VISIONS AFRICA

CHANGES TO RSSB PENSION CONTRIBUTIONS IN RWANDA FOR 2025

In January 2025, Rwanda will implement major reforms to the pension system, as outlined by the Rwanda Social Security Board (RSSB). These reforms aim to enhance the sustainability and adequacy of the country's social security system, ensuring better retirement security for all Rwandans. However, these changes come with notable implications for businesses and employees.

What Are the Changes?

The pension contribution rate will double from the current 6% to 12%, split equally between employers and employees (6% each). This increase is designed to strengthen the pension fund and provide greater long-term benefits to retirees.

The pension contribution base will shift from the current coverage which excludes transport allowance to include transport as well. This harmonizes the pension contribution base with the taxable income base, simplifying administrative processes (and reducing abusive transport % on the salary - Maternity contributions will still have transport excluded as per RSSB information).
Future Incremental Increases: Starting in January 2027, the contribution rate will increase by an additional 2% annually, reaching 20% by 2030. This phased approach is intended to ease the transition.

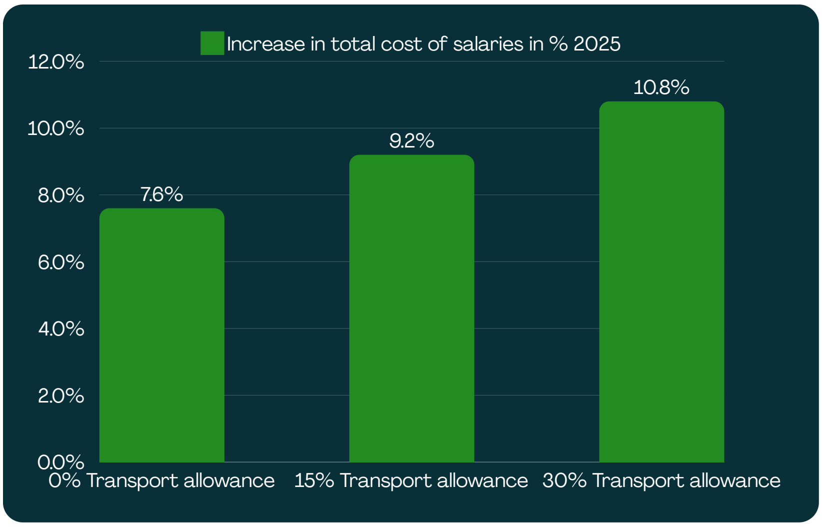
Impact on January 2025 Payroll

For employees, these changes mean a potential reduction in take-home pay unless employers decide to absorb the increased contribution on their behalf. For employers, the reform increases payroll costs, as the 6% contribution rate applies to a broader salary base. This will require organizations to carefully plan their payroll budgets in the next couple of weeks to accommodate the higher costs.

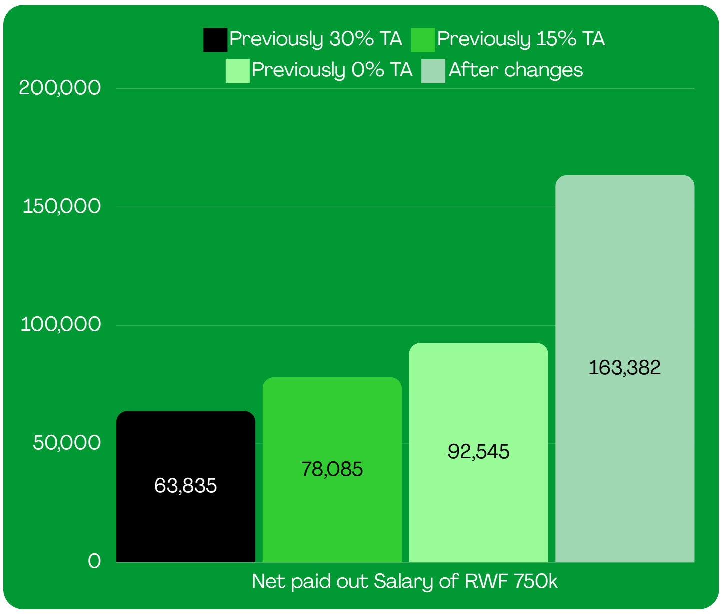
Tax Implications

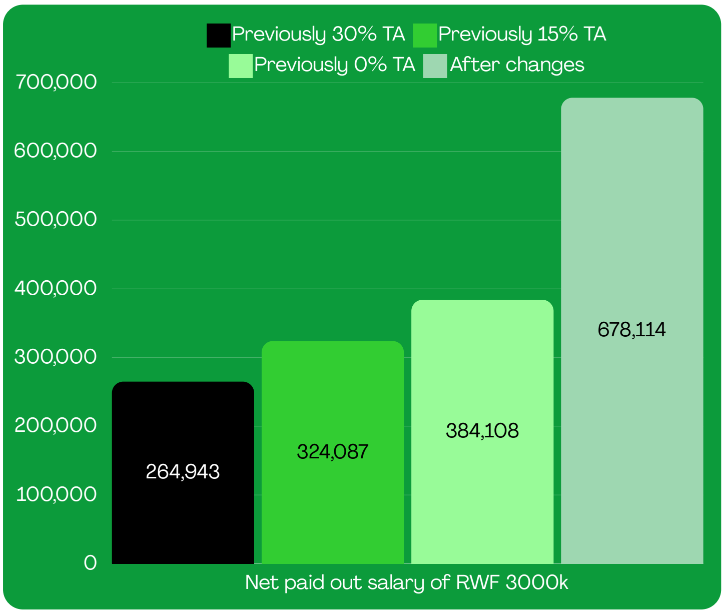
Including transport allowances in the pension contribution base "may" significantly impact taxation for both employers and employees. Since transport allowances (if granted before) will now be treated as taxable income, the total tax burden on both employers and employees will increase. This alignment eliminates ambiguities but raises the overall cost of employment.

The graph shows the increase in % in case the business absorbs all changes (assuming that the transportation will have to be included for occupational hazards but not for maternity contributions and RWF 750k net paid out salary). We conducted the impact assessment where businesses had previously calculated 0%, 15% and 30% of transport allowances on gross salaries.



The below graph shows how the contributions towards RSSB increase in RWF terms with the changes in 2025 (same assumptions as above). All contributions towards RSSB for an employee (employee & employer contributions for Pension, Occupational Hazards & Maternity).





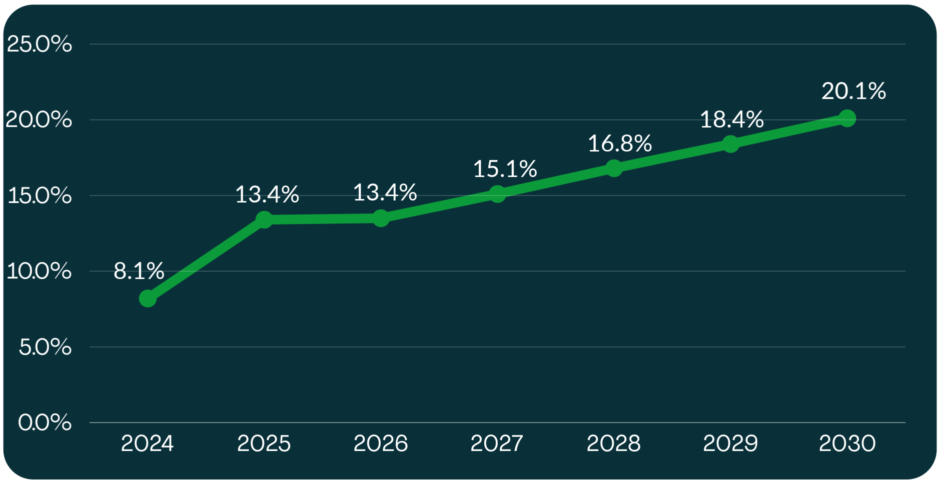
Need to Adjust Contracts

Employers will need to amend existing employment contracts to reflect the new pension contribution structure. This includes preparing addendums that specify the increased contribution rates, the shared responsibilities between employers and employees, and any agreed adjustments to salaries or benefits. Transparent communication with employees will be key to ensuring a smooth transition.

Budget Revisions for Companies Operating in Rwanda

Organizations should review and adjust budgets to accommodate the increased employment costs due to doubled pension contributions and expanded taxable salary bases. The doubling of pension contributions and the inclusion of transport allowances in the taxable base will require adjustments in payroll planning, operational costs, and overall financial projections. Companies should also consider long-term planning for the incremental contribution increases leading up to 2030.

The below graph shows the contributions (all contributions) towards RSSB in % of the total payroll cost of a company for one employee (at RWF 750k net paid out salary).



Preparing for the Transition

The 2025 pension reforms are a step toward strengthening Rwanda's social security system. While the short-term financial adjustments may be challenging, the long-term benefits promise to include enhanced retirement security and improved financial health for the pension fund. Businesses and employees alike are encouraged to:

- Engage in open discussions about the reforms and their implications.
- Seek legal and financial advice to update employment contracts.
- Reassess budgets to align with the new contribution requirements.
- Plan for future increases in the contribution rate.

These proactive measures will help ensure compliance with the new regulations while supporting a seamless transition for all stakeholders.

Please note that the information provided herein is based on Visions Africa's interpretations, views, and assumptions regarding potential pension contribution changes. These assumptions may not fully align with the final regulations or implementation by the relevant authorities.

For more detailed information on how these changes may affect your organization or personal finances, visit our blog on our website, follow us on LinkedIn or contact us directly:

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