Introduction

The President’s proposal in October 2011 to revise the normal retirement age in Zambia upwards from 55 years to 65 years has prompted policy debates among various stakeholders in the country. This proposal could have stemmed from the notion that most people reach the normal retirement age at a time in their lives when they are still willing and able to continue participating actively in gainful employment. This can be observed from the increased tendency of retired people coming back to pursue similar jobs held before retirement on contract basis. As one of the most positive developments for least developed countries in the last few decades, the increasing life expectancy has probably motivated this argument further.

On the other hand, critics to the proposal have mainly been the youths and their sympathizers, who primarily argue that the increase in the retirement age will only worsen prospects for the assimilation of the youths into the labour market. Other critics argue that a higher retirement age will reduce the length of time that retirees will have to enjoy the fruits of their labour, namely their retirement packages or to invest in their private operations.

With these opposing views about the optimal retirement age, important policy questions are raised such as: does the retirement age matter for the livelihoods of retired persons, for the national pension system, for overall unemployment levels, or for unemployed persons seeking employment in particular? In principle and in practice, what guides the setting of the retirement age and are there spatial or sector-specific differences? What policy options does the Government have for revising and rationalizing the retirement age? This paper is presented as a commentary that helps to answer some of these questions.

Importance of the Retirement Age for Pension Systems and for Employment

The term “normal retirement age” describes the age at which people can formally retire from gainful employment and start receiving state pension, unless they suffer a disability. In principle, retirement pension payments should commence from the month immediately after an employee satisfies the prescribed retirement age and successfully retires, and should cease at the end of the month in which the retiree dies. The pension system is therefore meant to provide a deliberate safety net for citizens after their formal employment life-cycle.

Governments are usually obliged by laws to ensure that workers are given financial security upon attaining the retirement age. In some cases, a pension may be a person’s major source of income after retirement. It is this income that helps retirees to pay bills and to

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1 The Minimum Wages and Conditions of Employment Act, 1994
2 The National Pension Scheme Act, 1996
maintain themselves and their families. Therefore, coupled with own savings, pensions provide more sustainable and secure safeguards that help to ensure that individual needs are adequately met and retirees no longer need to engage in any gainful employment to sustain their livelihood.

In thinking about Zambia’s retirement profile it is interesting to note that in 2008, 5% of formal sector employees and 12% of informal sector employees were above the retirement age (Table 1). This population represents 42% of the population aged over 55 years who were still actively engaged in employment. This raises questions about whether Zambia’s pension system does offer enough in terms of benefits for people to retire completely and maintain a given living standard or people generally just feel that they still have economically active life-years to contribute to formal employment or both. More detailed empirical investigation could help to inform this debate.

Table 1: Employment by Age Group and Sector; 2008

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Formal Employment</th>
<th>Informal Employment</th>
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</thead>
<tbody>
<tr>
<td>15-34</td>
<td>251,720</td>
<td>2,438,743</td>
</tr>
<tr>
<td>35-54</td>
<td>234,710</td>
<td>1,203,867</td>
</tr>
<tr>
<td>55+</td>
<td>24,908</td>
<td>452,898</td>
</tr>
<tr>
<td>Total</td>
<td>511,338</td>
<td>4,095,508</td>
</tr>
</tbody>
</table>


Setting an appropriate retirement age is also important in ensuring the financial sustainability of the pension system. A low retirement age may put pressure on the pension resources of an existing system through increased demand for pay-outs. For instance, in many European countries, there is mounting pressure on state pension systems owing to an aging population that is falling into the population bracket of retirees. A quantification of the amount of pressure that the Zambian pension system could expect from varying the normal retirement age is something that pension funds in Zambia should consider researching in more depth. However, this consideration would not be a substitute for the creativity of the pension fund managers to grow the pension funds while people are working.

The 2008 labour force survey indicates that the country has a relatively young population with about 45% of the population aged between 0 and 14 years inclusive, while only 10% of the population is aged above 55 years (Table 2 below). In this regard, the structure of Zambia’s population indicates that the problem of unemployment cannot be tackled with variations in the retirement age or with greater enforcement alone. Particularly, only 24,908 formal jobs would be released if all the people that have attained the prevailing retirement age of 55 years were retired compared to over 2,438,743 youths (15-34 age group) in the informal sector. This coupled with a larger proportion of the population that is yet to enter the labour force would not adequately address the problem of youth unemployment in the country.

Table 2: Characteristics of the Labour Force; 2008

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Total ('000)</th>
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<tbody>
<tr>
<td>Total population</td>
<td>12,298</td>
</tr>
<tr>
<td>Working age population</td>
<td>6,716</td>
</tr>
<tr>
<td>Economically active population (labour force)</td>
<td>5,004</td>
</tr>
<tr>
<td>Economically inactive population</td>
<td>1,712</td>
</tr>
<tr>
<td>Population Under 15 years</td>
<td>5,582</td>
</tr>
<tr>
<td>Population aged 15-34 years</td>
<td>4,396</td>
</tr>
<tr>
<td>Population aged 35-54 years</td>
<td>1,657</td>
</tr>
<tr>
<td>Population aged 55 years or more</td>
<td>662</td>
</tr>
</tbody>
</table>

Source: CSO (2011); Labour force survey; 2008

What Should be Considered in Setting the Retirement Age?

Several factors ought to be considered when determining the statutory age of retirement (or so-called normal retirement age). Demographic factors such as life expectancy of retirees and sectoral characteristics are example of such important considerations.

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4 Robert Holzmann (2009): Aging population, pension funds and financial markets
In many debates about preferences of the retirement age, many commentators quote the life expectancy at birth as an important consideration for setting the retirement age. Some argue that because the Zambia Demographic Health Survey estimated the life expectancy at birth at 50 years in 2007 and the World Bank estimated it at 48 years for 2010, the retirement age should be kept at 55 years or even lowered to accord people the opportunity to enjoy life as retirees. However, life expectancy at birth is not an appropriate basis for setting the retirement age because it describes the number of years that persons born in a particular year under given social, economic and demographic conditions can be expected to live.

Instead, it might be more relevant to use the “life expectancy at [different] elderly ages”, which would measure the number of years that person reaching certain elderly ages (e.g., 55 or 65 year) can be expected to live beyond those elderly years. In Zambia, such elderly life expectancy is not currently captured or estimated anywhere. In principle, this can be done in the same way that life expectancy at birth is calculated taking into account the social, economic and demographic circumstance in determining the average number of years that people might live beyond various ages such as 50, 55, 60 and 65 years.

Lastly, sectoral characteristics of employment are also an important consideration when setting the retirement age. For instance, people in physically demanding jobs such as construction workers may not easily delay retirement on account of the physical demands of their jobs. Increasing the retirement age may also lead to lower productivity in some (manual-labour-intensive) sectors in the economy. On the other hand, individuals in less manually demanding jobs such as those in finance, education or medicine maybe willing to delay retirement, particularly given that they have to spend more time acquiring skills to perform their roles before participating in the labour market. Therefore, in setting the retirement age, due consideration should be given to the sectoral characteristics of employment.

Policy Options for Zambia regarding the Retirement Age and the Pension System

The key to revising the retirement age is to focus on evaluating the policy as part of a larger package rather than in isolation. With regard to the life expectancy of people approaching the current retirement age, Government should establish a system for evaluating the life expectancy of persons at elderly ages (50, 55, 60 and 65 years), by sector, by geographic location and by sex, and use this system for periodic review of the retirement age along sectoral, spatial and gender lines. Specifically, this will inform policy on how to appropriately set the retirement age based on the actual number of years retirees are expected to live and capacity of Government to provide adequate social security.

The Government would do well to thoroughly review the current pension system to ensure that it provides adequate pension pay-outs for workers in their retirement. This will reduce the pressure to increase the retirement age, which may be driven by a phobia of being made worse off due to a loss of income by employees. To ensure the scheme remains solvent, the Government could consider the option of increasing the contributions of employees and employers to the pension scheme. It could also increase the flexibilities concerning the nature and quantum of investment portfolio holdings that pension funds can assume, thus pushing for more creativity among fund managers who are responsible for growing pension funds through strategic investments. Indeed a mix of the two approaches could prove useful.

Similarly, there is need to address youth unemployment by creating new opportunities

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7 CSO (2007): Zambia Demographic and Health Survey
for entrepreneurship and employment. While an increase in the retirement age would marginally add to youth unemployment, the problem of youth unemployment especially for a young population such as Zambia’s can only be adequately addressed if new opportunities are created. Therefore, interventions towards enhancing employment creation and entrepreneurship must be prioritized and intensified.

In addition, the law should provide for flexibility on the retirement age. It should positively discriminate between professionals with higher specialization, workers with manually demanding occupations and so on, as provided for by the International Standard Classification of Occupations by the International Labour Organization. For instance, as individuals such as university lecturers and medical experts pursue further education to enhance their specialization, they delay their entry into the labour market. A lower retirement age may not only limit their contribution to the economy but may also limit the return on their investment. Therefore, the Government could consider employing a sector-specific or occupation-specific consultative process for setting the different retirement ages in the different sectors or for different occupations within different sectors.

Finally, the Government could also consider extending the national pension system to the informal sector by encouraging voluntary participation of the informal sector in the system. Currently, 89% of the labour force in the country is employed in the informal sector. However, informal sector employees do not currently contribute into the national pension system. This has created an inadequate coverage of the pension system for the elderly population, with the elderly that retire from the informal sector not being catered for.

While an attempt to address the key questions that surround the setting of the retirement age is made in this commentary, there is scope for further empirical investigation on aspects that would adequately inform effective policy formulation. Specifically, research that relates to the adequacy of the current national pension system and its impact on the living standards of retired persons should be explored. In addition, the impact of the variations in the retirement age on the viability of the national pension system could also be undertaken.

The authors are researchers and policy analysts in the Trade and Investment Unit of the Zambia Institute for Policy Analysis and Research (ZIPAR).

The paper is disseminated as part of the findings of research and policy analysis work in progress. An underlying objective of the paper was to deliver quick findings, even though some of the presentations and analyses are less than fully polished, to spur debate and encourage the exchange of ideas about policy and development issues.

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