

**TERMINAL BENEFITS PAYMENTS PRACTICES IN TANZANIA**

# **TERMINAL BENEFITS PAYMENTS PRACTICES IN TANZANIA**

**By**

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Partial Fulfilment of the Requirements for Award of the Degree of Masters of  
Science in Accounting and Finance (MSc A&F) of Mzumbe University.**

**2013**

## CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for acceptance by Mzumbe University, a dissertation entitled: “**Terminal Benefits Payments Practices in Tanzania**”, in partial/fulfilment of the requirements for the Degree of Masters of Science in Accounting and Finance of Mzumbe University.

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## **ABSTRACT**

Pension's payments to retirees have been and continue to be a big problem in Tanzania which requires immediate attention. Most of old age people who served in the public/private sector are dependent on the terminal benefits as their major source of income after retirement. The general objective of this study was to find out factors causing delay in terminal benefit payments in social security in Tanzania. The terminal benefits for the retirees in Tanzania are managed by five different Pension Funds which are Public Service Pension Funds (PSPF), Local Authorities Pension Fund (LAPF), Government Employees Provident Fund (GEPF), National Social Security Fund (NSSF) and Parastatal Pension Fund (PPF). These Pension Funds are responsible for the payment of pensions, gratuities, and other benefits in respect of the service of retirees.

The research was conducted to three pensions Funds; PSPF, LAPF and GEPF to determine the problems in processing Terminal Benefits of retirees. The research study opted case study strategy whereby terminal benefits were taken as case to be studied in the selected Social Security Funds in Tanzania. The researcher selected a total of 80 respondents among members and Officers from Pensions Funds as a sample size.

Both primary and secondary data were collected by using questionnaire and interviews. During the study one of the challenges observed was that some of the retirees were not paid their terminal benefits on time due to non submission of correct contributions to the Fund during the period of their service, non compliance with Pensions Fund policies etc. It was concluded that, there are problems which need to be addressed by both the employers as well as Social Security Funds in the country. Likewise it was recommended that there was a need of reviewing the processing of terminal benefits of retirees as well as harmonisation of pension schemes and improving the legal framework of social security funds and distorted benefits.

## **ABBREVIATIONS AND ACRONYMS**

FN-6	Form Number 6
GEPF	Government Employees Provident Fund
GoT	Government of Tanzania
ILO	International Labour Organization
LAPF	Local Authorities Pensions Fund
MoFEA	Ministry of Finance and Economic Affairs
NAO	National Audit Office
NSSF	National Social Security Fund
PSPF	Public Service Pensions Fund
PO-PSM	Presidents Office – Public Services Management
PPF	Parastatal Pensions Fund

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## **CHAPTER ONE**

### **BACKGROUND INFORMATION**

#### **1.1 Introduction**

Chapter one of this dissertation begin with providing a background of the research area on the problems of terminal benefits payment to members of different social security schemes in Tanzania, leading to a purpose of the thesis and specific research questions. Significance and scope of the study are also highlighted in this chapter.

#### **1.2 Problem Background**

Every human being is faced with socio-economic risks and uncertainties in human life form the basis for the need of social security and the main objective of any social security scheme is to secure the income security for majority of the citizen to ensure that they have an acceptable standard of living. The central mission of a pension system is to assure to the maximum extent possible an adequate standard of living for people in old age. "Adequacy" can be defined in at least three ways. A standard of relative adequacy would seek to provide a retirement benefit which is adequate relative to that person's past standard of living. If adopted, this calls for insurance, whether publicly- or privately-provided. Alternatively, a standard of absolute adequacy would seek to provide a retirement benefit which brings recipients' incomes up to an agreed-upon absolute standard of living (e.g., the national poverty line). If this standard were adopted, it would call for social assistance in aid of those elderly who would otherwise not reach that standard. A third possibility is partly relative and partly absolute. A system designed with this standard in mind would provide a larger benefit per dollar contributed for lower-income groups ILO (1944) Recommendation on standard of living. The design of a retirement income system should reflect which of the three objectives a country has chosen.

In Tanzania there are different types of social security schemes established under the act of parliament namely; National Social Security scheme (Pension Act No. 28, 1997).

Parastatal Pension Scheme (pension Act No. 14 of 1978), Public Service Pension scheme (pension Act no. 2 of 1999) and other schemes established before independence like Government Pension scheme (Pension ordinance Cap 371 of 1954), Government Employees Provident Fund (cap 51 of 1942). These schemes established purposely to provide benefits to its members. But these schemes differ from one to another depending on coverage (membership) and benefit package, which based on Act, which established the scheme concerned.

The majority of the Tanzanian people depended upon the traditional social security system for their protection, which is still the case to date, though effects of urbanization and difficult economic environment have weakened the same. After independence, the Government of Tanzania introduced a series of policies and measures to reverse the situation that prevailed during the colonial era. The measures included access to free education and healthcare, provision of social welfare services to marginalized groups such as the elderly, people with disabilities and children in difficult circumstances, as well as establishment of statutory social security schemes. However, tax financed social services have proved to be unsustainable as evidenced by introduction of cost sharing in sectors' such as education and health (URT, 2003).

Also according to Oliver (2005) who presented a paper at "ISSA Regional Conference for Africa" conducted at Lusaka Zambia from 9 - 12 August 2005, explained clearly the problems facing members of social security schemes in Africa. He said that most of the members complaining about inadequacy of benefits, delays in payments, lack of up to date information about the scheme and amount of individual contributions made and estimated benefits, all of which caused the members fails to claim benefit as they were unaware of their entitlement or the procedure to do so. Also he continued to explain that some other members had difficulties in accessing the relevant fund since the fund have not extended their operations especially for members living in the villages.

The essential test of any social security system is how well it pays benefits to the intended target groups, what type of benefit provided, the adequacy of benefit provided and obstacles/ problems facing provider in providing benefit to its members.

### **1.3 Statement of the Problem**

Benefit payments poses a huge challenge to most social security schemes members in the world in many countries around the world. Some of the challenge while face most of the members of social security schemes in many countries around the word is delay of terminal benefit payments. The more the time that passes the more difficult it can be for everyone involved to remember exactly what has happened. It has been a common observation for retired officers to spend more than 12 months without receiving their terminal benefits.

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

According to NAO (2009), there are problems in the processing of Terminal Benefits of retirees. This is following an outcry of many people who have been retiring from public service employment. (PO-PSM) being the overall overseers of Pension Funds on behalf of the Government have not to a large extent fulfilled their responsibilities of ensuring the processing of terminal benefits of retirees on time and without recourse to duress.

The delay in benefit payments not only' affects retired persons but also other social security schemes all over the country. Although, the outcry has been raised through different avenues still beneficiaries face barriers when it come to the payment of their

terminal benefits. If there are guiding regulations and rules plus institutional policies, what can be a major factor (s) causing delaying in the terminal benefit payments in the country? How can this situation be redressed whether from the institutional point of view or clients/beneficiaries and employers point of view?

Since the main objective of any Social security schemes is to secure the income security of majority of the citizen to ensure that they have an acceptable standard of living, therefore this study is focusing on assessing the problems of terminal benefits payments and assessing the impacts to problems members.

#### **1.4. Research Objectives**

The general objective of this study was to find out factors influencing delay in terminal benefit payments in social security in Tanzania. To address the main objective three specific objectives were explored:

- i) To examine the process for terminal benefits payment to pensioners in social security fund in Tanzania.
- ii) To find out how pensioners records are kept in social security fund in Tanzania.
- iii) To investigate the policy and law used for the paying terminal benefits to pensioners in social security fund in Tanzania.

#### **1.5 Research Questions**

This research study was guided by general research question state what factors influencing delay in terminal benefit payments in social security in Tanzania?

Specifically, the study is guided by these research questions as follows:

- i) How terminal benefits payments is effected in social security funds in Tanzania?
- ii) How pensioner's records are kept in social security fund in Tanzania?
- iii) What policy and laws used for the paying terminal benefits to pensioners in social security fund in Tanzania

## **1.6 Significance of the Study**

The study provide and be useful to policymakers and other stakeholders with new knowledge about the basis of terminal benefit payments, and why other members complaining about terminal benefit payments. Not only that but also brought a clear picture of problems of benefit payments facing members of social security scheme in different countries with different approaches applied to tackle the problems.

Also this study would be helpful to academicians and researchers who may wish to conduct further research on this topic so as to get a comprehensive understanding on this study area hence the findings will sense as a basis for referencing

Furthermore, Pensions Fund in Tanzania will get necessary information, including views about schemes, their opinion, perceptions and feeling with the whole process of terminal benefits to retirees. Through this Pensions Fund can formulate new strategies and better policies to address the problems so as to be able to process payments of terminal benefits effectively, reviewing the process of terminal benefits of retirees and improve communication among the key stakeholder. This is a critical issue in the current sphere of social security scheme operation due to severe competition in social security industry, hence a need for the Pensions fund to update their operational strategies periodically.

## **1.7 Delimitations of the Study**

This research study faced a number of limitations like ,cost implication, sample size, Cultural and other type of bias, Lack of prior research studies on the topic and limited population coverage. Apart from that different measure was done to delaminate the limitations by selected respondents/Pensions Fund stakeholders who cooperated freely in order to get data with less cost. Due to the fact that it is very expensive, taking much of time and data inaccessibility to study the whole area of terminal benefits without narrowing down to selected fund, the study conducted into three Pensions Fund which are PSPF, LAPF and GEPF. Despite lack of prior research studies on this topic which is

crutio for forming the basis of literature review and lay foundation for understanding research problem the new research typology developed. The results have been limited in terms of population coverage as the study is concentrated on in Dar es Salaam where PSPF and GEPF headquarters are and LAPF Coast Zone headquarter. In this case generalization of the results has been affected; however, this does not necessarily mean that the results from this study will not be reliable and accurate.

### **1.8 Limitations of the Study**

The Due to the wide scope and limited time, the researcher limited the study on the processing of terminal benefits of retirees to PSPF, LAPF and GEPF only. The other Pensions Fund such as PPF and NSSF were not dealt with. The time was relatively short taking consideration that primary data was considered to have much input, and needs extensive travelling, constrained with financial resources.

It was not easy for researcher to get ready available terminal benefits processing data from Pensions Fund since most of strategies, performance results, future plans and directions are taken for granted as confidential matters hence it was not easy to get the insight of sensitive issues.

Also, limited amount of funds to produce, distribute and collect enough amounts of questionnaires from a good number of five pension's funds members/ex-members and staff was a major constraint accompanied with limited time to execute long telephone interviews.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

Literature review based on theoretical overview of benefit payments, Benefits payments in Tanzania, a comparative perspective of benefit payments, problems facing benefit provider and members, problems facing benefits provider on international perspective and measures taken to overcome those problems of benefits payments to members and provider will be provided in this chapter.

#### **2.2 Theoretical Overview of Benefit Payments**

The pension system and its financing are some of the most important but also some of the most difficult roles of a modern country. Every prosperous community has a pension system at present; the citizens rely on its stability and the system provides most of them with the main part of their income in old age. The system stability and financial sustainability are some of the key precondition for the successful operation of the state and satisfaction of its citizens. It is therefore very important to have a sound database for pension system analyses and reliable model for pension system simulations and projections.

According to Witt (2005), all peoples through all of human history have faced the uncertainties brought on by unemployment, illness, disability, death and old age. In the realm of economics these inevitable facts of life are said to be threats to ones economic security. Again Witt (2005) observed that the ancient Greeks economic security took the form of amphorae of olive oil was very nutritious and could be stored for relatively long period. To provide for themselves in times of need the Greeks stockpiled olive oil and this was form of economic security. Further observations by Witt indicate that in many areas or different societies found different ways of combating economic insecurity. Another example family members and relatives have always felt some degrees of

responsibilities to one another and to the extent that the family had resources to draw upon. That was a source of economic security.

### **2.3 Policies Governing Terminal Benefits Payments**

Literature review shows that benefit payment mostly provided under pension schemes although there are other social security benefits provided under government or state institution depending contingencies covered and policy of that state. The two main methods of providing pensions; are defined benefit pension plan and defined contribution plan. Under a defined benefit pension plan an employer/sponsor promises a specified monthly benefit on retirement that is predetermined by a formula based on the employee's earnings history, tenure of service and age, rather than depending directly on individual investment returns. It is 'defined' in the sense that the benefit formula is defined and known in advance. The most common type of formula used is based on the employee's terminal earnings (final salary). Under this formula, benefits are based on a percentage of average earnings during a specified number of years at the end of a worker's career. (Gary A. Shulman 1999).

In the private sector, defined benefit plans are often funded exclusively by employer contributions. For very small companies with one owner and a handful of younger employees, the business owner generally receives a high percentage of the benefits. In the public sector, defined benefit plans usually require employee contributions. When participating in a defined benefit pension plan, an employer/sponsor promises to pay the employees/members a specific benefit for life beginning at retirement. In a defined contribution plan the amount of the employer's annual contribution is specified. Individual accounts are set up for participants and benefits are based on the amounts credited to these accounts (through employer contributions and, if applicable, employee contributions) plus any investment earnings on the money in the account. Only employer contributions to the account are guaranteed, not the future benefits. In defined contribution plans, future benefits fluctuate on the basis of investment earnings. The most common type of defined contribution plan is a savings and thrift plan. Under this

type of plan, the employee contributes a predetermined portion of his or her earnings (usually pretax) to an individual account, all or part of which is matched by the employer. (Taylor, 2009).

In a defined contribution plan, fixed contributions are paid into an individual account by employers and employees. The contributions are then invested, for example in the stock market, and the returns on the investment (which may be positive or negative) are credited to the individual's account. On retirement, the member's account is used to provide retirement benefits, sometimes through the purchase of an annuity which then provides a regular income. Defined contribution plans have become widespread all over the world in recent years, and are now the dominant form of plan in the private sector in many countries. For example, the number of defined contribution plans in the US has been steadily increasing, as more and more employers see pension contributions as a large expense avoidable by disbanding the defined benefit plan and instead offering a defined contribution plan.( Taylor, 2009).

Money contributed can either be from employee salary deferral or from employer contributions. The portability of defined contribution pensions is legally no different from the portability of defined benefit plans. However, because of the cost of administration and ease of determining the plan sponsor's liability for defined contribution plans (you don't need to pay an actuary to calculate the lump sum equivalent that you do for defined benefit plans) in practice, defined contribution plans have become generally portable. (Tonks ,2012)

According to ILO (1944), recommendation No. 67 concerning Income security, methods of providing benefits mostly depends on contingencies covered and principle applied, for example, the range of contingencies to be covered by social insurance should embrace all contingencies in which an insured person is prevented from earning his living, whether by liability to work or liability to obtain remunerative work, or in which he dies leaving a dependent family, and should include certain associated emergencies

generally experienced which involve extraordinary strain on limited incomes, in so far as they are not otherwise covered benefit provided by social insurance may be closely adapted to the variety of needs; contingencies covered should be classified as follows: Sickness, Maternity, Invalidity, Old age, Death of bread winner Unemployment, Emergency express and Employment injuries.

The development of benefits shows that under Old Age, Survivors pension, and Disability Insurance (OASDI) scheme in U.S.A, now provide more different social security benefits than when started in 1937, provides a monthly retirement benefits for retired workers, monthly Disparity benefit for a disabled worker, monthly spouse's benefit for a retired or disabled worker's spouse if at least 62 years old, monthly child's benefit for a retired or disabled worker's child if the child is under 18 years or age 18 and a full time high –school, age 18 or over and disabled if the disability began before age 22. The requirements for a person to qualify retirement benefits are, he or she must be fully Insured, he/she is at last age 62 through the fist month of entitlement, and he/she has filed application for retirement benefits (Thomas, 1999).

Through development of benefit payments around the world shows that mostly social security benefits provided under pension system. For example, pension system in the countries of the European Union differ in many aspects such as coverage, financing, qualifying conditions, extent of public involvement, level of old age and survivor benefits, and type and level of minimum pension (For example U.S. social security administration 1995, European Economy 1986, and Ploug and Kvist 1996). While there is little uniformity in those rules essentially there three systems which can be identified. Corporatist pension scheme, which offer a contribution related old age benefit and survivor benefit to the employment, the universal pension scheme which offer basic old age benefit and (usually tax financed) and a mixed systems which offer a basic benefit and a (smaller) supplementary contribution –related old age benefit and survivors benefit. Corporatist systems focus on maintaining the standard of living (after retirement

and after death of the insured spouse, universal system on securing a basic income in old age and mixed systems on combinations of both (Thomas, 1999).

Living standard maintenance is the main element of the Bismarck Social Security philosophy while avoidance of poverty is the major goal of the beverage approach, (Flora et.al, 1997). Other country like Norway establishes National Insurance Scheme (NIS) and Child Allowance Scheme. These schemes established under National Insurance Act of 17 June 1966 as a Social Security Schemes which financed by contribution from employee, self employed persons and other members, employers contribution and contribution from the state. Under NIC they have 12 social security benefit granted to the beneficiary, Old age Pension, Survivors benefit, Disability benefits, Rehabilitation benefits, Medical benefits during sickness and maternity, Daily cash benefit in case of sickness, Daily cash benefits in case of maternity unemployment benefits, occupational injury benefits, Benefits to single parents, Funeral Grant and Child Allowance (Bedee *et.al*, 1995).

In Portugal, the Portuguese social security system is a public system set up directly by the Government that covers all individuals looking in Portugal. But the social security contribution is compulsory and contribution regarding employed individuals calculated on the Gross remuneration received on a monthly basis at a rate of 34.75 percent (23.75% in due by the company and 11% by the employee). Social security benefits provided by this scheme are old age pension Disability pension, sickness allowance, unemployment benefit and family allowances (Bedee *et.al*, 1995).

In Netherlands they have statutory social security system that consist three schemes, Employee insurance scheme which employees are entitled to a benefit in case of sickness, disability, unemployment and medical expenses. National Insurance scheme which each resident of the Netherlands is entitled to a benefit in case of disability, old age, death, exceptional medical expenses, and child support. Under this scheme it does

not have a general basis. The benefits are Income support benefits, benefits for elderly long-term unemployed persons, scholarship for students and supplementary benefits. These financed from General fund. The employee insurance scheme and National Insurance scheme, financed through contributions paid by insured persons (Bedee, *et.al*, 1995).

The development of benefit payments in Tanzania, established different social security schemes, which the membership mostly based on, employed people. All schemes established under the Act of Parliament as corporate bodies, and each Act stipulates clearly who will be the member of each scheme established and what kind of contingencies covered, benefits provided and qualifications required to qualify for such benefits. For example, the “Public Service Pension Scheme” established under Public Service Retirement Benefits Act No. 2 of 1999. The scheme covered all employees of Central Government and Government Agencies who employed under permanent and Pensionable terms. The benefits conferred under PSPS are Old age, Invalidity, Death Gratuity and Survivors Pension, Funeral grants, and Withdrawal Benefits (PSPF, 2010).

The age of retirement is 55 years’ voluntary and 60 years compulsory (Sec 17). Other scheme is Parastatal Pension scheme established under pension Act No. 14 of 1978. This scheme covered all employee of parastatal organization employed on permanent terms and self-employed as the Act amended 2002. The benefits conferred under this scheme are old age benefit, Death gratuity and survivor’s pension, withdrawal benefits. Also we have National Social Security Fund established under Pension Act No. 28 of 1997. This scheme covered persons who are self employed or employed in the private sector, none Pensionable employee in the government service and Parastatal organization (Sec 6). The benefits payable under this scheme are Retirement pension, invalidity pension, Survivors pensions, funeral grants, Maternity benefit, employment injury benefit and health insurance benefits (sec 21) and Government employees Provident Fund was established under cap 51 of 1942 (RE 2002) to provide for the benefits of Government

Employees who are not eligible for pension. These include employees working under contracts or under operational service for the central government, independent government departments, executive agencies, and such other employees categorized as non-pensionable.

The right to social protection conferred under the Constitution of the United Republic of Tanzania of 1977, as amended in 1984, 1995 and 1998, should also confer the right to benefits. Mchomvu, Tungazara and Maghimbi (2002) argue that the scale of benefits payable under the different schemes should be known to members. Benefit formulae and conditions for payment should therefore be clearly spelt out in the laws establishing the respective schemes. Protecting the rights of the beneficiaries is the main responsibility of any social security scheme and benefits should be paid promptly. Mechanisms for appeal should be established in law so that aggrieved contributors and beneficiaries can pursue their rights.

### **2.3.1 Record Keeping in Social Security Systems**

The quality of record-keeping has a huge impact on all aspects of the administration of pension schemes. The providers, members, administrators, trustees, actuaries, auditors, advisers and employers all have an interest in scheme records (The Pensions Regulator, 2008). Leaving aside legal obligations, in the regulator's view it is a fundamental requirement of good administration that members can be told the value of their pension rights. This is dependent on accurate records being maintained (The Pensions Regulator, 2008).

The Pensions Regulator (2008), claim that while the need for good records is present in all financial services, a number of factors make good pension scheme records particularly important, including:

Length of time for which pension scheme records need to be kept because benefits from pension schemes are usually not received until many years after the payment of the first contribution hence the length should be large enough .A good pension scheme records should accommodate many transactions because pensions Funds have many transactions .A records system should be flexible to change according to changes of schemes rules because the scheme rules can be amended in order to cchange with the environment. Legislative changes affecting the nature of the benefits ultimately payable by members' failure to advise scheme administrators of changes in personal circumstances (e.g. change of name or address).

Keeping the records, ensuring the compliance of employers and employees, organising an effective control of the agencies and in terms of the regulatory structure demands a well-functioning administrative structure. In many developing countries, however, these arrangements are far from functioning properly (Gillion 1997).

The pension scheme in Tanzania is large and complex to administer. It involves extensive policy formulations and consultations within the Central and Local governments and with numerous special interest groups such as trade unions and others. It also involves running one of the most important service operations in the government (public sector), maintaining an enormous computerized record-keeping system, and ensuring that over 15,000 cheques are delivered on time every three months to over 15,000 individuals (NAO, 2009).

## **2.4 Empirical Studies**

Okotoni and Akeredolu (2005) conducted a study on management of pension scheme in the Public sector in Nigeria. The paper examines and analyses the management of pension scheme in the public sector in Nigeria. Using Obafemi Awolowo University, Ile-Ife as a case study, it identifies some of the key problems facing pension scheme in Nigeria and gives an overview of the scheme in the country. Primary data were

generated from questionnaires, personal interviews and telephone conversations. Secondary data, on the other hand, were obtained from official publications, documentations, paper clippings and internet services. The analyses confirm that the regular upward reviews of pensions and gratuities in the country without appropriate strategies for financing the scheme has become a major problem, which calls for immediate solution in order to alleviate the current sufferings and hardships of retirees in the country. The paper also confirms that the Insurance companies were scored low on their performance role in the public sector pension scheme. The paper recommends that viable investment of pension fund should be embarked upon in order to ensure prompt and regular payment of entitlements of retirees and pensioners. The paper concludes that a well-organized pension scheme that will ensure prompt payment of retirees and pensioners is highly desirable and this must be vigorously pursued by government.

#### **2.4.1 Benefit Payments in Tanzania**

In Tanzania benefit payments started even before Independence. Records show that, social security benefits started during colonial administration and it means that social security system inherited from colonial administration. History shows that schemes of the nature of income maintenance to employee were established on an incremental scale, beginning with a savings scheme and followed by the employment injury, and finally the civil pension scheme. Those schemes were established for the purpose of providing social security benefits to the members (PSPF, 2010). For example, Provident Fund (local government scheme). This schemes on which the present scheme currently in used is based, was introduced in 1944 as a compulsory saving scheme. That scheme was providing benefit to members whose benefits paid was made up of the saving made from employee and employer contributions (PSPF, 2010).

The position is still the same today with the exclusion of bonus, which was abandoned since 1961. The scheme also included survivorship benefits which were paid to the deceased estate and the provisions are still enforcing today. Also there was another

scheme, known as “workmen compensation scheme” introduced in 1949 the scheme applied and still applies to any employment. The cost of paying this kind of benefits was and is still borne by the employer. Further, we had “Civil service pension scheme” introduced in 1954. The main objective of the scheme was to determine the pension (social security benefits) to be paid to retiring Civil servants. The scheme still exists and providing benefits relating to retirement pension, gratuities and other allowances (PSPF, 2010).

After Independence in Tanzania continue to provide different social security benefits through different social security schemes. For example “National Provident Fund” was established in 1964. This scheme provide benefit which including contributions for employee and employer with accrued interest. But now this scheme from 1997 is no longer a provident fund is already converted to social insurance scheme and changed the name which known as National Social Security Fund (NSSF). We have another schemes “Parastatal Pension Scheme” established by an Act of Parliament in 1978. The scheme also provides benefits related to retirement pension, gratuities, pensions and other allowances, which may be granted to a member or his dependents (Msalangi, 1998).

#### **2.4.2 Approaches Used in Providing Terminal Benefits**

Literature review shows that benefit payment mostly provided under pension schemes although there are other social security benefits provided under Government/ state institution depending contingencies covered and policy of that state.

There are five methods of providing pensions. Payment of pension by the employer out of his current earnings without any guarantee of their continuance, this imply the high the earning the high the pensions to employees. Purchase by the employer of immediate annuities from an Insurance company at or after the date of employee’s retirement. Privately administered Pension scheme employer and employee contribute into a fund, which administered under the administration of trustees; through this employee

contribute certain percent of his/her gross or basic salary and employer also contribute certain percent of employee gross or basic salary. Private savings e.g. Post Office or Bank deposit, Investment in property, life Insurance policies, and annuity contracts and through Insured pension schemes, group life or term assurance, group endowment assurance, group Annuity Scheme (Mwandu, 1995).

Methods of providing benefits mostly depending contingencies covered and principle applied, for example, the range of contingencies to be covered by social insurance should embrace all contingencies in which an insured person is prevented from earning his living, whether by liability to work or liability to obtain remunerative work, or in which he dies leaving a dependent family, and should include certain associated emergencies generally experienced which involve extraordinary strain on limited incomes, in so far as they are not otherwise covered benefit provided by social insurance may be closely adapted to the variety of needs; contingencies covered should be classified as follows: sickness, maternity, invalidity, old age, death of bread winner unemployment, Emergency express and Employment injuries. Under social assistance, society should normally co-operate with parents through general measures of assistance designed to secure the well-being of dependent children, Invalids aged persons and widows who are not receiving social insurance benefits because they or their husbands, as the case may be were not compulsorily insured and whose income do not exceed a prescribed level, should be entitled to special maintenance allowances at prescribed rates. According to ILO (1944), Recommendation No. 67

The development of benefits shows that under Old Age, Survivors pension, and Disability Insurance (OASDI) scheme in U.S.A, now provide more different social security Benefits than when started in 1937, provides a monthly retirement benefits for retired workers, monthly Disparity benefit for a disabled worker, monthly spouse's benefit for a retired or disabled worker's spouse if at least 62 years old, monthly child's benefit for a retired or disabled worker's child if the child is under 18 years or age 18

and a full time high –school, age 18 or over and disabled if the disability began before age 22. The requirements for a person to qualify retirement benefits are, he or she must be fully Insured, he/she is at last age 62 through the first month of entitlement, and he/she has filed application for retirement benefits (Thomas, 1999).

Through development of benefit payments around the world shows that mostly social security benefits provided under pension system. For example, pension system in the countries of the European Union differ in many aspects such as coverage, financing, qualifying conditions, extent of public involvement, level of old age and survivor benefits, and type and level of minimum pension (For example U.S. social security administration 1995, European Economy 1986, and Ploug and Kvist 1996). While there is little uniformity in those rules essentially there types of systems can be identified. First, corporatist pension scheme, which offer a contribution related old age benefit and survivor benefit to the employment. Second, universal pension scheme which offer basic old age benefit and (usually tax financed). Third, mixed systems which offer a basic benefit and a (smaller) supplementary contribution –related old age benefit and survivors benefit. Corporatist systems focus on maintaining the standard of living (after retirement and after death of the insured spouse, universal system on securing a basic income in old age and mixed systems on combinations of both (Thomas, 1999).

Living standard maintenance is the main element of the Bismarck Social Security philosophy while avoidance of poverty is the major goal of the Beveridge approach, (Flora et.al, 1997). Other country like Norway establishes National Insurance Scheme (NIS) and Child Allowance Scheme. These schemes established under National Insurance Act of 17 June 1966 as a Social Security Schemes which financed by contribution from employee, self-employed persons and other members, employers contribution and contribution from the state. Under NIC they have 12 social security benefit granted to the beneficiary, Old age Pension, Survivors benefit, Disability benefits, Rehabilitation benefits, Medical benefits during sickness and maternity, Daily

cash benefit in case of sickness, Daily cash benefits in case of maternity unemployment benefits, occupational injury benefits, Benefits to single parents, Funeral Grant and Child Allowance. (Bedee et.al, 1995)

In Portugal, the Portuguese social security system is a public system set up directly by the Government that covers all individuals living in Portugal. But the social security contribution is compulsory and contribution regarding employed individuals calculated on the Gross remuneration received on a monthly basis at a rate of 34.75 percent (23.75% in due by the company and 11% by the employee). Social security benefits provided by this scheme are old age pension Disability pension, sickness allowance, unemployment benefit and family allowances (Bedee et.al, 1995).

In Netherlands they have statutory social security system that consist three schemes, Employee insurance scheme which employees are entitled to a benefit in case of sickness, disability, unemployment and medical expenses. National Insurance scheme which each resident of the Netherlands is entitled to a benefit in case of disability, old age, death, exceptional medical expenses, and child support. Social benefits scheme. Under this scheme it does not have a general basis. The benefits are Income support benefits, benefits for elderly long-term unemployed persons, scholarship for students and supplementary benefits. These financed from General fund. The employee insurance scheme and National Insurance scheme, financed through contributions paid by insured persons, (Bedee, et.al, 1995)

The development of benefit payments in Tanzania, established different social security schemes, which the membership mostly based on, employed people. All schemes established under the Act of Parliament as corporate bodies, and each Act stipulates clearly who will be the member of each scheme established and what kind of contingencies covered, benefits provided and qualifications required to qualify for such benefits. For example, the “Public Service Pension Scheme” established under Public

Service Retirement Benefits Act No. 2 of 1999. The scheme covered all employees of Central Government and Government Agencies who employed under permanent and Pensionable terms. The benefits conferred under PSPF are old age, invalidity, death gratuity and survivors pension, funeral grants, and withdrawal benefits (PSPF, 2010).

The studies by Diamond et al (2007) are the only studies that follow the same people over time 14, that strategy allows them to use several different observations of income in constructing social security variables and several observations of assets in constructing the wealth variable. The multiple observations per person should lead to smaller data errors and more accurate estimates.

Diamond et al (2007) do not, however, calculate an explicit social security wealth variable; instead they base their empirical estimates on the projected level of social security benefits. They then roughly estimate an effect of social security wealth on private wealth of between -0.25 and -0.40. Bernheim uses the more common formulation, with a variable for Social Security wealth, and finds that one dollar of Social Security wealth reduces private wealth by 77 cents. However, Bernheim uses a relatively small number of variables in his regression equation. Furthermore, a statistical measure indicates that his equation does not explain much of the variation in wealth in his sample. Those two facts suggest that his regression equation may be missing important variables, which could bias his results in an unknown direction.

The studies calculate social security wealth in different ways, but they share the same general strategy. First, future benefits must be forecast both for retirees and for those still working. Researchers generally make the forecast by taking the information available about earnings (and other variables such as education that might affect earnings) and using it to estimate past and future earnings. Then they project future benefits using the estimated earnings together with the current formulas for determining social security benefits.

Although the cross-section studies are fairly uniform in that general strategy, different methods of projecting future earnings or other variables could lead to different estimated benefits. For example, research using time-series data indicates that the method used to calculate future benefits can have a large impact on the estimated effect on saving. However, there has been no comparable investigation into the effect of different methods of calculating benefits on estimates for cross-section estimates.

Social security wealth is then calculated using the estimated benefits. That requires discounting future benefits to an equivalent lump-sum amount paid today. A dollar 30 years from now is worth less than a dollar today even without inflation, because a dollar today could potentially earn interest for 30 years and grow to a much greater amount. How much greater depends on the interest rate (or “discount rate”) used in the calculation. A higher discount rate will tend to result in a lower calculation of Social Security wealth. Although many of the studies use a 3 percent real (inflation-adjusted) discount rate, several do not specify the rate used. The studies by Dicks-Mireaux and King use a 2.5 percent discount rate; Avery, Elliehausen, and Gustafson use a 6.85 percent rate in calculating their measure (which is also used by Gullason, Kolluri, and Panik, 2001).

Social security wealth may also differ for people with the same average income if the pattern of their earnings is different. Those whose income tends to fluctuate a great deal from year to year could have lower social security wealth than those whose income is more stable, even if the average income is the same (because of a cap on the earnings used to calculate benefits). However, people with fluctuating income may also wish to save more to tide them over lean periods. Once again, high private wealth might be correlated with low social security wealth even if social security had no effect on saving.

The age of retirement is 55 years’ voluntary and 60 years compulsory (Sec 17). Other scheme is Parastatal Pension scheme established under pension Act No. 14 of 1978. This

scheme covered all employee of parastatal organization employed on permanent terms and self-employed as the act amended 2002. The benefits conferred under this scheme are old age benefit, death gratuity and survivor's pension, withdrawal benefits. Also we have National Social Security Fund established under Pension Act No. 28 of 1997. This scheme covered persons who are self employed or employed in the private sector, none Pensionable employee in the government service and Parastatal organization (Sec 6). The benefits payable under this scheme are retirement pension, invalidity pension, survivors pensions, funeral grants, maternity benefit, employment injury benefit and health insurance benefits (sec 21).

#### **2.4.3 Problems of Terminal Benefits Payments**

Literature review shows that social security members facing many problems. For example some of them facing problems relating to administration, lack of knowledge about social security service, poor record keeping by employers, members complaining about long and complex forms, detailed evidence needed, and bad experience with officials. Other providers who operate under social assistance system, members complaining about stigma associated with means, testing, degree of cultural resistance to claiming amongst some ethnic minority annuities (Divine and Vawe 1998). Another problem is lack of knowledge amongst potential claimants about complex eligibility, criteria (who is eligible, on what sort of income level, how saving is treated and so forth). (Fimster,1995).

Oliver (2005) explained clearly the problems facing members of social security scheme in Africa. He said that most of the members complaining about inadequacy of benefits, delays in payments, lack of up to date information about the scheme and amount of individual contributions made and estimated benefits and that cause the members fails to claim benefit as they are unaware of their entitlement or the procedure to do so. Also he continued to explain that some other members have difficulties in accessing the relevant

fund since the fund have not extended their operations especially for members living in the villages.

Today, pension payments to retirees have been and continue to be a big problem in Tanzania, which requires immediate attention. Most of old age people who served in the public sector are dependent on the terminal benefits as their major source of income after retiring from public services. However, there are problems in the processing of terminal benefits of retirees. This is following an outcry of many people who have been retiring from public service employment. (PO-PSM) being the overall overseers of pension funds on behalf of the government have not to a large extent fulfilled their responsibilities of ensuring the processing of terminal benefits of retirees on time and without recourse to duress. Specifically, there is increasing number of retirees waiting processing time (NAO, 2009).

Together with that pension fund's system of keeping records is appallingly inefficient and ineffective this is due to poor record keeping by pension funds, The processes to finalize terminal benefits of retirees continued to be problematic which in consequence hinders the retirement system's ability to fulfill its mission and inordinate delays in processing retirees' benefits. This problem can be addressed by revamping the existing pension system in the country. There is lack of clearly defined awareness programs by the two main employers the MoFEA and PO-PSM (NAO,2009).

Employer's system of keeping records is appallingly inefficient and ineffective. The employers failed to properly manage and control the necessary documents for the processing of retirement benefits of their respective employees resulting in reciprocal delays and trading of blames between the funds and the employers. In addition, MoFEA and PO-PSM as main employers have not taken any tangible action to ensure efficient processing of terminal benefits is instituted despite the fact this is a known and repetitive problem throughout the period of the audit (NAO, 2009)

However, most of the country's social security systems around the world will go bankrupt, in future and the main reasons are the increasing of retired people and decreasing those gainfully employed. Since the life expectancy increased in many countries, caused to have a large number of elderly, which caused the continuing social security deficit. For example in USA they have already predict that the entire social security system will go bankrupt in 2029 although it may happen critical year could be as early as 2013. Also in France there is continuing social security deficit and the crucial question of retirement in France increase of retired people is a major problem. The same in Finland there is a strong increase in ageing people (Bedee, et.al, 1995).

## **2.5 Research Gap**

There have been a number of researches done on the terminal benefits payments approaches and how to improve the schemes of pension fund in the world and in Tanzania as a country. Despite a number of studies on terminal benefit payment practices; literature is limited on practices within the poor counter context for which Tanzania is. Also existing literature surprisingly limited on analysis of factors that causes delays in terminal benefit payments. Apart from this most of the studies seems to have been conducted more than ten years ago hence it is necessary to conduct a study to evaluate if there any changes in practice and what are the likely problems facing terminal benefit payment's practices.

## **2.6 Conceptual Framework**

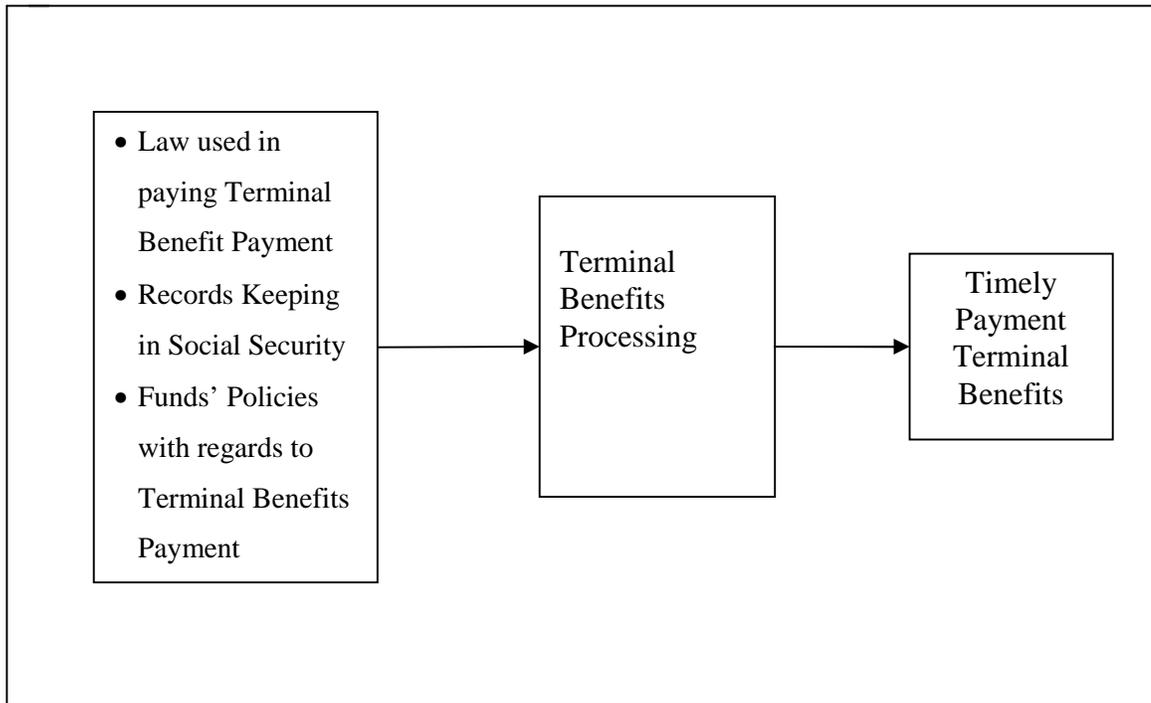
For research purpose, it is necessary to distinguish clearly between the two major forms of variables; the dependent and independent variables. The relationship among the study variables and plan for selecting the sources and types of information to be used in answering the research question is important.

This figure 2.1 shows that there is a direct relationship between the independent variables and the dependents they are interrelated and there is no way they can be

separated. One of them will be the leading factor influencing the others. The relationships which exist between variables is that the factors of terminal benefit payments (independent variables) cause effect to terminal benefit payments. Dependent variables are variables that researchers measure in order to establish the change or effect created on them, a dependent variable waits for the effect of an independent variable.

A dependent variable is one which depends upon or is a consequence of the other variable (Kothari, 2000). Usually there is only one dependent variable, and it is the outcome variable the researcher is attempting to predict. It is therefore that, terminal benefits processing is the dependent variable in the study. Variation in the dependent variable is what the researcher is trying to explain while the independent variables are also known as the explanatory variables. These are the factors that the researcher thinks explain variation in the dependent variable (Kothari, 1999). The independent variable is the circumstances or characteristics which the researcher can manipulate in his effort to determine what their connection with the observed phenomenon is. This means that the researcher has direct control over the variable. The independent variables in this study are law used in paying terminal Benefit payment; records keeping in social security; and, funds' policies with regards to terminal benefits payment to pensioners. The expectation from having these interventions working properly is timely payment of terminal benefits.

**Figure 2. 1: Problem Modelling**



**Source:** Developed by Researcher, 2013

It should be noted that record-keeping is a fundamental daily activity of any scheme and is relevant throughout a scheme's lifecycle. Incomplete and inaccurate records and poor financial management controls can place significant risk on the security of scheme assets. A lack of control over scheme records can have member implications for various schemes operated by these trustees. The costs and time needed to rectify apparently simple errors can be considerable, and can be easily avoided. The risks associated with inaccurate data, for example incorrect benefit calculations, can have short and long-term implications for schemes and beneficiaries. Throughout a scheme's lifecycle, Social security organizations (trustees) need to ensure that accurate and complete membership data and records are maintained. This includes basic information such as a member's

date of birth, date of retirement, and National Health Insurance number. Trustees must be confident that controls ensure data is accurately recorded, regularly reviewed and all data fields are complete. Thus, if all records are in place then it is possible to observe timely payment terminal benefits.

Also most pension and provident schemes are defined contribution schemes (that is, the value of the pension benefits are not defined but depend on the contributions and investment returns). Also each institution (Social security organisation in Tanzania) has internal policies which have been established by the Laws. These internal policies guide the payment of benefits of the members concerned. Also the National Social Security Policy of 2003 is a critical guidance in the formulation of internal policies of each institution. Although it is not clear to what extent or depth the document (The National Social Security Policy) has been updated since it was first drawn up, what it says about the objectives of social security services generally tallies with what social security institutions in existence in the country give as their vision or mission. Some of the explanation is obvious, such as that social security covers a wide variety of public and private measures meant to provide benefits when individual members are unable to avoid poverty after their income-earning power ceases or is otherwise interrupted. The document elaborates on the key elements of the social security system in Tanzania, among them non-contributory schemes catering for people with disabilities, elderly people and unsupported parents and children unable to fend for them.

Thus, if all policies are clear and known by members then it is possible to observe timely payment terminal benefits.

Further more employers provide access to pension or provident schemes the rules for each scheme specify the basis on which contributions are made and calculated. Usually both the employer and employee pay contributions to a pension scheme. There five Pensions Fund in Tanzania and all institutions have been established by law, collect workers' contributions, manage the funds, and provide relief money during moments of

need like sickness, injury, pregnancy, post retirement period and even when death strikes. Of course some of the fore-mentioned activities are easily said than done by our social security institutions as past experience have, unfortunately, clearly shown. We have had cases where some of the social security and pension institutions have misused, misallocated, and even wrongly invested members' money, to the point of failing to provide timely benefits to owners while in need, as specified in the contracts between the two parties.

This, is what social security is about. ILO Convention No. 102 of 1952 which is yet to be ratified in Tanzania prescribes nine benefits which are old age, sickness, disability (invalidity), survivors, maternity, employment injury, unemployment, health care and subsidies for families with children. Of these, the basic benefits are old age, disability (invalidity) and survivors. These benefits are also included in the social security organisations in Tanzania and thus observing and adhering to the guiding principles governing the payment of social security in the world.

In order to provide more and substantial benefits to members, social security institutions are expected to invest some of the collected funds in viable economic activities so as to generate profit and expand the capital in the interests of their members. Thus observing and adhering to the guiding principles then it is possible to observe timely payment terminal benefits.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter covered methodological component of the work. Research methodology refers to a systematic way that is applied to solve the research problem (Kothari, 1999). This chapter is mainly about the discussion and justification of the various methods and techniques that were preferred in getting the sample, collecting data and lastly making the analysis. The sections under this chapter are; research design, justification for the area of the study, and sample and sampling procedures. Other areas of concentration in this chapter are techniques involved in data collection and the analysis

#### **3.2 Research Design**

This study used both qualitative and quantitative methods in order to expand an understanding from one method to another, and to converge or confirm findings from different sources of data. This situation leads to what various authors referred to as multi-strategy research (Bryman, 2004). The primary focus of this approach is the use of multiple approaches in answering research questions, rather than restricting or constraining researchers' choices. The qualitative approach was the dominant method because it was an effective method in studying and understanding human action in its natural settings (Babbie, 2001) It is regarded as providing better understanding of complex situation, which is social in nature than quantitative method and hence providing a more holistic picture. The design of the study consisted of asking questions to a representative of the population at a single point in time where instruments like questionnaires, focused-group discussion and interview methods were employed. The design is appropriate for descriptive purpose and determination of relationship between the variables.

### **3.3 Research Strategy**

In order to comprehend the objectives of the study, PSPF, LAPF and GEPF which are three among five Pensions Fund in Tanzania were used for prior development of theoretical prepositions for data collection and analysis. According to Yin (1994), case study benefits from prior development of theoretical prepositions that used to guide data collection and analysis.

In this study PSPF, LAPF and GEPF was selected bearing in mind the available time and resources. The planned study completion time was very short, which could not be adequate to conduct a comprehensive study with multiple cases or a major case with sub-cases. In addition to that, multiple cases could require more resources in terms of finance and logistics. A decision is therefore, to select a single case where concrete information will be sought and analyzed considering time and other resources available.

### **3.4 Research Population**

The study was conducted in the social security sector. Thus, the population under the study included beneficiaries as well as funds' officials who deal with clients and terminal benefit calculation of three Pensions Funds in Tanzania Public Service Pension Fund (PSPF), Government Employees Pension Fund (GEPF) and Local Authority Pensions Fund (LAPF). These three Pensions Fund was selected bearing in mind the available of time and resources.

### **3.5 Sample and Sampling technique**

Sample for this study were drawn from three Pensions Funds; Public Service Pensions Fund (PSPF), Local Authority Pensions Fund (LAPF) and Government Employees Pensions Fund (GEPF). These are three Pensions Fund among Five Pensions Fund available in Tanzania, the selection of these three Pension Fund is purposely due to access of data and represent more than 50% of Pensions Fund available. The sample population was selected from a list of retired persons on these funds based on the

availability of respondents in the course of action. Also, the researcher employed purposively sampling technique to facilitate the process of choosing respondents who suited the objectives of this research. The purposively sampling was employed with the focus of selecting respondents from the list of retired members of social security funds in Tanzania who are directly involving themselves in terminal benefits payments, particularly those were in line of getting their benefits during the field survey

The study was conducted in selected Social Security Funds in the country; PSPF, LAPF and GEPF. Thus, the population included beneficiaries as well as funds' officials who deal with clients in the whole aspect of terminal benefits payment. The researcher selected a total of 70 respondents from members/retired persons and 10 respondents among of the Pensions Officers in the mentioned funds through sampling method that totalized 80 of respondents.

### **3.6 Data Type and Collection Method**

In this study both primary sources and secondary sources of information was used because of its important to the study but the study relied mainly on primary source of data .The primary source were used because data are collected exactly to the data element that is needed to answer research question hence irrelevant exclusion criteria are not a concern, It ensure data quality by controlling data collection process by minimizing the number of missing values of assess the reliability of instruments, It avoid the tendency of secondary data to dredge for research questions in steady of developing research questions based on real knowledge deficits. Secondary source of data was used because it is less expensive to collect compare to primary data, it takes less time to collect and the accessible population for primary data sometimes is less representative of the target population than for secondary data.

Primary data was collected by means of structured questionnaire, face to face interview and telephone interview specifically for the purpose of answering research question. Questionnaire was most used because was sent to a large number of people hence saves

researcher time and money. They are a valuable method of collecting a wide range of information from a large number of individuals. During the study questionnaire mailly was given to retirees. The retirees were given the questionnaire and return to researcher after two to three days, and some of them was requested researcher assistance hence researcher presence for question clarification. Refer to the attachment appendices 1-2

Interviews were conducted and amongst the interviewees included members and 10 Funds' officials from PSPF, LAPF and GEPF in order to fill information gaps. These are key informants for this study where by formal discussions and consultation was undertaken by the researcher. It is used because helped researcher to establish rapport with potential participant's and therefor gains their cooperation, interviews yield highest response rates in research, allow researcher to clarify ambiguous answers and when appropriate, it is less time consuming and less expensive and allow researcher to has ready access to any one on planet. The interviews were conducted in two ways; face to face interview and telephone interview

Secondary data was collected through a review of relevant information/published documents on, terminal benefits in Tanzania and globally i.e. performance audit report on processing terminal benefit of retirees (NAO,2009),Public Service Retirement Benefit Act (Cap 371),Local Authorities Pension Fund Act (No.9 of 2006) . Other information gathered from key institutions involved in the design, in an attempt to demonstrate for those themes and hypotheses that they are supported data collection and conditions under which they hold the truth (Barley and Status, 1985).

### **3.7 Data Analysis and Presentation**

Data analysis needed first because it inspecting, cleaning, transforming, and modeling data with the goal of discovering useful information, suggesting conclusions, and supporting decision making. Data analysis has multiple facets and approaches, encompassing diverse techniques under a variety of names, in different business, science, and social science domains. In this study, data collected and analyzed were

presented by using percentages and forms of graphical tables and histograms. Moreover, quantitative data were merged to the qualitative data set in order to provide support to the results of qualitative data set. Further, most of the qualitative data was transformed into quantitative data to provide support to the results of qualitative data set (Creswell and Plano-Clark, 2007).

Data analysis techniques assimilate evidence in order to obtain answers to the research questions. Data were collected, categorized, computed and arranged into the evidence required to answer the questions. Two approaches were used, Quantitative and qualitative techniques. Qualitative Technique summarizes qualitative data by pinpointing key findings from interview, questionnaires and observations. Then presentation was done through explanations and quantitative Technique under this numerical, data were presented through use of tables and figures in order to support qualitative data assessment.

Both qualitative and quantitative analytical approaches were employed to analyse the data. The descriptive and statistical analyses were conducted basing on data and information collected from primary and secondary sources descriptive statistics were used to describe the basic features of the data in this study. They provide simple summaries about the sample and the measures. Together with simple graphics analysis, they form the basis of virtually every quantitative analysis of data. Descriptive Statistics were used to present quantitative descriptions in a manageable form. For instance, we have simple graphs, pie chart and so on in this research study.

### **3.8 Validity and Reliability**

The issue of validity has been addressed by ensuring that question content in the data collection instruments (interviews, observation) directly concentrated on the research objectives.

The study addressed external validity through various means. A sample selected allowed for a subject to be viewed from all relevant perspectives. Further, this study was able to ensure the validity of the findings through a quantitative survey of the semi-structured interviews, where the categories counted were derived from the theoretically defined concepts. According to Silverman's (2006), simple counting techniques, theoretically derived and ideally based on participants' own categories can offer a means to survey the whole groups of data, test and to revise their generalizations, and removing doubts about the accuracy of their impressions about data.

The reliability in this study has been ensured through "Test-Reset". This looked at the stability of the responses over time for the group as a whole (Fink and Kosecoff, 1985).

Reliability was also maintained in data analysis by checking for consistent patterns of theme development among two research assistants as suggested by Creswell (2003). The instruments were administered in a consistent fashion. Further, to the extent that subjective judgments were required, specific criteria were established that dictated the kinds of judgments the researcher makes (In addition, thick descriptions of the qualitative study findings were provided to maximize the transferability of the study findings and inferences to other people and settings which are similar to the context of the present study Creswell (2003).

## **CHAPTER FOUR**

### **PRESENTATION AND DISCUSSION OF THE FINDINGS**

#### **4.1 Introduction**

The focus of this study was to find out the factors influencing delaying of terminal benefit payments for Pensions Fund in Tanzania. The populations of this study were drawn from members/beneficiaries, expected beneficiaries and staffs of three Pensions Fund in Tanzania namely the Public Service Pensions Fund (PSPF), Local Authority Pensions Fund (LAPF) and Government Employees Pensions Fund (GEPF). The above Pensions Fund has been selected due to the fact that they have a large number of Members and the rate of retirement is considered to be high. Questionnaires were given to respondents to get the data required for this study together with interviews and formal discussion.

This chapter focused on presenting and analysing the facts gathered from the respondents. The presentation data as well as description of the findings were guided by the research questions stated in chapter 1, after which the data collected with regard to each of the questions are descriptively analysed in tabular form

#### **4.2 Demographic Characteristics of Respondents**

Demographics are the quantifiable statistics of a given population. The demographic characteristics considered in study included age, education and sex. It was important to consider the demographic characteristic of respondent in order to know the literate level and identify the proportion of retirees and those who have not reached retirement age.

It was crucial for the researcher to capture the age distribution of the respondents in order to identify the proportion of retirees and those who have not reached that age. The findings as depicted from table 4.1 below show that majority (40%) of the respondents were above 55 years which reflect a group of retirees. In this kind of study this group it gives the real situation about the whole issue of terminal benefits. Those fall under 18 –

45 years represent members of Pensions Fund and expect to receive their terminal benefits more than ten years and 46 – 55 years group, represent a group of employees who are members of Pensions Fund and expect to receive their terminal benefits payments not more than ten years to come when they attain retirement age.

**Table 4. 1: Respondents’ Age Distribution**

<b>Years</b>	<b>Frequency</b>	<b>Percent</b>	<b>Cumulative Percent</b>
18-45	19	27	27
46-55	23	33	60
55+ years	28	40	100
<b>Total</b>	<b>70</b>	<b>100</b>	

**Source:** Field data, 2013

It was crucial for the researcher to capture the sex distribution of the respondents in order to identify the affected group between male and female. Also to know the group which have a tangible hope for their future through social security schemes, due to the fact that all people throughout all of human history have faced with socio-economic risks and uncertainties in human life form the basis for the need of social security and the main objective of any social security scheme is to secure the income security for majority of the citizen to ensure that they have an acceptable standard of living.

The findings from the field show that large numbers of respondents are male (about 61% of all). This reflects that male are faced or affected with the process of terminal benefits payments in Tanzania compare to females. Moreover this imply male have covered by the mandatory formal social security system compare to female hence female faced with high socio-economic risks and uncertainties in life in their future because many of them they not covered with social security scheme. Table 4.2 shows the findings about sex of the respondents.

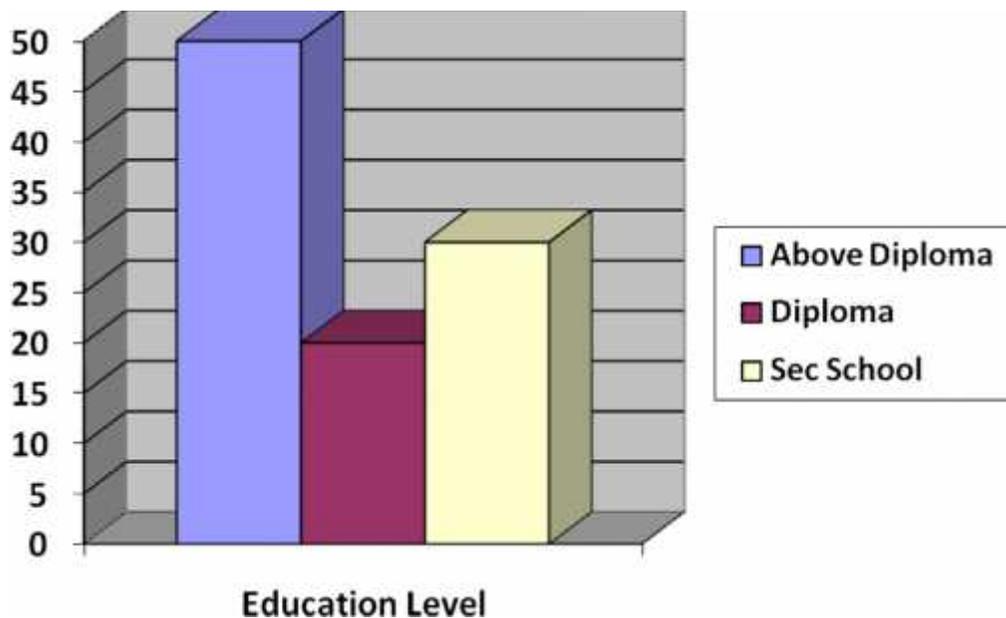
**Table 4. 2: Sex of the Respondents**

	<b>Frequency</b>	<b>Percent</b>	<b>Cumulative Percent</b>
Female	27	39	39
Male	43	61	100
<b>Total</b>	<b>70</b>	<b>100</b>	

**Source:** Field data, 2013

It was crucial for the researcher to capture the education profile of the respondents in order to identify the literate level of respondents. Formal education level gives the guarantee that if there is sensitization program regarding certain program the one with the level of education equal or above secondary education is simple to understand compare to the one with low education level. The study revealed that majority (70%) of the respondents are educated with education level equal or above Diploma level and about (30%) hold secondary school certificate. Figure 4.1 here below show the finding from the field.

**Figure 4. 1: Education profile of respondents**



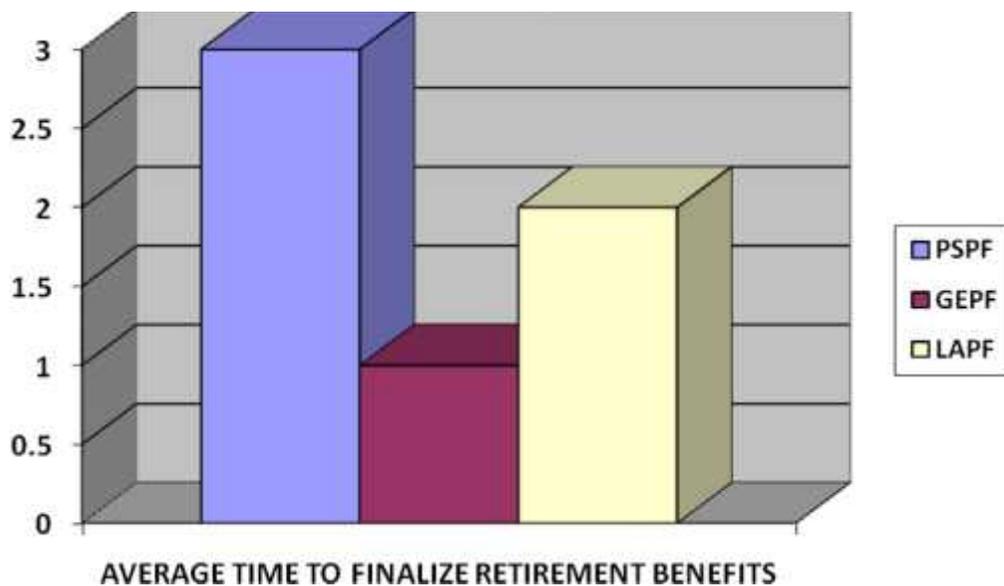
**Source:** Field data, 2013

This reflect the fact that, all respondents are literate enough to know their rights regards terminal benefits though it is not a guarantee that they will be able to follow and adhere to the procedures laid down.

#### 4.3 Factors causing delay of terminal benefit payments.

This study focused on answering what factors contribute to the delay of terminal benefits payments in Social security funds, due to the fact that over the several years now the process of finalizing retirement benefits for retirees takes long time. The study below show that it takes 3 months, 2 months and 1 month for PSPF LAPF and GEPF respectively to finalize retirement benefits to their members(NAO,2009 Performance Audit Report on Pensions Fund),(GEPF Performance Appraisal Report). As indicated by figure 4.2

**Figure 4. 2: Average of Benefits Payment**



**Source:** Field data, 2013

#### **4.3.1 Law used in paying the Terminal Benefit Payments to Pensioners in Tanzania**

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

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

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

However, indicated problems discussed suggest that there are problems in the processing of Terminal Benefits of retirees. This is following an outcry of many people who have been retiring from public service employment. The purpose of this study identifies the reasons on problem of processing terminal benefits of retiree in Tanzania. The aim was also, to evaluate the adequacy of systems and procedures in place for managing terminal benefits.

It was important to measure the awareness of respondents regarding terminal benefits payment in Tanzania, mechanisms or system in the Payments of Terminal Benefits and awareness of Laws and Regulations with regards to Terminal Benefits Payments in order

to be in a good position to find the solution for delay of processing terminal benefits payments.

The study revealed that majority of the respondents are aware of terminal benefit payment in Tanzania by 90 per cent as shown by the table 4.3. The awareness of terminal benefit payments have the direct relation with the literacy level of responded. The fact that 80 per cent of respondents are educated lead to finding in table 4.3, table 4.4 and table 4.5 which shows that majority of the respondents are much aware of terminal benefits payment, regulations and legal framework with regards to terminal benefit payment in Tanzania.

**Table 4. 3: Awareness on Terminal Benefits Payments in Tanzania**

	<b>Frequency</b>	<b>Percent</b>	<b>Cumulative Percent</b>
Yes	63	90	90
No	7	10	100
<b>Total</b>	<b>70</b>	<b>100</b>	

**Source:** Field data, 2013

**Table 4. 4: Awareness of Laws and Regulations with regards to Terminal Benefits Payments**

	<b>Frequency</b>	<b>Percent</b>	<b>Cumulative Percent</b>
Yes	65	93	93
No	5	7	100
<b>Total</b>	<b>70</b>	<b>100</b>	

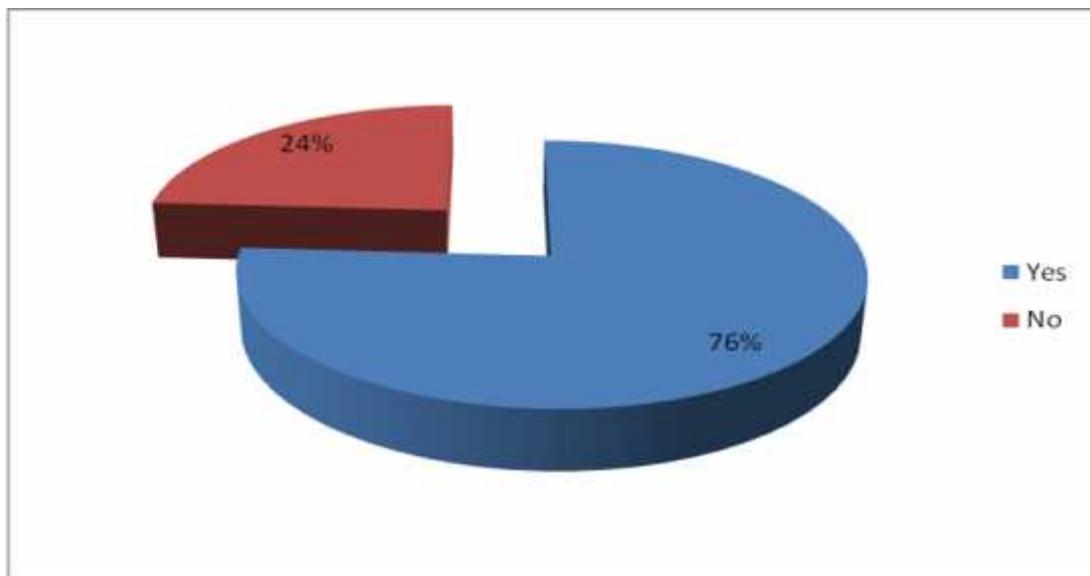
**Source:** Field data, 2013

The another area pointed for analysis is the mechanisms used in the payment of terminal benefits was done with regards to whether there is established mechanisms/systems in the payment of terminal benefits in which the respondents were familiar with. These

mechanisms include Retirement act which govern all the retirement and payment procedure, formula in use with the associated benefit payment system.

Findings in the figure 4.3 show that 76% of all respondents claimed that there are mechanisms/systems, which have been establish in the payment of terminal benefits while only 24% did not agree with it. This implied that, though respondents are aware of the legal framework with regard to the subject matter but still they are not aware of the procedures involved in the whole process. The following table 4.6 shows the multiple responses with regards to the findings shown in figure 4.3 below.

**Figure 4. 3: Establishments of Mechanisms or System in the Payments of Terminal Benefits**



**Source:** Field data, 2013

Meanwhile, when the retired for the first time visit to respective social security fund found his/or her particular in front to desk officer unless there are missing information/documents and required to bring them there. Furthermore, the desk officer

in collaboration of account department would process the benefits payment by using established systems exist such that Benefit Management system, Laiser Fish system and Benefit Payment System. All these systems are internally controlled. At a time every process completed retired person got directives from his employer to brought the check to the respective bank for payment.

**Table 4. 5: Mechanisms or System in the Payments of Terminal Benefits**

mechanisms or system	Responses		Percent of Cases
	N	Percent	
Public service retirements act no 2 of 1999	203	22.3%	270.7%
Benefit Management system	269	29.5%	358.7%
Laser fish	257	28.2%	342.7%
Bank accounts	116	12.7%	154.7%
Benefit Payment system	42	4.6%	56.0%
Smart stream system	25	2.7%	33.3%
<b>Total</b>	<b>912</b>	<b>100.0%</b>	<b>1216.0%</b>

**Source:** Field data, 2013

The table 4.5 shows numerous numbers of mechanisms which have been established with regards with the payment of terminal benefits in Tanzania, This study also focused on finding out whether the systems, which are in place with regards to the payment of terminal benefits function as required by the law. The findings are here below. It is vivid from the field that, about 87% of all respondents are familiar with the requirements which one has to fulfil so as to be paid his/her terminal benefits. That means there are set of requirements which have to be fulfilled before receiving the terminal benefits. The respondents who said to be familiar with the requirements they said, a client has to fill verification form and reliable form like form No. 6, 8 and 9. These are shown in table 4.8 below in a multiple responses from the table 4.8

**Table 4. 6: Response on the Requirements need to be fulfil before receiving the**

**Benefits**

	<b>Frequency</b>	<b>Percent</b>	<b>Cumulative Percent</b>
Valid yes	61	87	87
No	9	13	100
Total	70	100.0	

**Source:** Field data, 2013

As it can be seen in the above table 4.7, almost 71 percent of the respondents they do agree that the systems mentioned in table 4.5 do functions as per requirement. This implies that, if everything is in control then there will be no more delaying in the payment of terminal benefits to the members.

**Table 4. 7: Function of the System as required by the Law**

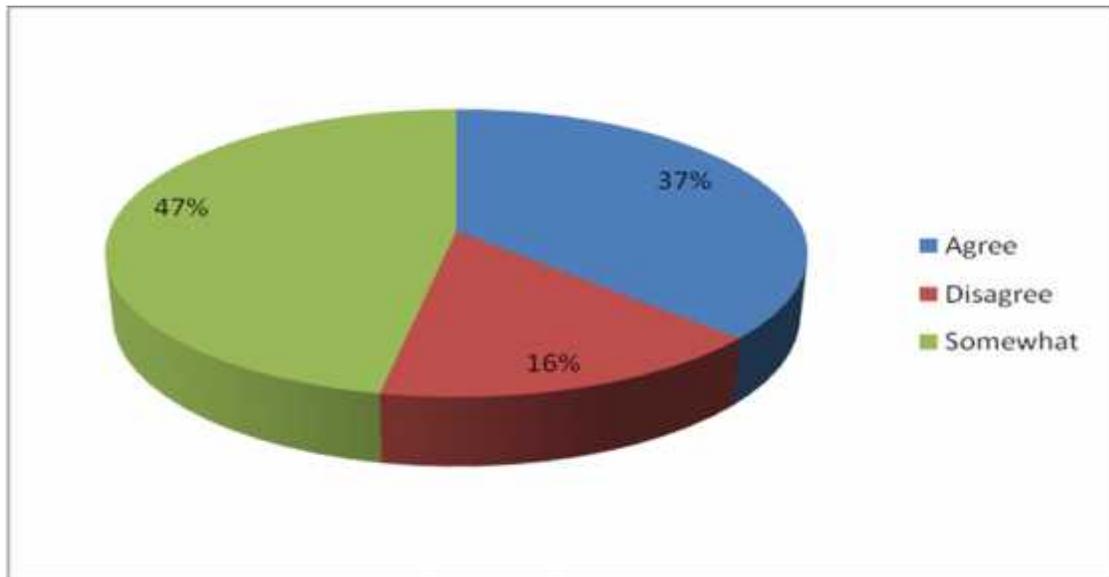
	<b>Frequency</b>	<b>Percent</b>	<b>Cumulative Percent</b>
Valid Yes	50	71	71
No	15	21	92
No Response	5	8	100
Total	70	100.0	

**Source:** Field data, 2013

It was the intention of the researcher to find out how the systems in place operate and what are the perceptions of the respondents with regards to the functioning of these systems with respect to the payment of terminal benefits. Respondents were required to indicate the level of satisfaction whether they strongly disagree/agree, somewhat disagree /agree or they completely refused. The findings from the field show that the level is of satisfaction is above 50% though 16% of all respondents were strongly

disagree with what has already been done hence depicts the need of improving the systems. Figure 4.4 shows the level of satisfaction with regards to how the systems mention in table 4.5 operates.

**Figure 4. 4: Responses on the Satisfaction on the Operationalisation of the Systems**



**Source:** Field data, 2013

There are some documents which are supposed to be in place in order to finalize payment of terminal benefits. Unavailability of these document lead to the delay of terminal benefits payments. With the given table below, attachments of letter of appointments bears the highest response where by 100% of all respondents noted to be very important. While the letter of the first appointment was taken as number one, the last salary slip was only mentioned by one-third of all respondents.

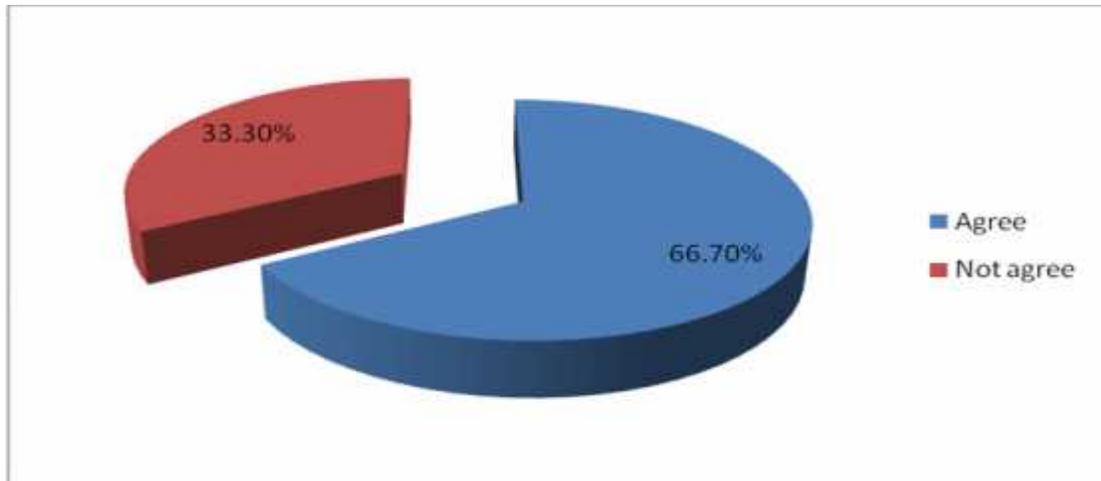
**Table 4. 8: Multiple responses on Number of Requirements for paying Terminal Benefits**

Requirements	Responses		Percent of Cases
	N	Percent	
Attachments of letter of appointments	70	49	100
Provision of retirement notes	49	34	70
Last salary slip	25	17	36
Total	144	100	206

**Source:** Field data, 2013

It was the intention of the researcher to find out the satisfaction level of respondent with regard to the procedures involved into payments of terminal benefits and what are the perceptions of the respondents with regards to the procedure involved in respect to the payment of terminal benefits. Always the complex procedures are not user friend and result to delay of terminal benefit payments to retirees. From figure 4.5, findings show that 67% of all respondents do somewhat agree with the procedures involved in the payment of terminal benefits. This mean that 37% do not agree with the procedure involved in terminal benefit payment. This is not the good sign because it may cause delay of payment for this group.

**Figure 4. 5: Level of satisfaction to the procedures involved into payments**



**Source:** Field data, 2013

#### **4.3.1 Record keeping Practices**

This section answers how pensioner's records are kept in social security fund in Tanzania especially in the chosen funds. The quality of record-keeping has a huge impact on all aspects of the administration of pension schemes. The providers, members, administrators, trustees, actuaries, auditors, advisers and employers all have an interest in scheme records. Leaving aside legal obligations, in the regulator's view it is a fundamental requirement of good administration that members can be told the value of their pension rights. This is dependent on accurate records being maintained.

In order payment to be made for the retirees, the basis of payment should be known i.e date of employment, confirmation date, bank details retirement date, last promotion date and last salary. These details should be supported with their appropriate document such as appointment letter, confirmation letter, retirement note and salary slips. Missing of these supporting document may lead to delay of terminal benefits payments. It is the responsibility of both parties; Employer, employees and Pensions Funds to have efficient system of keeping records. There are legal requirements on employers – as well

as trustees, managers and providers of a pension scheme – to keep records about their workers and the pension scheme used to comply with the employer duties.(NAO,2009)

An employer can use electronic or paper filing systems to keep or store any records, as long as these records are legible or can be produced in a legible way. Most records must be kept for six years; those that relate to opting out must be kept for four years. The records must be produced to the pensions regulator (‘the regulator’), if requested. All trustees, managers and pension scheme providers – and employers where they administer a pension scheme – should also familiarise themselves with the regulator’s ‘good practice’ guidance on record-keeping. (SSRA, 2008).

The general condition is that, the records an employer must keep will enable them to prove that they have complied with their duties. Keeping accurate records also makes good business sense because it can help an employer to avoid potential disputes with employees. Reconcile contributions made to the pension scheme. Good governance, including record-keeping, has always been considered vital to the effective and efficient running of a pension scheme. The regulator has previously produced guidance on the importance of good record-keeping. Although aimed at trustees and professional advisers, employers may find it useful.

According to the Public Service Retirement Benefits Act No. 2 of 1999, for the PSPF, Government Employees Provident Fund (cap 51 of 1942) for GEPF and Local Authorities Pensions Fund Act No.9 of 2006 for LAPF in order to effect payment of retirement benefits, there are some documents which are supposed to be in place in order to support terminal benefits payments to the beneficiaries. These document include appointment letter which show the date of employment which is the base start in calculating the total service period, retirement notes/letter which show the end of employment, confirmation letter which confirm if beneficiaries was confirmed to the permanent and pensionable terms, letter of last promotion and salary slip to look if there

is coloration between last salary paid with his/her last position and filled forms for the request of terminal benefits (FN-6, FN-9 and Claim Forms).

These documents are supposed to be submitted by employers to pensions fund six months before the date of retirement of an employee. According to the interviews with the Funds officials, most of these documents were not submitted on time and employers, reasons for not submitting the above mentioned documents on time were when an employees change a number of employers before retirement or employee firstly employed on a temporary basis and then employed on the permanent terms and employees not keeping the required documents in safe custody for future reference which make difficult for tracing first appointment and a letter of confirmation. For salary slip it is caused by lack of awareness which make an employees not maintaining their salary slip, also employees did not receive their salary slip on time. Retirement acceptance letter is caused by late issuance of notification letter to retirees by employer and poor communication which results in retirees not receiving the letter from employers on time. Letter of last promotion is caused by long promotion process whereby retirees end their services before receiving the letters of promotion and poor communication whereby employees do not receive promotion letters on time.

Overview of record-keeping requirements. After an employer's staging date, they must: keep certain records on aspects of their compliance with the new duties preserve those records produce those records to the regulator, if requested. By law, there are two different types of records that an employer must keep. These are: Records about jobholders and workers e.g. name, National Insurance number, opt-in notice and joining notice Records about the pension scheme e.g. employer pension scheme reference and scheme name and address Most of these records must be kept for a minimum of six years, with the exception of those relating to opt out, which must be kept for four years.

Collecting and storing scheme records. Employers can use their existing business documentation (e.g. payroll records) for the purpose of collecting and storing records, but should note that the notices (an opt-in notice, joining notice or opt-out notice) must be retained in the original format, as this is proof of an individual exercising a right. Copies of the original format, or electronically-stored versions, are acceptable. However, all records must be kept in such a form and manner that they are legible or can be provided to the regulator in a legible format. Employers who outsource business or pensions administration to a third party can continue to do so. They may authorise the third party to keep, preserve or provide the records on their behalf. However, it remains an employer's legal responsibility to ensure these records are kept and, if requested, produce them.

The regulator expects employers to have an appropriate system in place with any service provider to ensure: record-keeping requirements are being adhered to records can be produced to the regulator (if requested) in a timely manner.

According to the GEPF's annual report for the year 2010/2011, the fund recorded successful achievements in paying terminal benefits. Among the four important responsibilities of the Fund is to pay benefit to retirees. Others are registration of members, collection of contribution and investing such contributions to generate income. It is therefore a critical responsibility that the Fund's retirees are paid promptly upon retirement or completion of their employment contracts. During the year the Fund paid benefit to members' amounting to TZS 3,675.46 million which is 10.58% higher when compared with previous year benefits amounted to TZS 3,323.60 million. The benefit paid included transfers to Public Service Pension Fund for members' who graduated to pensionable status. Benefit payment to members has been increasing each year due to numbers of members leaving the Fund and growth in terms of amount paid.

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

In this study the delay in processing terminal benefit has been made for the three selected Pensions Fund in Tanzania which are Public Service Pension Funds, Local Authorities Pensions Fund and Government Employees Provident Funds. The Public Service Pension Funds (PSPF) was established by the Public Service Retirement Benefits Act No. 2 of 1999 to provide for contributions to and payment of pensions, gratuities and other benefits in respect of the service of officers in the Public Service and to provide for the related matters. The Act applies to Public Service employees in Tanzania including those employed in Executive Agencies established by Acts of Parliament.

The pension fund is responsible for collection of contributions from government employees and those working in executive agencies, members' records keeping, sustainable investments of the contributions and ensuring compliance to the scheme to mention just a few. Local Authorities Pensions Fund (LAPF) was established by the Local Authorities Pensions Fund Act No. 9 of 2006 to provide for contributions to and payment of pensions, gratuities and other benefits in respect of the service of officers in the Local Government and to provide for the related matters. The Act applies to all Local Government employees in Tanzania. The Fund's responsibilities include collection of contributions from local government employees and any other institution or person who wishes to be a member, members' records keeping, sustainable investments of the contributions and paying out pensioners in compliance to the established scheme.

Government Employees Provident Funds (GEPF) was established by Government Employees Provident Fund (cap 51 of 1942) to provide for contributions to and payment of pensions, gratuities and other benefits in respect of the service of officers in the public service employed under the contract terms

In terminal benefit payment process all stakeholders involved, like employee, employer and pensions fund each have the responsibility. Employees who are the expected retirees are supposed to understand his/her terms of service which determines the mode of payable terminal benefits payment. Also an employee must know the date of birth which will enable the employer and employee to know the date of retirement and gives notification to employer (through a letter of notification) six months before retirement date. Employer has a responsibility of reminding an employee on the date of retirement

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

Funds have a responsibility of capturing all the information/data of staff required to join their schemes and put them into their computer systems. This information should include cheque number, date of birth, date of first appointment, date of confirmation, date of admission to pensionable/contract terms, indicative date of termination etc. Assessment of the information/documents submitted. Preparation of terminal benefits payment. To ensure that all contributors are fully registered. Treasury has the responsibility of ensure that contributions of employees paid by treasury and remitted to the Funds on time. President's Office – Public Service Management to issue guidance, to monitor and conduct merit based recruitment in the public service. To ensure that service schemes are formulated and implemented. Ensure that all retirees are deleted from the government payroll. Issue authority to retire on public interest.

### Types of Benefits Payable

Funds are responsible for the payment of eight kinds of benefits to its beneficiaries which are the old age benefits which is payable to the members who attain their retirement age of 55 voluntary and 60 compulsory. Survivors benefits which are paid to the dependant of the deceased member who died when he/she was in employment. Death gratuity which is the lump sum amount paid to the survivors or regal representative of the deceased member. Sickness Benefits which are paid to member who are fall sick. Invalidity benefits which are paid to member who fall sick and as a result of sickness he/she can not continue to work due to incapability. Withdraw can be due to marriage, maternity, and giving birth, emigration/unemployment

Old Age Benefits	Documents needed	Formula used
<p><b>Conditions</b> Attain age of voluntary retirement (55 yrs) or that of compulsory retirement (60yrs)</p> <p><b>Beneficiary</b> Member</p> <p><b>Period of Payment/Limit</b> Till death</p>	<p>Membership Card</p> <p>A letter of notification of retirement from employee</p> <p>A letter of termination from the employer</p> <p>Retirement claim form</p> <p>Recent Salary Slip</p> <p>Last promotion letter</p>	<p>Specified amount = <math>1/540 \times</math> No. of complete months served <math>\times</math> last annual salary</p> <p>CPG4 = <math>SA/2 \times 15.5</math></p> <p>MP5 = <math>SA6/2 \times 1/12</math></p>

### Flow of events in the processing terminal benefits

- Notification to employer on intention to retire
- Filling Retirement Claim forms
- Submission of Retirement Claim forms of retiree to the Pension Fund
- Assessment of the information submitted
- Preparation of terminal benefit payment
- Sending cheque to employer
- Retiree collects cheque from the employer

According to various reviewed documents within the social security funds i found that there are different reasons for the delay in processing terminal benefits due to the above system or policy of benefits payment. These are: incomplete required supporting retirement documents, contributions paid on low/less salary compared to the actual salary of the contributor and contributions not remitted on time or in a certain period of time. For PSPF and LAPF employers contribute 15% and employee’s contribute 5% of the employees’ monthly salary but for GEPF employers contribute 15% and employees contribute 10% of the employees’ monthly salary.

**Table 4. 9: Key reasons for delay in Processing Terminal Benefits**

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

**Source:** Research 2013

**Submission of incomplete documents**

According to the Public Service Retirement Benefits Act No. 2 of 1999, Local Authorities Pensions Fund (LAPF) Act No. 9 of 2006 and Government Employees Provident Fund (cap 51 of 1942) to effect payment of retirement benefits, there are some documents which are supposed to be in place. These documents are; letter of retirement,

confirmation letter, retirement acceptance letter, letter of last promotion, recent salary slip; and Filled forms for the request of terminal benefits (FN-6) (Claim form)(F.9)

These documents are supposed to be submitted by employers to PSPF/LAPF/GEPF six months before the date of retirement of an employee. According to the interviews with the PSPF, LAPF and GEPF officials, most of these documents were not submitted on time. Pensions Funds normally prepares an annual list of retirees and submits it to all employers who are members of the Fund. This list shows the list of all employees who are due to retire in one year's time (normally in the next financial year). This list shows the kind of documents which are lacking and need to be submitted. However, according to interviews - the employers sometimes do not respond to the reports as a result they submit retiree forms with incomplete documentation which then results in delay in processing terminal benefits.

According to the Public Service Retirement Benefits Act No. 2 of 1999, Local Authorities Pensions Fund Act No.9 of 2006 and Government Employees Provident Fund (cap 51 of 1942) employees' and employers are supposed to contribute to the fund every month. An Employee is supposed to contribute five per cent for PSPF and LAPF and 10 per cent for GEPF of his/her monthly salary and an employer is supposed to contribute fifteen per cent of the employee's monthly salary.

These deductions are supposed to be submitted to the respective Pensions Fund within 30 days after the payment of the monthly salary. The Employer is responsible for submitting these deductions and must be submitted on time as stipulated in the Act. The submissions of deductions are supposed to be of the actual deductions and not less than what has been specified. Once an employee's salary has changed, the employer is required to fill in data sheet and submit it to the Treasury through PO-PSM to effect changes on the monthly contributions. According to the Public Service Retirement Benefits Regulations of 2003, Reg. 9 (6), for contributions not paid within one month after the end of each month, a penalty of five per cent will be charged for unpaid amount

for each month or part of month following the date when the payment was supposed to be paid. However, some of the retirees were not paid their terminal benefits on time due to non submission of correct contributions to the fund during the period of their service.

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

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

According to the available data found in numerous files, annual reports and policy briefs within the social security funds, this problem seems to increase year after year. If all members could be registered, delays would be minimized since most of the documents found to be incomplete would have been sorted out during the registration period/process.

#### **4.3.4 Measures Adopted to Minimize Delays of Terminal Benefits Payments**

This study noted serious and devastating problems in the process of terminal benefits with Pensions Fund. These are the general comments and recommendations from the respondents with regards to terminal benefits payments in Tanzania. The appropriate measures is to educate the citizens of social security benefits, to review the processing of terminal benefits of retirees, workflow terminal benefits should always consider value of

money Improve communication among the key stakeholders and development of Client Service Charter on processing terminal; benefits of retirees

Table 4.10 presents the general comments from the field with regards measures to be adopted to minimize delays of terminal benefits payments in Tanzania including improving communication among key stakeholders, review the process of terminal benefit payment ,conducting training on pensions matters and other as explained in chapter five.

**Table 4. 10: Measures to minimize delays of Terminal Benefits Payments**

General comments	Responses		Percent of Cases
	N	Percent	
Educate the Citizens of social security benefits	70	18	100
Review the processing of terminal benefits of retirees, workflow	60	16	86
Terminal benefits should always consider value of money	66	17	94
Improve communication among the key stakeholders	57	15	81
Proper keeping records of employees	70	18	100
Development of Client Service Charter on Processing terminal; benefits of retirees	62	16	86
<b>Total</b>	<b>385</b>	<b>100</b>	<b>550</b>

**Source:** Field data, 2013

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND POLICY IMPLICATIONS**

#### **5.1 Introduction**

This chapter presents the conclusions and finally make some necessary recommendations (policy implications).

#### **5.2 Summary of Major Findings**

There are number of factors influencing delaying in terminal benefit payments in social security in Tanzania as it has been observed in the findings of this study through the data collected from different funds existing in Tanzania. The submission of incomplete document by employers and employees look to be the major cause of delay of terminal benefits payments to retirees as it has been observed in the findings of this study through the data collected from three pensions funds existing in Tanzania. Remember all the pensions funds exist in Tanzania are public corporations (Parastatal Organisations). Ministry of Finance and Economic Affairs (MoFEA) and President's Office – Public Service Management (PO-PSM) being the overall overseers of Pension Funds on behalf of the government have not to a large extent fulfilled their responsibilities of ensuring that the processing of terminal benefits of retirees is done on time and without recourse to duress.

MoFEA and PO-PSM being the main employer for the public sector and the overall overseers of pension funds on behalf of the government but still employer's system of keeping records is appallingly inefficient and ineffective, hindering the retirement system's ability to fulfil its mission. The Employers have failed to properly manage and control the necessary documents for the processing of retirement benefits of their respective employees resulting in reciprocal delays and trading of blames between the funds and employers. In addition, the kind of missing documents/information was found to be the same all years round and there is no action taken by the employers to address this endemic and ever increasing problem. The missing documents were identified to be:

letter of first appointment, letter of confirmation, letter of transfer from central government to LGAs, bank details, recent salary slip, letter of last promotion and retirement acceptance letter.

### **5.3 Conclusion**

The revealed that there no written policy guidelines for processing and reviewing applications, entitlements establishing boundaries within which decisions for the payment of terminal benefits. Very little information about the procedure or directives was being disseminated to the public, particularly the public servants. There were no really useful procedures for measuring and reporting productivity and level of service. Due to that, the study noted that; It was taking an average of 90 days to process an initial application, more than 45 per cent of the rejected initial applications were being taken back to employers for further processing due to a number of reasons such as missing information, non or under-submission of employees and employers contributions and inaccurate filling of retirement forms.

The three studied Pension Funds have continually not exerted efforts to provide quality retirement service to their members. This could be evidenced by ever increasing number of retirees awaiting payments for terminal benefits. The study revealed that it takes 3 months, 2 months and 1 month for PSPF LAPF and GEPF respectively to finalize retirement benefits to their members(NAO,2009 Performance Audit Report on Pensions Fund),(GEPF Performance Appraisal Report).

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

taken by the funds to address this endemic and ever increasing problem. The missing documents were identified to be: letter of first appointment, letter of retirement, confirmation letter, retirement acceptance letter, letter of last promotion, recent salary slip; and filled forms for the request of terminal benefits (FN-6) (Claim form)(F.9)

Inordinate delays in processing retirees' benefits. The processes to finalize terminal benefits of retirees continued to be problematic. The process takes too long both in terms of time efflux ion before benefits are received and bureaucracy in place which ostensibly were meant to reduce backlogs but to the contrary add up and even unnecessarily complicates the approval of the pension benefits. Pension Funds are by all reasonable expectations responsible in providing identified retirees with timely and accurate pension payments. Initially, the employer is supposed to fill the data sheet and submit relevant documents to the Fund. Then, the Fund reviews them and then calculations are performed and payments are remitted to retirees based on an estimated pension calculation. Generally, even before the calculations are done, lots of files are returned back to employers due to a number of queries mainly, missing information which makes it very problematic for helpless retirees to make unpredictably numerous follow ups to obtain meagre pension benefits.

Pension Funds Mismanagement as unwarranted burden to retirees .Significant delays in finalizing retirement benefits do pose unnecessary burden on retirees. The interviews with different employers revealed that failure to finalize terminal benefits on time place a notable burden to retirees in terms of costs to make follow ups of retirement benefits. These costs are incurred particularly when a retiree is looking for the missing data/document at a delicate moment in life when he\she no longer has access to official documents by virtue of the retirement and also, during which the retiree has no any kind of income thus making life very difficult and miserable. It becomes quite expensive for a retiree to follow his/her terminal benefits in the Head office or even at regional/zonal

offices of the Pension Funds let alone to travel to his /her station of first appointment just to look for some information.

There is lack of clearly defined awareness programs by the two main employers. The MoFEA and PO-PSM have not given consideration on public education program. Nevertheless on average, terminal benefits, represent almost 100 per cent of the retirees' income. Given this and the fact that not all programs are targeted against specific levels of income, individuals who are expected to provide adequately for their retirement must know the extent to which public pensions will supplement their income from private savings and employer sponsored plans. This public awareness program should be seen to cover educational programs and levels of benefits available, eligibility requirements, advice on tax, retirement income planning and available services such as direct deposit and tax deducted at source.

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

Inaction by the main employers MoFEA, and PO-PSM as main Employers have not taken any tangible action to ensure efficient processing of terminal benefits is instituted despite the fact this is a known and repetitive problem throughout the period. Also there is no proper office which is responsible or has been set up to deal with complains. This includes complaints and investigation about the way Pension Funds and employers are dealing with peoples' terminal benefit issues as they are raised by the desperate retirees with a view of resolving them satisfactorily.

## **5.4 Recommendations**

### **5.1.1 For Pensions Funds**

Based on the findings and conclusions it is being recommended to Review of the processing of terminal benefits of retirees' workflow .The Pension Funds should ensure that the processing of terminal benefits of retirees' workflow is reviewed in order to reduce the bureaucracy. The Pension Funds should prepare a flow chart to identify areas of unnecessary requirements that can be discarded in order to avoid bureaucracy. When setting premiums, firms providing trustee liability insurance may take account of the state of members' records and whether or not the records have been analysed and cleansed.

Improve communication among the key stakeholders The Pension Funds should improve communication between Employers, Retirees and Pension Funds respectively which are the main stakeholder in Social security sector in order to make both parties aware of the procedure, laws and regulation. The Pension Funds should ensure that regular training of officials dealing with pension matters is conducted on how to process terminal benefit payments without unnecessary delays. Manage staff resources appropriately and reduce the waiting time , the Pension Funds should better manage staff resources with a view of reducing time taken to process retiree's terminal benefits; Providers and trustees will be better able to make appropriate investment and management decisions if they are based on more accurate valuation results.

To improving records management. Poor record-keeping may lead to significant additional costs in a number of areas such as administration, error correction, claims from members, buy-outs, wind-ups and, potentially, may necessitate the making of more conservative actuarial assumptions. Where a scheme's poor record keeping becomes known, it can cause reputational damage. Holding good data is a prerequisite to providers and trustees discharging their fiduciary and statutory obligations to administer a scheme properly.

The Pension funds should prepare a checklist and complete the data purification process to verify that active membership service credit information is accurate to allow for the expeditious processing of terminal benefit applications; To address these issues, the approach which is used to the testing and measurement of member record data, particularly in relation to: common data – applicable to all schemes conditional data – dependent on scheme type, structure and system design numerical data – to aid understanding of the results. The pension funds should professionally plan, assess and monitor their resources by way of regular actuarial valuation to ensure that members receive adequate retirement benefits and counselling service sustainably. Furthermore the pension funds should prepare Client Service Charters which will incorporate all core activities and the whole process of terminal benefits indicating exact the time a certain activity is going to be initiated and completed and who will be accountable.

### **5.1.2 For employers**

#### **a) Proper record keeping of employees**

Employers should ensure that proper records of employees is accurately kept and submitted to Pension Funds for processing terminal benefit payments.

#### **b) Improve coordination among the key stakeholders.**

Employers should ensure that a clear coordination and transferability of benefits in favour of those who are paid by Pension Funds exists for those public servants who served both Public and Private sectors as well as in the informal sector

#### **c) Training of employees on pensions related matters**

Employers should come up with training programs solely aimed at ensuring that employees are extensively trained on record keeping and understand the importance of retirement procedures.

d) Development of schedule of staff who are about to retire

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

e) Carry out monitoring and evaluations of training conducted

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

f) Establishment of a complaint mechanism

As noted in the report, there is a lack of a complaint mechanism through which aggrieved retirees can seek redress; we strongly recommend that such a complaint mechanism be established as a way of enhancing efficiency and accountability in the management of pension matters.

### **5.1.3 For the Government**

a) Harmonization of Pension Schemes in the country

The government should ensure that Pension Funds are merged together and come up with only one Pension Fund serving all public servants in both Central and Local Governments. This will lead to substantial reduction of operational overhead costs and lead to efficiency and effectiveness in managing pension matters in Tanzania.

Another option is for the government to privatize the social security system to introduce competition which will result into lower payroll contributions and taxes and hence increase in minimum wage levels (benefits). That is, the social security system in

Tanzania should allow some private pension funds to operate in Tanzania economy. These private pension trust funds will receive pay in money from employees while they are working, invest them for contributors, and contributors withdraw it bit by bit in their retirement years.<sup>91</sup> Also, the Social security institutions have to be merged into a one-stop shop serving all the public servants in both the central and local governments and all private sector workers. This will cut operational overhead costs and lead to efficiency and effectiveness in managing social security issues/ matters in Tanzania. Before merging, the Pension Funds should plan, assess and monitor their resources by way of regular actuarial valuation to ensure that members (workers) sustain adequate retirement's benefits and counselling services

b) Improve the Legal Framework of Social Security Funds and Distorted Benefits

The legal framework indicated that the terminal benefits for retired workers(including public servants) in Tanzania are managed by five different Pension Funds (with the distribution of pension member of each scheme as percentage of total coverage) are given as follows: (i) Public Service Pension Funds (PSPF-17%), (ii) Local Authorities Pension Fund (LAPF) and Government Employees Provident Fund (GEPF-45%), (iii) National Social Security Fund (NSSF-31%),and (iv) Parastatal Pension Fund (PPF-6%). These social security funds/institutions are governed by multiple laws pertaining to their establishment, operations or processing and settlement of benefits to employed and retired workers. These multiple laws are hardly reinforcing each other and are sometimes regarded as dividing unionized workers. Also, the multiple laws provide for different levels of social security benefits to employed or retired workers. Some of the weaknesses are reflected in the social security benefits.

c) Fast Track Processing and Payments of the Benefits

The government has not to a large extent fulfilled its responsibilities of ensuring the processing of terminal benefits of retirees on time and without recourse to duress. For instance, the delay in processing payment of terminal and other benefits (TOB) takes

more than 12 months without receiving their TOB, culminating into big gathering of retired people with complains and condemnations. Thus, it is important for these SSS to reduce the bureaucracy in the processing of terminal benefits (TBs). The TBs of retirees' workflow has to be reviewed and a flow chart to identify areas of unnecessary requirements that can be discarded in order to avoid bureaucracy has to be in place. Also, the Pension Funds should train and efficiently manage its officials on regular basis on how to process TB payments without unnecessary delay. In addition, public servants/employees have to be trained on keeping their personal and work records and retirement procedures. Further, in Prepare schedules to remind workers who are about to retire in the near future at least three years schedule indicating the date of retirement of staff and the necessary documents prevailing necessary information and data for efficient decision making on TB matters.

d) Harmonization of Pension Schemes Policies and formular in the country

The government should ensure that Pension Funds have the same policy regarding payment of terminal benefits in order to serve all the public and private employees equally. This will lead to substantial reduction of operational overhead costs and lead to efficiency and effectiveness in managing pension matters in Tanzania.

### **5.5 Areas for Further Research**

Literature on social security systems in Tanzania on the subject matter remains limited. While there are number of studies done on how Social Security Funds contribute to the wellbeing of the people and the like, still these have not comprehensively documented.

Many studies have been made of the pension system. In the past, there have been attempts to harmonize the social security system to achieve simplification, integration of funds, common regulation and to find ways of extending social security coverage to groups not yet covered. Thus it is proposed by this study to undertake further research to find out whether merging Social Security Funds in Tanzania will bring desirable

advantages and benefits to the clients and at the same time contribute to the socio-economic development of the country.

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## APPENDICES

### Appendix 1: Questionnaires

#### **Problems of Terminal Benefit Payments to Civil Servants**

Please note: The information provided will be for academic purposes only and will not be used otherwise.

The questionnaire is only for the purpose of collecting data concerning an Assessment of Problems of Terminal Benefit payment:

#### **Section A: Personal Information**

Please circle the correct answer

1. Age (in Years)

a) Below 18

b) Between 18 and 45

c) Between 46 and 55

d) Above 55

2. Sex

a) Male

b) Female

3. Level of education

a) Secondary education

- b) Diploma
- c) University
- d) Others

4. Which of the following best describes you? Are you.....

- a) Not currently receiving Social Security benefits, but you expect to receive them at some point in future
- b) Not currently receiving Social Security benefits, but you don't expect to receive them at some point in future 10 – 20 years
- c) Currently receiving Social Security

5. Are you aware of Terminal Benefits payment in Social Security in Tanzania?

- a) Yes
- b) No

6. Are you aware of any law(s) and/or regulations with regards to Terminal Benefits payment in Social Security in Tanzania?

- a) Yes
- b) No

7. Are there any established mechanisms/systems in the payment of terminal benefits which you are familiar with?

- a) Yes
- b) No

If yes, please mention them

.....  
.....

8. (a) Are the systems, which are in place with regards to the payment of terminal benefits function as required by the law?

- a) Yes
- b) No

(b) Please indicate the level of satisfaction

- a) Strongly Disagree
- b) Somewhat Disagree
- c) Somewhat Agree
- d) Strongly Agree
- e) Refused

9. Are there any requirements which a client has to fulfil before receiving the terminal benefits payments which you are familiar with?

- c) Yes
- d) No
- e)

If yes, please mention them

.....  
.....

10. Please indicate the level of satisfaction with regards to the procedures involved in the payments of terminal benefits.

- a) Strongly Disagree
- b) Somewhat Disagree
- c) Somewhat Agree
- d) Strongly Agree
- e) Refused

11. (a) Do you think if there is a Social Security Institution which pays terminal benefits to its clients better than your current institution?

- a) Yes
- b) No

(b) If yes, please mention them

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(b) Please explain what the reasons would be behind your answer in (c)

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12. General comments on how to improve the payment of terminal benefits Tanzania?

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**“Thanks for your Cooperation”**

**SCHEDULED INTERVIEW QUESTIONS FOR PENSIONS OFFICIALS**

Position .....

Department/Institution .....

- 1. Do you have any idea about the law(s) and/or regulations with regards to Terminal Benefits payment in Social Security in Tanzania?
  - a) Yes
  - b) No

Please specify

.....  
.....  
.....

- 2. Do you think these law(s) and/or regulations with regards to Terminal Benefits payment in Social Security in Tanzania have any influence with regards to delaying of payments?
  - a) Yes
  - b) No

Please specify

.....  
.....  
.....

- 3. Does your Institution have any established mechanisms/systems in the payment of terminal benefits?
  - a) Yes
  - b) No

If yes, please mention them

.....  
.....

4. How does your clients rate the service offered to them by your Institution with regards to the payments of terminal benefits?

- a) Strongly unsatisfactory
- b) Somewhat unsatisfactory
- c) Somewhat satisfactory
- d) Strongly satisfactory
- e) Refused

5. Are there any complaints with regards to the delaying of payment of terminal benefits?

- a) Yes
- b) No

Please specify

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.....

6. Are there any proper means of keeping/maintaining pensioner's records within your institution?

- a) Yes
- b) No

Please specify

.....  
.....  
.....

7. How does your Institution reacts when the clients/pensioners' records get lost?  
Please specify the procedures which will be employed with regards to this issue.

.....  
.....  
.....

8. What is your Institutional policy with regards to the payment of terminal benefits to the pensioners?

.....  
.....  
.....

9. Does your Institution policy with regards to the payment of terminal benefits conforms to the Laws of the land with regards to subject matter?

- a) Yes
- b) No

Please specify

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10. General comments on how to improve the payment of terminal benefits in Tanzania?

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**“Thanks for your Cooperation”**

