



**Circular Number 2 of 2017**

**27 January 2017**

Zimbabwe Association of Pension Funds (ZAPF)

Life Offices Association (LOA)

Zimbabwe Insurance Brokers Association (ZIBA)

Fund Administrators

**PENSION COMMUTATION FOR RETRENCHED EMPLOYEES**

1. The current legislation provides for exemption from income tax on a third of the total value of the pension or annuity commuted by an individual who has attained the prescribed age of 55 years.
2. **In terms of Pension Fund rules, a member who is retrenched before attaining the prescribed age of 55 years is deemed to be a pensioner and is allowed to commute a third of the total value of the pension or annuity.**
3. The commutation is however, subject to tax. Due to the current economic challenges, a number of employees are being retrenched before attaining the prescribed retirement age of 55 years. Most of these employees, however, have minimal opportunities to be re-employed. Consequently, pension proceeds have, thus, become the only source of investment income available to these retrenched employees.
4. In order to provide relief to retrenched employees who have not yet attained the prescribed retirement age, the Minister of Finance and Economic Development exempted a minimum value of US\$10 000 or one third of the total value of the pension or annuity up to a maximum of US\$60 000 in the 2016 National Budget Statement.
5. Future pension pay outs accruing to these retrenched employees will, however, not benefit from the income tax exemption if the pensioners are still below the age of 55 years. This measure took effect from 1 January 2016.

6. We have noted with concern that some pension funds have not implemented the Minister's decision to the detriment of the affected employees. All fund Administrators and Principal Officers are therefore directed to comply with the Minister's ruling and ensure that retrenched employees who have not attained the age of 55 years are not prejudiced.
  
7. Please be guided accordingly and should you need any clarification, please do not hesitate to contact IPEC.

  
M.S Mpofo

**COMMISSIONER OF INSURANCE, PENSION AND PROVIDENT FUNDS**