



RWANDA BANKERS' ASSOCIATION

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Navigating Pension Reform:

Economic Implications of the 2025 RSSB Overhaul

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The policy Research Paper

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“The 2025 RSSB pension reform represents a systemic recalibration of Rwanda’s social security architecture – redefining actuarial sustainability, labor cost structures, and financial sector risk dynamics.”

Highlights

- In January 2025, the Rwanda Social Security Board (RSSB) implemented the most significant overhaul to Rwanda’s pension system in over 60 years, raising mandatory contributions from 6% to 12%, with a progressive increase to 20% by 2030.
- Contributions are now calculated based on gross salary (including allowances), aligning pension contributions with the Rwanda Revenue Authority (RRA) tax base and broadening coverage.
- The reform aims to:
 - » Strengthen the long-term sustainability of the pension fund;
 - » Enhance benefit adequacy and reduce old-age poverty;
 - » Position RSSB as a more active institutional investor in national development.
- RSSB’s investment performance improved, with return on investment (ROI) rising from 4.9% in 2019 to 11.08% in 2023. New initiatives include the Rwf 30 billion SME Fund and expanded capital market investments to deepen domestic liquidity.
- Increased employee contributions reduce take-home pay, affecting loan eligibility, mortgage affordability, and consumer credit access, particularly among low- and middle-income earners.
- The reform creates pressures in retaining and attracting highly skilled talent, especially in competitive sectors like banking. Without compensation adjustments, organizations may face longer recruitment cycles and potential brain drain.
- To mitigate short-term pressures, targeted tax relief or transitional incentives should be considered for low- and middle-income groups. Employers should update compensation frameworks and proactively communicate changes to maintain staff engagement and ensure compliance.

1. Introduction

In January 2025, the Rwanda Social Security Board (RSSB) launched one of the most comprehensive reforms to the national pension system since its establishment. For more than six decades, pension contributions remained fixed at 6% of an employee's basic salary – split equally between employers and employees. This rate was set in an era when Rwanda's average life expectancy was below 50 years, and the formal economy was still in its infancy.

Today, Rwanda is a very different country. Life expectancy has increased by over 20 years, and the economy has grown more dynamic and diversified, with a steadily expanding formal labor force. These demographic and structural shifts created a pressing need to modernize the country's pension framework to ensure its long-term sustainability and effectiveness.

The reform implemented in 2025 increased the mandatory contribution rate to 12%, equally shared between employers and employees. More significantly, it shifted the contribution base from basic salary to gross salary, aligning social security contributions with the broader income tax base. According to RSSB, further phased increases are planned, with the contribution rate set to reach 20% by 2030 through gradual 2% annual increments beginning in 2027.

The reform seeks to achieve several long-term objectives:

- Safeguard the solvency and sustainability of the pension fund;
- Improve benefit adequacy and replacement rates for retirees;
- Reduce post-retirement income inequality;
- Strengthen RSSB's role as a major institutional investor aligned with Rwanda's development priorities;
- Build a more resilient and inclusive social protection system that offers better retirement security for all Rwandans.

2. Anatomy of the Pension Reform: Key Parameters and timeline

The 2025 RSSB pension reform is comprehensive and ambitious, addressing both the revenue and expenditure sides of the pension system. It aims to improve the fund's long-term financial sustainability while enhancing benefit adequacy for current and future retirees.

As of January 2025, the total pension contribution rate was doubled from 6% to 12%, shared equally between employers and employees. This sharp adjustment—implemented in a single step rather than phased in—

was designed to inject immediate liquidity into the pension fund and begin resolving legacy underfunding challenges.

Starting in 2027, contributions will increase incrementally by 2% each year, reaching 20% by 2030. At full implementation, both employers and employees will contribute 10% of gross salary, aligning Rwanda with international benchmarks for pension sustainability.

Table: RSSB Contribution Schedule (2025–2030)

| Year | Employer (%) | Employee (%) | Total (%) |
|------|--------------|--------------|-----------|
| 2024 | 3% | 3% | 6% |
| 2025 | 6% | 6% | 12% |
| 2026 | 6% | 6% | 12% |
| 2027 | 7% | 7% | 14% |
| 2028 | 8% | 8% | 16% |
| 2029 | 9% | 9% | 18% |
| 2030 | 10% | 10% | 20% |

A critical change in the reform is the expansion of the contribution base. Previously, contributions were calculated on basic salary and limited allowances. Under the new structure, gross salary—including housing, transport, and other regular allowances—is used, harmonizing the pension system with the Rwanda Revenue Authority's (RRA) income tax base. This alignment improves administrative efficiency and ensures a more equitable and comprehensive approach to retirement savings.

In parallel, RSSB has begun gradually adjusting pension benefits, with a focus on increasing payouts

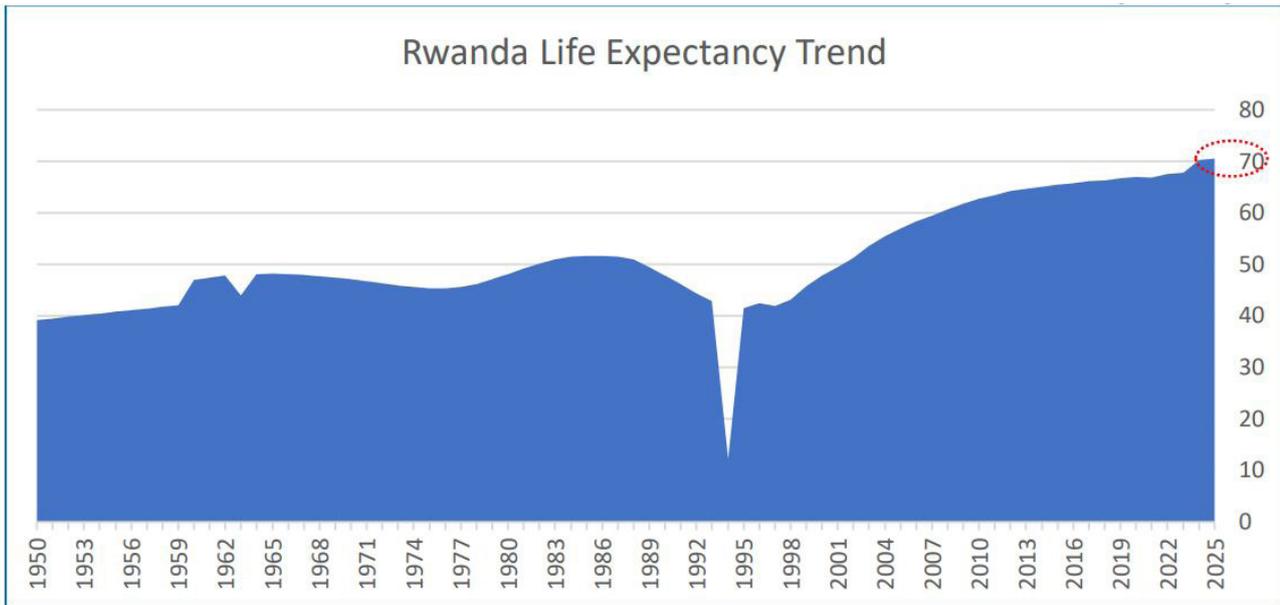
for low-income retirees. This policy acknowledges the historical inadequacy of pension benefits and aims to provide greater protection for older Rwandans at risk of poverty.

Beyond individual benefits, the reform strengthens RSSB's position as a strategic institutional investor. In Q2 2025, RSSB launched a Rwf 30 billion SME Growth Fund²—targeted at unlocking access to long-term capital for small and medium-sized enterprises. It has also scaled up investments in domestic capital markets, boosting liquidity and contributing to the broader development of Rwanda's financial sector.

3. Fund Sustainability and Pension Adequacy

Prior to 2025, the pension system faced solvency challenges due to outdated assumptions on lifespan and contribution sufficiency. With life expectancy at 69 years and growing, the duration of post-retirement support has lengthened. The reform addresses this longevity risk by boosting fund inflows. These measures aim to ensure that the fund can meet future obligations and remain solvent over the long term.

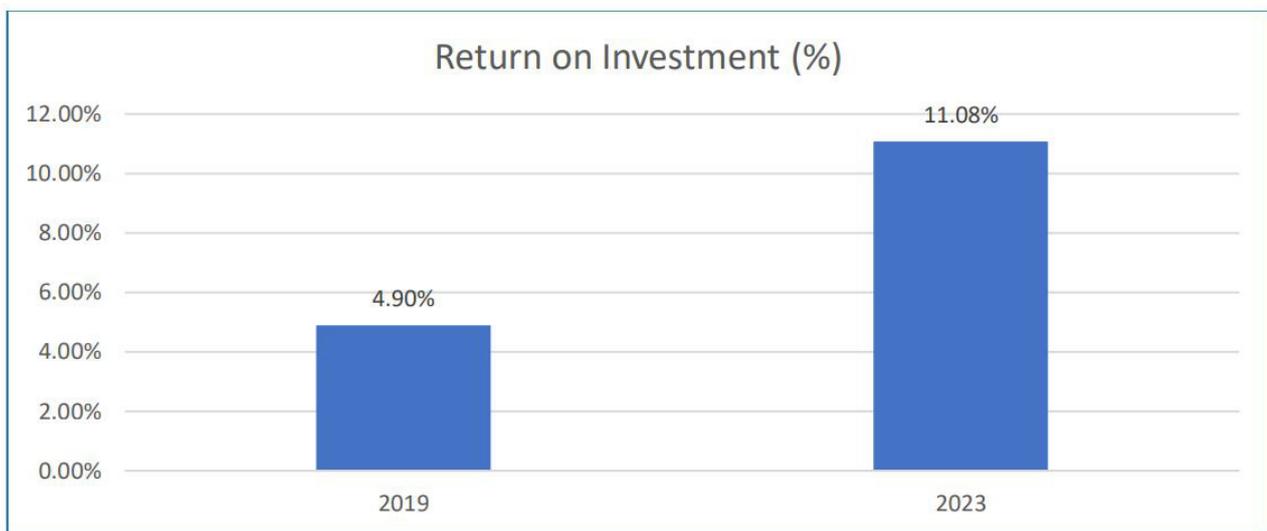
"When pension systems evolve, so does the economy. The 2025 RSSB reform is more than a policy shift—it's a defining moment for Rwanda's financial resilience, workforce, dynamics, and inclusive development."



Source: NISR/Macrotrends

Another critical level of sustainability is the investment performance of the pension fund. The RSSB’s return on investment (ROI) has improved markedly—from 4.9% in 2019 to 11.08% in 2023. Maintaining or exceeding this performance is vital. To do so, RSSB is

increasingly diversifying its portfolio into productive domestic sectors, such as infrastructure, affordable housing, and SME financing—sectors that not only offer steady returns but also contribute directly to Rwanda’s economic development.



Source: RSSB

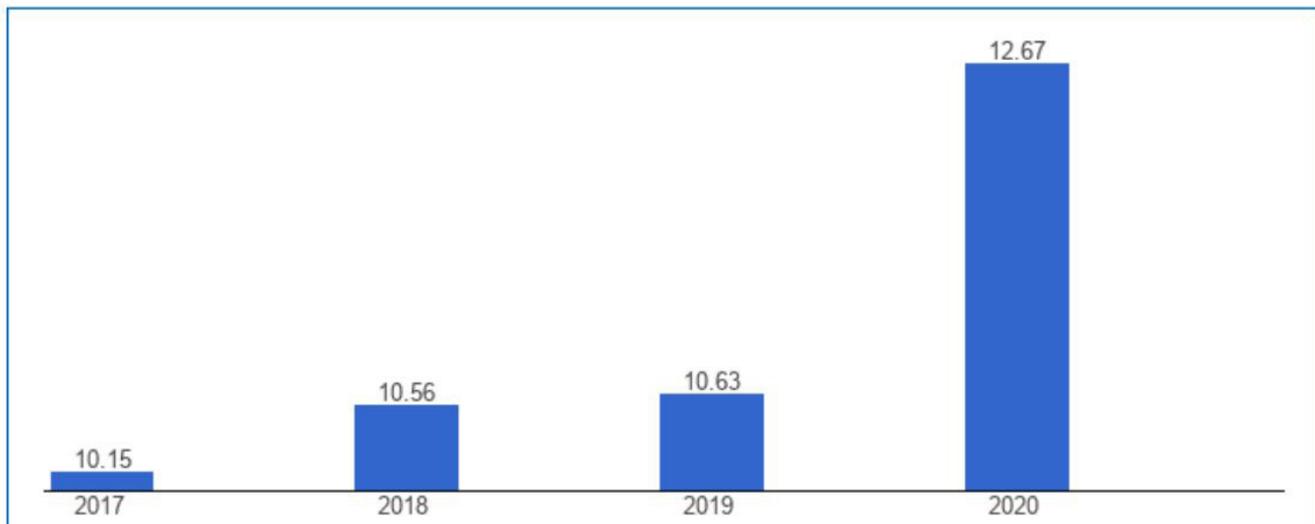
From a global perspective, Rwanda still has significant potential to scale up its pension assets. In countries like the Netherlands, pension assets represent 151% of GDP³, and in Chile, around 80%. In contrast, Rwanda’s

pension assets remain below 15% of GDP⁴—even below the regional peers, indicating both a challenge and an opportunity for growth.

https://www.theglobaleconomy.com/Rwanda/pension_funds_assets/

<https://www.rssb.rw/rssb-engages-the-private-sector-on-pension-reforms-and-expected-benefits>

Figure: Pension Fund Assets to GDP



Source: The World Bank

4. Reform Implications on employees & employers

The 2025 RSSB pension reform introduces significant changes that affect both employees and employers, with far-reaching consequences across payroll costs, disposable income, tax treatment of personal loans and mortgages, and the broader labor market.

4.1. Impact on Take-Home Pay and Employer Payroll costs

For employees, the increase in mandatory pension contributions – from 6% to 12% - directly reduces take-home pay, unless employers voluntarily absorb the additional cost. This reduction in disposable income is particularly impactful when combined with the shift in the contribution base from basic salary to gross salary, which now includes transport and housing allowances.

For example, an employee earning RWF 500,000 per month (gross) will now see a monthly pension deduction of RWF 60,000 (12%), compared to RWF

30,000 (6%) under the old system—resulting in a RWF 30,000 reduction in take-home pay.

From the employer's perspective, payroll costs have increased significantly. Since contributions are now calculated on gross salary, the pension-related wage bill has expanded. This increase in total employment costs, coupled with the alignment of the pension base to the Rwanda Revenue Authority's (RRA) income tax base, eliminates prior ambiguities but raises the overall cost of formal employment.

4.2. Impact on Personal Loans and Mortgage Access

Lower take-home pay also translates into reduced borrowing capacity, as most banks in Rwanda use a debt-to-income (DTI) ratio—typically capping loan repayments at 40% of net income.

- Middle-income earners are likely to experience a 5–8% decline in loan eligibility.
- Low-income earners, who are most sensitive to marginal changes in income, may find themselves disqualified from accessing even small loans unless repayment terms are extended to reduce monthly obligations.

This has broader implications for the banking sector, including:

- Reduced demand for personal and consumer loans.
- Potential slowdown in mortgage uptake, exacerbating Rwanda's already low mortgage penetration.
- Increased risk of informalization, as some workers—especially in low-income brackets—may seek informal employment to avoid higher deductions, undermining the coverage goals of the reform.

Banks may be compelled to revisit their DTI calculations and loan structures. However, if wages do not rise in tandem with the increased contribution rates, there is a heightened risk of loan defaults, particularly among low-to-middle income borrowers.

4.3. Impact on Talent Attraction and Staff Retention

In highly competitive sectors such as finance, attracting and retaining top talent is critical for institutional success and long-term productivity. The new RSSB pension reform – while necessary for social protection – has added financial pressure on both employers and employees, potentially shifting the talent landscape in Rwanda.

While higher deductions from gross salaries, employee net compensation has declined. If organizations do not adjust salary structures or benefits to maintain competitiveness, high-performing employees may

begin seeking better-paying opportunities, either in the local private sector, regional markets, or with international institutions. This raises the risk of a brain drain.

The reform also increases hiring and retention friction in a manner that employers may face difficulties predicting staffing levels and retention risks, especially if workforce morale declines due to stagnant compensation amid increased deductions.

Additionally, employees increasingly expect contract adjustments that reflect the new realities:

- Organizations are under pressure to prepare contract addendums that outline the increased contribution rates, the cost-sharing arrangement between employer and employee, and any compensatory adjustments in gross pay or benefits.
- Failure to proactively address these concerns can lead to higher turnover, greater negotiation friction, and a widening mismatch between employer offerings and employee expectations.

The reform has thus introduced a new layer of complexity in human capital management, requiring employers to act strategically—not only to remain compliant but to remain attractive as employers of choice in a tightening labor market.

6. Conclusion and Policy Recommendation

The 2025 RSSB pension reform marks a bold and necessary step toward securing Rwanda's long-term social protection goals. By expanding the contribution base and increasing rates, the reform strengthens fund sustainability and future pension adequacy. However, it also introduces short- to medium-term economic frictions—particularly around disposable income, loan eligibility, labor market competitiveness, and talent retention.

To balance social protection with economic productivity, policymakers should consider introducing a transitional buffer or targeted tax relief

for low- and middle-income earners, cushioning the immediate impact on take-home pay and preserving credit access. In parallel, employers must revise compensation strategies and proactively engage staff to retain top talent and maintain morale.

The success of this reform will ultimately depend on how well it is managed, communicated, and adjusted to minimize unintended consequences – while keeping the pension system inclusive, fair, and financially resilient.



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