

Circular 21 of 2020

20 October 2020

**Criteria For Projection of Pension Benefits and Determination of Applications for
Commutation of Pension Benefits**

TO: All Pension and Provident Funds

Zimbabwe Association of Pension Funds (ZAPF)

Life Offices Association of Zimbabwe (LOA)

Insurance Brokers Association of Zimbabwe (IBAZ)

Pension Fund Administrators

1 Basis of Circular

1.1 The Circular has been issued pursuant to section (3) (1) of Insurance and Pensions Commission (Issuance of General Guidelines and Standards) Regulations, 2020, published in Statutory Instrument 69 of 2020, which empowers the Insurance and Pensions Commission to issue general guidelines to provide for market conduct practices to be observed by the insurance and pensions industry.

2 Objectives of the Circular

2.1 The objectives of the Circular are:

- a) To reduce erosion of pension values through setting the criteria to be observed by the pensions industry in the projection of pension benefits and computation of commutation values.
- b) To enhance the monetary 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.
- c) To promote the welfare of pensioners by broadening the additional grounds for commutation to take into account the current macro-economic environment.
- d) Reduce the turnaround time in the processing of applications for commutation.

3 Projection of Pension Benefits

3.1 In view of the difficulties faced by the industry in setting assumptions needed to project fund members' retirement benefits as a result of the obtaining macro-economic environment, in particular in setting the following assumptions:-

- a) Salary escalation assumption;
- b) Inflation assumption; and
- c) Long-term interest rate assumption in view of the absence of long-term Government bonds,

3.2 The Commission hereby directs that all pension benefit projections be suspended until further notice.

3.3 The rationale for this waiver is to manage members' reasonable expectations by ensuring that their actual retirement benefits when they retire will not be significantly different from those that would have been projected during their working lifetime.

3.4 This waiver may be reviewed any time in line with changes in the macroeconomic environment.

3.5 However, all life insurers, pension funds and fund administrators administering pension funds are directed to ensure that:-

- a) All benefit statements are sent timeously to members of the pension funds/provident funds as required in terms of the Guidance Paper on Adjusting Values to take into consideration the 2019 currency reforms.
- b) The suspension of pension benefit projections is properly communicated to pension fund/provident fund members.
- c) Members are encouraged to take all necessary steps to ensure that they have a decent pension pay-out upon retirement such as making additional voluntary contributions to their respective pension funds.

4 Commutation of Pension Benefits

4.1 Owing to the witnessed increase in the requests by members to commute pensions in the recent years, which been driven by an increase in members of pension funds who are being laid off, owing to the difficult economic environment, the Commission has considered it necessary to replace Circular 13 of 2016, on commutations.

4.2 The law that governs the commutation of pension is provided for under the Pension and Provident Funds (Amendment) Regulations, 2020, published in Statutory Instrument 91 of 2020.

Statutory Instrument 91 of 2020.

4.3 Section 24 of the Statutory Instrument provides that if a member's total pension does not exceed six thousand Zimbabwean Dollars per annum, the trustees may be empowered to commute the whole or part of the pension for a lump sum;

4.4 Provided such commutation does not result in the pension fund failing to pay regular monthly pensions due to illiquidity.

4.5 If the total pension exceeds six thousand Zimbabwe Dollars per annum, the trustees may be empowered to approve a lump sum portion, not exceeding one third of the pension, provided that the pension purchased by the resultant balance shall not be less than six thousand Zimbabwe Dollars.

5 Computation of Commutation Values

5.1 To avoid a further reduction in values of the commutable amounts, through updating of discount rate assumptions in determining annuity factors to allow for economic changes in the environment, the Commission hereby directs that the lowest of the discount rate that was used to determine pension annuity factors between December 2015 and December 2018 shall be applied for this purpose.

5.2 This position shall be reviewed on the earlier of the following:-

- a) The end of the hyperinflationary environment as advised by PAAB or
- b) The availability of long-term dated Government bonds which provide a basis for selecting a discount rate to use in coming up with annuity factors that are used for the purposes of computing pension benefits.

5.3 In addition, at the end of each calendar year the benefits of those who would have commuted their retirement benefits during the course of the year shall be recalculated to determine if they have been paid their correct and rightful benefit entitlements.

5.4 In the event, that the benefits paid based on the interim results during the course of the year are lower than those recalculated at the end of the year, the life insurer, pension fund, provident fund should make good the difference to the member(s) concerned.

6 Empowerment of Trustees

6.1 Trustees of pension funds shall have the power to authorise applications for full commutation of all pension balances below the six thousand Zimbabwe dollars threshold per annum provided the fund is liquid enough to make the payment.

6.2 If the trustees are of the opinion that the fund cannot afford, the fund should pay the one-third commutation as a lump sum and the remainder as a pension. The remainder shall be commuted once the fund is in a financial position to do so.

6.3 Where after payment of one-third commutation, the pension that can be purchased by the balance falls below six thousand Zimbabwe dollars, per annum, trustees shall on application by the member authorise full commutation, provided the fund can afford it.

7 Criteria

7.1 As a guiding principle, pension funds, through their Boards of Trustees will allow full or partial commutation provided that the retrenched/retired member submits an application within three years of their date of retrenchment/retirement.

7.2 In addition, the funds must be financially sound 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.

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

- a) Monthly pension being lower than that prescribed in the Regulations;
- b) Pension from the preservation benefit upon reaching age 55 being lower
- c) than that prescribed in the Regulations;
- d) Medical reasons on, supplying relevant supporting documents;
- e) Funding educational requirements for children below the age of 24 years;
- f) Paying off mortgage loans or finishing construction of dwelling homes, provided that this will be the member's first and only property.

7.4 The trustees shall not approve an application where the basis for the request for commutation is reimbursements of services already paid for.

7.5 The criteria set out in this document shall not apply to those who opt for voluntary retrenchment or withdraw from employment, except where the application for commutation relates to mortgage assistance and property development.

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

7.7 The grounds upon which full or partial commutation will be considered are explained below: -

Monthly Pension Payment Below Prescribed Minimum...

7.8 In cases where a member's monthly pension is below the prescribed minimum amount of six thousand Zimbabwe 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.

7.9 Trustees shall allow commutation for medical reasons for an applicant or his/immediate family on the following conditions: -

- a) Supporting documentation by a medical practitioner/clinic indicating that the applicant or immediate family member needs medical attention;
- b) Documentary evidence in support of the amount being requested such as a medical bill or invoice;
- c) Where a medical procedure needs to be performed, the commutation proceeds or part thereof shall 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

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

- 7.13 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, the member shall furnish the trustees or the Commission with evidence of capacity to meet the balance. Furthermore, involuntary retrenchments and resignations may be considered under payments of mortgages upon a member providing proof of lack of capacity to service the mortgage. Commutations shall also be granted for accessories associated with property development.
- 7.14 The following information should be provided in support of the application:-
- a) Mortgage loan statement
 - b) Affidavit confirming if the property is the first and main residence

- c) Proof of usage of the initial pay-out (if voluntary retrenchment/ resignation)
- d) Approved plan
- e) Signed stage form by an inspector
- f) Bill of quantities from suppliers.

8 Commissioner’s discretion

8.1 The Commissioner shall have the discretion to approve commutations based on other circumstances attached to each case. Due regard shall be given to the fund's capacity and liquidity position when exercising such discretion.

9 Administration of Commutations

9.1 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.

9.2 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 and proof of such approval shall be in form of signed document/resolution by the majority of the trustees. 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 of % of member total Accumulation
Medical	30%
Educational	30%
Mortgage and Property Development	50%

9.3 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.

9.4 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.

9.5 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.

9.6 The return shall be signed off by the Compliance Officer and the Principal Officer of the fund, who shall declare that approved commutations have been done in terms of the set criteria.

10 Application in Respect to Foreign Payment


10.1 All applications in respect of foreign payment shall be referred to the Commission for approval without any exception.

10.2 To avoid unnecessary externalisation of funds, the applicant shall justify such payments where similar services are available locally.

11 Enforcement Measures

11.1 Where a pension fund declines an application for commutation, the Fund must notify the applicant that, through the same pension fund, the applicant may appeal against such a decision to the Commission.

Please be guided accordingly



Grace Muradzikwa

COMMISSIONER OF INSURANCE, PENSION & PROVIDENT FUNDS