.) Tsh.80,000 - 160, 100 (          )
   (iii.) Tsh.160, 100 – 240,000 (          )
   (iv.) Tsh.240, 000 – 600,000 (          )
   (v.) Tsh.600, 000 and above (          )
PART B: STRATEGIES TO CONTROL EARLY WITHDRAWAL OF THE BENEFITS

9. What strategies do you know used by the Pension Funds to control early withdrawal of retirement benefits?

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10. What do you think will be the best alternative strategies to be adopted by the PPF Fund in providing the withdrawal benefits?

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PART C: EARLY WITHDRWAL OF THE RETIREMENT BENEFITS

11. Have you ever withdrawn your retirement benefits after termination of employment?
   (i.) Yes ( )
   (ii.) No ( )

12. How much did you receive as cumulative pension benefits from the past withdrawals?
   (i.) Below Tsh. 100,000 ( )
   (ii.) Tsh. 501,000 – 1,000,000 ( )
   (iii.) Tsh. 101,000 – 500,000 ( )
   (iv.) Tsh. 1,000,000 and above ( )
13. Did the following variables determine your decisions to withdraw your pension benefits?

(i.) Age
   1) Yes [ ] 2) No [ ]

(ii.) Level of income.
   1) Yes [ ] 2) No [ ]

(iii.) Size of Pension benefit.
   1) Yes [ ] 2) No [ ]

(iv.) Size of the Household
   1) Yes [ ] 2) No [ ]

(v.) Conservative investment preferences.
   1) Yes [ ] 2) No [ ]

(vi.) Marital Status
   1) Yes [ ] 2) No [ ]

14. What other factors influenced your decisions to withdraw your pension benefits?

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PART D: THE IMPACT OF EARLY WITHDRAWAL OF RETIREMENT BENEFITS

15. What do you think are the long term social and economic impacts of the early withdrawal of retirement benefits to an individual?

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16. What are the long term effects of early withdrawal of retirement benefit to the performance of the government and social security funds?

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Thank You for Your Cooperation
Appendix 3: Research Questionnaire for PPF Lower and Middle Cadre Staff

Dear respondents,

The purpose of this questionnaire is to investigate the factors affecting early withdrawal of retirement benefits on social security system in Tanzania. The questionnaire is to be administered to respondents drawn from various stakeholders including members and staff of PPF fund. The study findings is expected to provide answers on what should done to control early withdrawal of retirement benefits as well as mitigating its impacts to members, the government and social security funds.

Your identity remains anonymous and the highest degree of confidentiality shall be maintained. I therefore request you to answer the following question as honestly and openly as you can.

PART A: GENERAL INFORMATION

1. Age (years)
   (i.) 18 – 25 (          )
   (ii.) 26 – 35 (          )
   (iii.) 36 – 45 (          )
   (iv.) 46 – 55 (          )
   (v.) 55 and above (          )

2. Sex
   (i.) Male (          )
   (ii.) Female (          )

3. Marital status.
   (i.) Married (          )
   (ii.) Single (          )
4. Education level.
(i.) Primary school (  )
(ii.) Secondary school (  )
(iii.) Certificate (  )
(iv.) Diploma (  )
(v.) First degree/Ad. Diploma (  )
(vi.) Postgraduate (  )

5. How long have you been working with PPF?
(i.) 0 – 5 (  )
(ii.) 6 – 10 (  )
(iii.) 11 – 16 (  )
(iv.) 16 and above (  )

6. What type of pension schemes offered by PPF?
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7. What type of pension benefits provided by PPF under existing pension schemes?
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PART B: STRATEGIES TO CONTROL EARLY WITHDRAWAL OF THE BENEFITS
1. What are the strategies adopted by PPF to control an increase in early withdrawal of retirement benefits among its members?
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2. In your opinion, why do you think the current strategies have not succeeded to reduce the incidence of early withdrawal of retirement benefits among members?

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3. Why do you think it is necessary for government and social security funds to introduce new measures control early withdrawal of retirement benefits?

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4. What do you think would be the best alternative strategies to be adopted by the social security funds in order to control increase incidences on early of retirement withdrawal benefits?

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PART C: EARLY WITHDRAWAL OF THE RETIREMENT BENEFITS

5. In your opinion, do you think following variables can determine the decisions of members to withdraw their retirement benefits?

(i.) Age  
1) Yes [ ]  2) No [ ]

(ii.) Level of income.  
1) Yes [ ]  2) No [ ]

(iii.) Size of Pension benefit.  
1) Yes [ ]  2) No [ ]

(iv.) Size of the Household  
1) Yes [ ]  2) No [ ]

(v.) Conservative investment preferences.  
1) Yes [ ]  2) No [ ]

(vi.) Marital Status  
1) Yes [ ]  2) No [ ]
6. In your opinion what are the reasons for early withdrawal of retirement benefits?

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7. On average how many members withdraw their contributions earlier before retirement age per months?
(i.) Below 500 (  )
(ii.) 501 – 1,000 (  )
(iii.) 1,001 – 1,500 (  )
(iv.) 1,501 - 2,000 (  )
(v.) 2000 and above (  )

PART D: THE IMPACT OF EARLY WITHDRAWAL OF RETIREMENT BENEFIT
8. What do you think are the long term social and economic impacts of early withdrawal of retirement benefits to the members?
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9. How do you think early withdrawal of retirement benefit can affect the performance of the government and social security funds in longer term?
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Thank You for Your Cooperation