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COUNCIL OF MINISTERS
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PENSION, INSURANCE AND GRATUITY SCHEMES

1) The Secretariat has already covered the following items in its paper CM/74 concerning Insurance and Social Security:

- (a) Insurance against injuries that are service incurred,
- (b) comprehensive medical insurance against minor and major illnesses falling on members of staff of the O.A.U.

2) The present addendum contains general principles and proposals relating to:

- (a) gratuity, and
- (b) a pension scheme.

In its document CM/74, the General Secretariat has put forward preliminary proposals relating to insurance against injury (e.g. partial or permanent disablement) or death of a member staff while performing the organization's work. In the same paper, suggestions have been made concerning a medical insurance scheme against major or minor illness. All this is in response to the directives that are contained in the Staff Rules and Regulations, which were approved by the Fourth Ordinary Session of the Council of Ministers that met in Nairobi, Kenya, in February, 1965. That directive requested the Administrative Secretary-General to establish a scheme for social security, and to submit pension proposals to the Council of Ministers.

This paper is an addendum to document CM/74 and contains supplementary proposals relating to the rates for gratuity payments and also outlines general principles and guidelines for an O.A.U. pension scheme. While conceding that there are no "permanent" staff members working for the O.A.U. at present who require the immediate establishment of a pension schemes, it is nevertheless true that contributions into a pension fund are made every year for each year worked by a pensionable person. The General Secretariat has to be prepared for such contributions as and when members of staff are admitted into the permanent and pensionable service of the O.A.U., and hence the general suggestion that follow elsewhere below.

The fixing of current gratuity rates is urgent as present staff are either on contract or on fixed-term employment, and as such would expect some payment at the end of the period by way of terminal benefits.

Some of the staff members in this category, have been seconded from national services in which they held pensionable posts. It is therefore necessary to provide ways and means of enabling them to continue contributing to, and thus safeguarding their pension funds. Such provisions would also make it attractive for persons in pensionable posts, to offer their services to the Organization. The proposals that follow hereunder are meant to fill such gaps in the financial expectations of members of the O.A.U. staff which, were they to remain uncatered for, would place them at a disadvantage vis-a-vis national or private undertakings. The suggestions on gratuity rates and on a pension scheme are dealt with separately below.

A. GRATUITY: A gratuity is a payment added to the salary of an employee engaged on contract, or on a fixed-term (Agreement), whose short period of work does not enable him, or entitle him, to take advantage of pension, terminal benefits and other fringe benefits which are available to an employee on permanent and pensionable terms of employment. A gratuity is either included in the monthly salary payments, or, what is more common it is paid as a lump sum after the satisfactory completion of the contract or fixed term. The amount paid is usually expressed as a percentage of the basic salary, and varies from 0% (in cases where a salary is fixed at a generously high level) to any percentage depending on the hardships inherent in the job to be done, or on the scarcity of the skills involved. The more common percentages are 10%, 12%, 15%, 20% and 25%.

For the O.A.U., it is suggested that the Administrative Secretary-General should be authorised to pay a gratuity of 15% for common skills below those required for P-salary scales of the statutory staff, ^{and} 25% for skills in the P-salary scales of statutory staff category, and above.

By ...

By way of comparison, the U.N. Economic Commission for Africa pays 12 $\frac{1}{2}$ % being made up of 8% termination allowances and 4 $\frac{1}{2}$ % associate participation in the Pension scheme for those admitted into the latter scheme.

B. PENSION: A pension is an old-age employment benefit, which is usually paid monthly, quarterly, half-yearly annually or in a lump sum, to an employee who has worked for a given employer for a specified minimum period and who has retired from work after attaining a fixed age. Such a benefit is bestowed on the employee, and in some cases, it can be passed on to a surviving dependant.

The funds for such a scheme are obtained wholly from the employer, or partly from the employer and partly from the employee, that is, the scheme is respectively, either non-contributory or contributory (sometimes called a Provident-Fund) as far as the employee is concerned.

In a non-contributory scheme, usually the total sum to be paid, is calculated on the basis of an appropriate fixed ratio, or a percentage of the terminal annual salary, multiplied by the number of pensionable years worked. For this purpose, the different phrases are given specific definitions, based on actuarial data and calculations. For example, "the terminal annual salary" may be defined as the average basic salary over the last three years. Some local employers consider "an appropriate rate" to be $\frac{1}{65}$ of the terminal annual basic salary, and take one pensionable year to be equal to one and half years of service at normal reckoning ... and so on.

In contributory (or Provident Fund) schemes, most of these complications do not arise. The employee is entitled to receive at least the much he has contributed and the interest

accruing therefrom. If he has qualified to receive the employer's contribution and the interest on it, he also gets paid accordingly. In contributory schemes, the surviving dependants always receive whatever is due to the employee.

For the old-age security and welfare of its staff on permanent terms, the OAU has to create a pension scheme, if it has to attract persons of high calibre into its service and keep them. This much is expected of the OAU as an international employer, who is on the African Scene to stay.

It should be stated that a pension that is non-contributory, sometimes yields such small sums as would not be sufficient for an employee and his dependants to subsist on. Secondly, it is often necessary to so protect the interests of the employer, that the dependants of a deceased employee may find it difficult to get anything from such a pension, thus creating a major obstacle in a person's plans for his family or other dependants. Thirdly, no interest (additional income) accrues from such a pension, unless the payments are made late. Most, if not all of the above disadvantages are avoided in a contributory pension scheme, which has the additional advantage of being simpler to manage and operate.

In view of the foregoing it is suggested that the OAU should establish a contributory pension scheme. It is further suggested that the scheme should be funded by contributions of 5% by the employee and 20% from the OAU - thus making a total of 25% of the basic salary of the employee. These rates are suggested at this level ^{due to} the lower salaries of the OAU vis-a-vis those of the E.C.A. More detailed regulations to govern the scheme would be formulated and published by the Administrative Secretary-General, after being approved by the Council

of Ministers.

The Council of Ministers should also decide on the types of investment on which the funds would be invested. Such investment would need to satisfy at least three requirements, i.e. (a) should be "safe" investment in almost, if not, absolute terms, (b) should yield adequate interest and (c) should be in Africa - amongst Member States. The Council may wish to defer discussion on this aspect, until the relevant studies are carried out and presented to it by the Administrative Secretary-General. This deferment does not raise any problems as there are no staff members on permanent terms of service at present.

For general information, the U.N. Economic Commission for Africa runs a contributory scheme whereby the employee pays 7% and the U.N. 14% making a total of 21% of the pensionable remuneration of the employee.

The foregoing suggestions on gratuity and a pension scheme together with those contained in document CM/74, constitute the General Secretariat's proposals for the Insurance and Social Security Schemes for the O.A.U. Staff. It should be emphasised that most of the proposals made contain basic principles and guide-lines which, if approved would enable the General Secretariat to formulate details of the structure and regulations to govern the schemes. The Council of Ministers is invited to consider and approve these proposals.

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