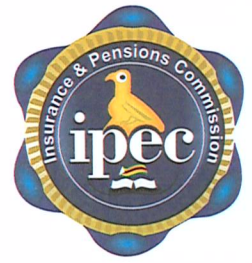


Insurance & Pensions Commission



Circular 28 of 2021

01 October 2021

To: **All Registered Pension and Provident Funds**
All Registered Life Insurers

CC: **Zimbabwe Association of Pension Funds (ZAPF)**
Actuarial Society of Zimbabwe (ASZ)
Life Offices Association (LOA)

ISSUANCE OF THE INCOME DRAWDOWN FRAMEWORK

1. Reference is made to the above matter.
2. Pursuant to the issuance of the Income Drawdown draft framework to the industry for comments earlier this year, the feedback was considered and necessary adjustments made.
3. In light of the above, the Commission is now issuing the attached final income drawdown framework, effective 1 October 2021.
4. Issuance of framework is in terms of Section 3(1) of the Insurance and Pensions Commission (Issuance of General Guidelines and Standards) Regulations, Statutory Instrument 69 of 2020.
5. The framework provides guidance and key principles to be adhered to in the development and marketing of income drawdown products in the Insurance and Pension Industry with a view to expand retirement options as well as protect members of pension funds and their beneficiaries.
6. All requests for clarification on the income drawdown framework should be directed to our actuarial team on actuarial@ipec.co.zw.
7. Please be guided accordingly.

Yours Sincerely,

Grace Muradzikwa

COMMISSIONER OF INSURANCE, PENSION AND PROVIDENT FUNDS



**A FRAMEWORK ON THE INCOME
DRAWDOWN PRODUCTS IN
ZIMBABWE**

OCTOBER 2021

Status: Final

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1. Introduction and Background

- 1.1 World over, pension funds and insurance companies are expected to provide decent pension payments when people retire from active employment.
- 1.2 In some jurisdictions, there are a variety of options for people retiring from active retirement on how they utilise their retirement savings. These include the following options:
 - a. Purchase of an annuity from their pension fund;
 - b. Purchase of an annuity from an insurance company;
 - c. Purchase of an income drawdown; and
 - d. A cash payment either because it is invested in a provident fund or commutation of pension.
- 1.3 The Zimbabwean market has been predominantly offering the first 2 options to the retiring population and there has been no to limited flexibility to offer income drawdowns to people retiring from their active employment.
- 1.4 This guideline therefore provides guidance on how income drawdowns can be effectively introduced in the insurance and pension industry with a view to expand retirement options as well as protecting members of pension funds and their beneficiaries.
- 1.5 The need for this guideline has been further necessitated by the need to mitigate the weaknesses of level guaranteed annuities in this current inflationary environment which has resulted in level annuities not fully serving the intended purposes.

2. Purpose

- 2.1 The Purpose of this framework is to:

- a. Provide the principles that shall be adhered to by the insurance and pension industry when offering income drawdown arrangements;
- b. Provide transitional provisions for the guaranteed annuities;
- c. Provide transitional arrangements for insurance companies and pension funds that had since commenced offering income drawdown arrangements to their membership/policyholders; and
- d. Promote understanding of the risks and rewards inherent in both guaranteed annuities and drawdown arrangement by members before any option is elected.

3. Authorisation

- 3.1 This framework is being issued in terms of Section 3(1) of the Insurance and Pensions Commission (Issuance of General Guidelines and Standards) Regulations, Statutory Instrument 69 Of 2020.

4. Effective Date

- 4.1 This framework shall be in effect as of **1 October 2021**.

5. Key Principles

- 5.1 To be authorised to provide the income drawdown arrangement by the Commission, all pension funds, provident funds and other providers of retirement benefits such as insurance companies shall:
 - a. Have the ability to segregate the funds of the income drawdown arrangement from those of other members of the fund to minimise the risk of potential cross-subsidies;
 - b. Have the technical, infrastructure and administrative capacity to manage the income drawdown arrangement; and

- c. Provide sound advisory services on the income drawdown arrangement.

6. Membership Consent

- 6.1 Prior to commencement of the drawdown, the member is required to sign a member consent form acknowledging that advice has been taken and he/she has an appreciation of the product design and the associated risks.
- 6.2 Members should be given three months cooling-off period from date of signing consent to rescind their initial decision and be given an option to take a growth annuity instead of an income drawdown arrangement.

7. Type of Drawdown to be offered

- 7.1 Any provider of the income drawdown shall ensure that the product is designed in such a way that a member can draw down their retirement pot up to a minimum age of 80 years.
- 7.2 No provider of income drawdown arrangement will be authorised to offer uncapped drawdowns to reduce the risk that people may run out of their retirement pots immediately after retiring.

8. Accessibility

- 8.1 The option for an income drawdown will become available to the member at retirement as defined in the Registered Rules of each particular fund.
- 8.2 The structure of each individual income drawdown shall provide for the frequency of the drawdown which can be monthly, quarterly, or bi-annually.

9. Flexibility

- 9.1 Individuals shall be allowed to transfer benefits to another provider offering flexi-access drawdown and who is able and willing to accept the transfer if:
- a. Current pension provider does not offer the product, or
 - b. The individual has made a decision to transfer notwithstanding that the current provider have such an income drawdown arrangement.
- 9.2 Policyholders should provide justifiable reasons to all concerned parties, subject to a 30 day notice period on why they wish to change service providers. Should conflicting interests arise the matter will be escalated to the Commission for a determination.

10. Minimum Required Capital Sum

- 10.1 There shall be no minimum required capital sum for one to get an income drawdown arrangement.

11. Minimum and Maximum Withdrawal Limits

- 11.1 Individuals shall withdraw an income from their drawdown fund subject to a maximum of 15% p.a. at any given time, ("withdrawal percentage") subject to a function that takes into account various factors affecting the performance of the fund.

12. Expenses and fees

- 12.1 Notwithstanding that the expenses and fees will vary from one provider of the income drawdown arrangement to another, such fees shall:
- a. Be reasonable and fair;

- b. Not have an erosional effect on the balance of an individual in their income drawdown fund;
- c. Remain relatively stable over time unless there is a justifiable cause; and
- d. Be transparent by ensuring that expenses are not hidden thus reducing investment returns or investment returns are enhanced.

13. Death Benefits

13.1 Upon the death of the individual member, the fund can be used to provide an income to the nominated beneficiaries either by:

- a. A continuation of the income drawdown arrangement to the beneficiaries; or
- b. The purchase of an annuity; or
- c. If income is not taken in a manner prescribed in (a) or (b) above, the balance may be paid to the nominated beneficiaries.

14 Conversion Options

14.1 Individual members shall be given an option to convert from income drawdowns to an annuity under the following circumstances:

- a. The individual member has re-considered their decision during the cooling off period after signing up for the income drawdown option; or
- b. The provider of the income drawdown arrangement is winding up the arrangement and the individual member is not willing to transfer the balance of their drawdown fund to another provider of an income drawdown arrangement.

14.2 Conversion shall only be allowed if the individual member wants to convert to a growth annuity.

14.3 All conversions to guaranteed level annuities shall not be permitted unless the Commission prescribes otherwise.

15 Authorisation of the Income Drawdown Arrangements

15.1 No insurer or pension fund shall offer an income drawdown arrangement without the prior written approval of the Commission.

16 Transitional Arrangements

16.1 To ensure smooth implementation of this framework, any insurer or pension fund that is already offering income drawdown options will be given a period of 3 months from the effective date of this framework to align their income drawdown arrangements with the requirements of this framework.

16.2 The framework shall apply to new products from the effective date of this framework.

17 Reporting Requirements

17.1 Every provider of an income drawdown arrangement shall report to the Commission the necessary details as prescribed from time to time on a quarterly, half yearly and annual basis.

17.2 The Commission shall make the necessary adjustments to the existing quarterly reporting templates to ensure that the income drawdown arrangements are adequately reported for regulatory purposes.

18 Communication with Members

18.1 To ensure that members are informed of the operation of the income drawdown arrangement, every provider of income drawdown

arrangement shall be required to ensure adequate communication to their policyholders/members of pension schemes at:

- a. The time of taking the income drawdown option;
- b. During the life of the income drawdown arrangement; and
- c. Termination of the income drawdown arrangement.

18.2 At the time of signing for the product, the prospective income drawdown policyholder/member shall be given the following information at a minimum:

- a. Investment options available to the member for the income drawdown arrangement;
- b. Historical performance, if any, of the assets into which the income drawdown policyholders/members will be invested;
- c. Documented rules of how the income drawdown arrangement works, which rules should clearly indicate the charges or fees associated with the income drawdown arrangement; and
- d. Options for withdrawal, on a conservative and maximum basis, as well as the term to exhaustion must be disclosed to the policyholders.

18.3 At least on an annual basis, the provider of the income drawdown arrangement shall provide the member with a minimum of the following information:

- a. Their starting capital for the period and the interest earned during the period;
- b. A summary of all income drawdown payments made;
- c. A summary of all fees and expenses charged against their income drawdown fund; and
- d. Any other information as deemed necessary or as may be prescribed from time to time.

18.4 At termination of the income drawdown arrangement, either on request by the member or as a decision of the insurer, the provider of the income

drawdown arrangement shall provide the member with a minimum of the following information:

- a. The member's capital balance at the time of termination;
- b. Any termination charges applicable including the taxation implications; and
- c. Any other such information as may be applicable.

19 Consumer Education

19.1 The service providers are mandated to inform the policyholders, in utmost good faith, all information about the income drawdown arrangement including but not limited to:

- a. Risks and rewards inherent in both guaranteed annuities and drawdown arrangement by members before any option is elected; and
- b. Options upon death and their withdrawal options.

19.2 If the service provider uses brokers, they must ensure that they are trained and understand the products that they are taking to the market on behalf of the service provider.

19.3 The provider of the drawdown is obligated to ensure that the prospective client is fully informed on the cooling-off period and all the relevant expenses to be incurred in the event that the client changes their decision during the cooling-off period.

20 Enforcement

20.1 The Commission shall exercise all necessary powers to ensure full compliance with the requirements of this framework and other applicable legislative provisions.

Flexi-access drawdown: a pension product that allows you access your pensions savings whenever you need to, within the stipulated withdrawal limits, whilst investing your remaining funds in a way that's specifically designed to provide an ongoing retirement.

FINNIA