



RETIREMENT FUNDS



The Retirement Funds Industry is part of the Non-Bank Financial Institutions (NBFI) sector.

What is a Pension Fund and What is its Purpose?

A Pension Fund is any fund whose principal objective is to provide for the payment of a pension to a person upon his/her retirement, who is or has been a member of the fund.

The main purpose of a retirement fund is to provide its members with retirement income security when they have ceased employment. Individual members or dependents can claim certain benefits such as disability, retrenchment, death and maintenance benefits.

What is the difference between a Provident Fund and a Pension Fund?

- **Pension Fund:** upon retirement, a member is entitled to receive up to one-third of their benefits as a lump sum and the remaining two-thirds used to purchase an annuity policy from a licensed life insurer in Botswana, who shall pay a monthly pension to the member and/or their beneficiaries for the rest of their lives, subject to applicable tax.
- **Provident Fund:** permits a person who is or has been a member of a fund to take their accrued benefit as a cash lump sum upon retirement, which is subject to applicable tax.

Types of Pensions available in Botswana

Occupational Pensions: These are pensions earned as part of employment benefits. The arrangement could be through defined contributions by employers or both the employer and the employee. These are called defined contribution schemes.

The Government also has a defined benefit scheme, which is regulated through the Pensions Act, 2002 (Cap. 27:01), which mainly covers public officers who retired before the year 2001, when Botswana Public Officers Pension Fund (BPOPF) was established and they opted not to move to BPOPF.

Private/Personal Pensions: These are private pension arrangements made by individuals through private retirement funds and insurance companies.

State Pensions: These are pensions provided by Government, for example, the Government Old Age Pension 'Tandabala' received by every senior citizen aged above 65 years old, regardless of whether or not they used to be employed.

What is the difference between Defined Benefit and Defined Contribution Funds?

Defined Benefit Fund: the benefit at retirement is calculated based on the member's salary and years of service.

Defined Contribution fund: the contributions by the member and employer are defined in the rules of the Fund and the benefit to a member at retirement is calculated based on the accumulated contributions and investment earnings. There are no guarantees on the amount members can expect upon retirement.

Categories of Pension Fund Members

The three types of pension membership are:

1. **Active Member** – is a member who is still actively contributing (saving) towards their retirement, within a pension fund.
2. **Deferred Member** - is a member who no longer contributes to the fund, but who still has their benefits preserved and has not reached retirement age.
3. **Pensioner Member** – is a member who has reached retirement age and/or are receiving their monthly pension income.

Who is a Dependent?

Dependents are usually spouses or children of the member. However, if one can prove that they were financially dependent on the deceased member for everyday necessities, they may qualify as dependents.

Who Manages the Contribution to a Fund?

Fund Administrator: appointed by a retirement funds board of trustees to provide administration or similar services to the Fund.

Board of Trustees: is appointed in terms of the Fund Rules and the Acts consisting of representatives of both employee and employer to oversee the management of the fund.

Commencement of the Retirement Funds Act, 2023

The Retirement Funds Act 2022 ("the Act") commenced on the October 14, 2022. The Act repeals and replaces the previous Retirement Funds Act (2014).

The main changes introduced by the Act pertain to:

- a) Expanding and strengthening the Authority's regulatory oversight powers;
- b) Improving Governance of Pension Funds to enhance professionalism;
- c) Strengthening Pension Fund Administration regulation and supervision;
- d) Changes in early withdrawals of accrued pension benefits by members, subject to qualifying conditions.



Deductions from Members Benefits

Section 52 of the Retirement Funds Act (2022), states provisions of deductions pertaining to Pension Benefits.

Summary of the Enhanced Withdrawals in Retirement Funds Act 2022

Category	Purpose of withdrawal	From	To
Deferred Member	Default in any loan	1/3 of pension	100% of loan
	Default in mortgage loan	Nil	100% of loan
	Medical Expenses	Nil	50% of pension
Active Member	Upon resignation and transfer from one pension fund to another	P5 000 or 25% whichever is greater	P25 000 or 25% whichever is greater
	Upon retirement/dismissal	P5 000 or 33% whichever is greater	P25 000 or 33% whichever is greater
Pensioners	Subsequent amendments will be informed by the study Being conducted by NBFIRA		

Enhancements of withdrawal clauses at retirement

To further facilitate enhanced withdrawals at retirement, the new Retirement Funds Act has made the following concessions:

The commutable amount upon retirement has been increased from one-third (1/3) to 50 percent of accrued savings; and

The minimum threshold to be encashed in full at retirement has been increased from the current annual pension of P5 000 to an annual pension of P20 000.

The maximum withdrawal limit allowed

The purpose for the enhanced withdrawals is to provide an opportunity to withdraw larger lump sums from the pension benefits, thus facilitating for usage of pension money for meaningful use earlier on in life.

Pensioners should, however, consider whether the receivable pension after making such significant withdrawals will be adequate to sustain them post retirement.

Criteria for requesting enhanced access benefits

The Board of Trustees of a Pension Fund is responsible for assessing all requests in line with prescribed criteria that are required to be

met in line with the Act. Access to enhanced encashment by qualifying deferred members is subjected to the following conditions:

- That the deferred member demonstrates that he/she has been consecutively unemployed for at least six months.
- That the deferred member demonstrates to the Board of Trustees that, the use of their pension funds is the last resort, that is, there are no any other assets, to settle a mortgage, a loan or medical bills for terminal illness.
- The outstanding loan amount should not exceed the accrued benefit.
- In the event that, a deferred member is a member of more than one fund, only one fund shall make payment for the loan.

Withdrawals for pensioners and active members

This requires significant in-depth research and valuations to be undertaken, therefore, the new Act does not provide for any withdrawals by active members or pensioners.

NBFIRA is conducting a study that is reviewing the effect and impact of allowing withdrawals, on the pension system. The findings from the study will inform subsequent amendments to the Retirement Fund Act, 2022 where applicable.



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Remember.....

It is your right as a pension fund member to details of which should include but not limited to:

- The opening balance should equate to the previous year's closing balance;
- Interest earned during the current year;
- Deductions and closing balance.

Consumer Protection – How do I Lodge my complaint with NBFIRA?

The **Regulatory Authority** has a legal duty to protect consumers by promoting Fairness, industry, of service from a service provider

within the Retirement Funds industry or are unable to amicably resolve a dispute, you may escalate you complaint to the **Regulatory Authority** through our Complaints Portal on our website Refer to our Complaints Procedure on guidelines on how to lodge a complaint.

How is the Retirement Fund Industry Regulated?

The Retirement Funds Industry is regulated by **Regulatory Authority** using the NBFIRA act (2016) and the following industry specific legal frame work:

- Retirement Funds Act (2022);
- Income Tax Superannuation regulations (2022);
- Pensions Administrative Rules (2022).



NBFIRA Ethics Hotline

Have you observed or suspect fraudulent or unethical activities within the NBFIRA sector or the **Regulatory Authority**? Be part of the solution and make an anonymous report to:

Call on the Toll-Free Number: 16133
Email to: nbfira@tipoffs.com
Website: www.tipoffs.com
Postal address: P.O. Box 448, Gaborone

NBFIRA CONTACT DETAILS

For more information, contact us on:

Private Bag 00314, Gaborone
Physical Address: 3rd Floor Exponential
Building, Plot 54351 New CBD, Off PG
Matante Road, Gaborone

Tel: +267 310 2595/3686100
Fax: +267 3102376/3102353
Email: info@nbfira.org.bw
Website: www.nbfira.org.bw

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"NBFIRA... Working Towards Financial Stability"

