



Circular No. 13 of 2016

6 December 2016

Zimbabwe Association of Pension Funds (ZAPF)
Life Offices Association of Zimbabwe (LOA)
Fund Administrators

REVISION OF PART OR FULL COMMUTATION REQUIREMENTS

1. As you may be aware, discussions with stakeholders regarding revision of IPEC's circulars 4 and 8 of 2012 on commutation of pension have been ongoing for quite a while now.
2. We are pleased to advise however, that these discussions have now been concluded, giving effect to the implementation of circular 13 of 2016 as per the enclosed document.
3. It is our hope that circular 13 of 2016 will help speed up processing of commutation requests from pension fund members.
4. Should you require clarification on the new circular, please do not hesitate to contact IPEC.

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M. S. Mpofu
M. S. Mpofu (Mrs.)

Commissioner of Insurance, Pension and Provident Funds



REVISION OF PART OR FULL COMMUTATION REQUIREMENTS

1. Background...

- 1.1 The Insurance and Pensions Commission has witnessed an increase in the demand to commute pensions in the past few years.
- 1.2 The demand has been necessitated by an increase in members of pension funds being laid off, owing to the harsh economic environment. The aftermath of the 17th July 2015 Supreme Court ruling and failure by retrenched members to secure sustainable regular income has accelerated the requests for commutation.
- 1.3 The requests by desperate members to commute their pensions have inevitably led to the need to review circular 4 and 8 of 2012 on commutations.

2. Statutory Instrument (SI) 25 of 2016

- 2.1 The SI provides that if a member's total pension does not exceed six hundred United States Dollars per annum, the trustees may be empowered to commute the whole or part of the pension for a lump sum;
Provided such commutation does not result in the pension fund failing to pay regular monthly pensions due to illiquidity.
- 2.2 If the total pension exceeds six hundred United States Dollars per annum, the trustees may be empowered to commute for a full lump sum portion, not exceeding one third of the pension as is elected.
Provided that the pension purchased by the resultant balance shall not be less than six hundred United States Dollars.



2.3 Empowerment of Trustees

Trustees of pension funds should have the power to authorise commutation of all pension balances below the six hundred United States Dollars threshold per annum provided the affected member is agreeable and the fund can afford this.

If the trustees are of the opinion that the fund cannot afford, the fund should pay the 1/3 commutation as a lump sum and the remainder as a pension. This should be commuted once the fund is in a position to do so.

Where the pension is above six hundred United States Dollars, but after the one third commutation has been deducted the amount falls below six hundred United States Dollars per annum, trustees should still authorise full commutation, provided the fund can afford it.

3. Objectives of Revising Circular 4 and 8 of 2012

These circulars are being revised to:

- a) Enhance value realised by exiting fund members through broadening the criteria used for approval of commutations, whilst at the same time ensuring the protection of the interests of remaining pension fund members.
- b) Reduce the turnaround time in the processing of applications for commutation.

4. Criteria

- 4.1 As a guiding principle, pension funds, through their Board of Trustees will allow full or partial commutation provided that the retrenched/retired member



submits application within three years of their date of retrenchment/retirement. In addition, the funds should be financially resilient to sustain the commutations and withdrawals without adversely affecting:

- a) the interest of the members who remain in the fund;
- b) the liquidity requirements of the fund; and
- c) the spread of fund assets across different asset classes on an on-going basis.

4.2 Trustees of a pension fund will approve part or full commutation, upon application by a member for the withdrawal of regular and or preservation benefits after retirement/retrenchment for the following reasons:

- a) Monthly pension being lower than that prescribed in the SI;
- b) Pension from the preservation benefit upon reaching age 55 being lower than that prescribed in the SI;
- c) Medical Reasons on, supplying relevant supporting documents;
- d) Funding Educational Requirements for children below the age of 24 years;
- e) Paying off mortgage loans or finishing construction of dwelling homes.

4.3 The criteria set out in this document shall not apply to those who opt for voluntary retrenchment.

Where the application is made at least 3 years after the voluntary retrenchment, the fund's Board of Trustees will lodge the member's application with the Commission who may request for information on how the proceeds of the voluntary retrenchment were used and evidence there to should be attached. All supporting documents should also be enclosed.

4.4 The grounds upon which full or partial commutation will be considered are explained below.



Monthly Pension Payment below Prescribed Minimum...

- 4.5 In cases where a member's monthly pension is below the prescribed minimum amount of six hundred United States Dollars, per annum, or as may be amended from time to time, the Board of Trustees shall consider the application and if satisfied, proceed to approve it.
- 4.6 Trustees should allow commutation for medical reasons for applicant or his/immediate family on the following conditions:
- a) Supporting documentation by a medical practitioner/clinic indicating that applicant or immediate family member needs medical attention;
 - b) Documentary evidence in support of the amount being requested such as medical bill or invoice;
 - c) Where a medical procedure needs to be performed, the commutation proceeds or part thereof must be deposited directly into the account of the service provider;
 - d) If medical expenses are not for the applicant, then documentary evidence must be provided to authenticate the relationship.

Educational Purposes...

- 4.7 Trustees should allow payment of fees for the applicant's children, whether biological, adopted, or the member is the legal guardian. Children whose fees are paid should be below the age of 24 years.
- 4.8 The approval for educational purposes should be on condition that the funds are paid directly into the school/college/university bank account.
- 4.9 The following information should be provided in support of the commutation application:



- a) Stamped school/college/university invoice;
- b) A clear statement of the grade/form/year in which the child is enrolled;
- c) A certified copy of the child's birth certificate;
- d) Proof that the member is a legal guardian;
- e) Banking Details for the school/college/university;
- f) Any other information the Trustees may reasonably require.

Mortgage Loans and Property Development (Building of Residential Houses)...

4.10 The pension fund shall authorise commutation in respect of full or partial settlement of mortgage bond obligation in respect of the first and only residential property owned by the applicant. Where the member's value in the fund is below the amount owed, disclosure should be made as to how the balance will be paid.

Other Reasons

4.11 As a guiding principle pension funds that are financially strong may recommend to the Commission commutation for other reasons other than those specified above.

5. Administration of Commutations

5.1 The Commission reserves the right to verify the authenticity of reasons and documentation provided by any applicant for commutation. Onsite inspections may be conducted to verify reported progress in respect of property development.



5.2 To reduce the turnaround time on the processing of commutations, pension funds through their Board of Trustees will if satisfied, approve or decline an application for commutation. Trustees will disburse the funds commuted in line with provisions of the criteria set herein, up to the upper limits as stated in the table below:

Reason For Commutation	Upper Limit in US Dollars of Amount a Pension Fund can Approve.
Medical	\$10,000
Educational	\$20,000
Mortgage and Property Development	\$50,000

- 5.3 Any subsequent application after a member has accessed an initial commutation even if it is within the above stipulated limits shall be referred to the Commission for approval, with all supporting documentation enclosed.
- 5.4 The pension fund shall keep a report of all approved and declined applications including supporting documents and these should be readily available for inspection by the Commission. Such documents to be kept for at least 5 years from date that the applicant attains or would have attained his legal retirement age as may be defined from time to time.
- 5.5 In addition, a quarterly return shall be submitted to the Commission on all processed applications (approved, declined and those referred for approval to the Commission), in provided format.
- 5.6 Such a return shall be signed off by the Compliance Officer and the Principal Officer of the fund, declaring that approved commutations have been done in terms of the set criteria.



6 Application in Respect to Foreign Payment

- 6.1 All applications in respect of foreign payment shall be referred to the Commission for approval without any exception.
- 6.2 To avoid unnecessary externalisation of funds, the applicant must justify such payments where similar services are available locally.

7 Enforcement Measures

- 7.1 Cases of misrepresentation by pension fund or applicant will result in criminal charges being laid against the offending party in terms of section 35 of the Pension and Provident Funds Act.
- 7.2 Where a pension fund declines an application for commutation, the applicant through the same pension fund may appeal against such a decision to the Commission.

8 Anticipated Benefits from the Revision of Circular 4 of 2012

- 8.1 It is our hope that both the Ministry of Finance and IPEC will have their work load reduced thus creating more room for staff to deal with other tasks.
- 8.2 The trustees of pension funds assisted by fund administrators will be empowered to make critical decisions regarding the pension funds they preside over.
- 8.3 Pension fund members and beneficiaries will have their applications processed faster as a result of the reduced time lag in the processing of their requests.

Insurance & Pensions Commission

6/12/2016