

Secure yourself,
Secure your future



Understanding Insurance and Pensions

When Martha Tigo, a 28-year-old nurse and single mother, lost her father after a prolonged illness, she was confronted with a harsh financial reality. Neither she nor her father, in his 70s, had insurance or savings, leaving the family struggling to cover funeral expenses and daily costs. They had already sold their last two cattle at giveaway prices after a devastating foot-and-mouth outbreak swept through Zimbabwe in 2024. The money from the sale of the cattle had gone towards the father's medical treatment. Confronted with these hardships, Martha then realised the importance of financial planning, insurance, and pension savings, things she had always overlooked.

Just like Martha, most people often misunderstand or ignore the critical role of insurance and pensions in securing their financial future. Whether it is protecting against life's uncertainties or preparing for life in retirement, these financial tools serve as a safety net, ensuring individuals and families can navigate life's challenges with dignity and stability.

What is Insurance?

It is a contract in which one party (the insured), either an individual or a business, pays regular premiums in exchange for financial protection against predefined risks.

If the insured event, such as an accident, illness, property damage/theft, or death occurs, the insurance company compensates or pays benefits to the insured/beneficiary for the insured risk(s).

Types of Insurance

There are two main types of insurance – General/Non-Life/Short-term Insurance and Life/Long-term Insurance/Assurance. These types of insurance are designed to cover different risks.

General/Non-Life/Short-term Insurance – This type of insurance covers risks related to property, liability, health, and other non-life aspects. Some of the examples of this type of insurance include: home insurance, motor vehicle insurance, agricultural insurance, and health insurance.

Life Assurance/Insurance – The life insurance products can be categorised into two broad categories namely (i) protection or cover only policies, which provide financial protection to beneficiaries in case of the policyholder's death, and (ii) Savings products, which pay benefits on the maturity of the policy or at the expiry of a defined period. The life products can also be designed to provide both protection and offer savings.

Understanding Pensions

A pension scheme is a retirement savings plan in which individuals set aside money from their salaries/income during their working years, to provide them or their families with income after they retire from active employment or after their death. Pensions are typically structured as long-term savings plans managed by pension funds or pension administrators.

Types of Pension Schemes by Benefit Type

In Zimbabwe, there are mainly two types of pension schemes - Defined Benefit (DB) Scheme and Defined Contribution (DC) Scheme. However, there is also a hybrid pension scheme, which has components of both DB and DC.

Defined Benefit (DB) Scheme: This guarantees a fixed retirement income, usually based on salary and years of service to an employer. The pension benefits are known in advance and computed using a formula that considers the final average salary, a few years just before retirement, and length of employment. Employers bear the investment risk and ensure employees receive their defined retirement pension benefits regardless of the investment performance of the fund.

Defined Contribution (DC) Scheme: In this plan, contributions made by employees and often, employers are invested, and the eventual pension benefits depend on contributions made over the years,

plus investment return, less reasonable expenses of operating the pension fund. The pension benefits are not guaranteed or known in advance. The fund members bear the investment risk, meaning that if the fund performs poorly, the members' benefits will be affected.

The Architecture of Zimbabwe's Pensions Sector

Zimbabwe's pensions sector is structured to provide retirement income security through a mix of public and private pension schemes. The key components include:

National Social Security Scheme: A mandatory pension scheme designed to provide basic retirement benefits to all formally employed workers. It is administered by the National Social Security Authority (NSSA).

State Service Pension Scheme: A Pay-As-You-Go pension scheme for Government employees, which provides benefits on retirement, discharge, resignation, or death. The scheme is in the process of transitioning from a Pay-As-You-Go scheme, which pays benefits from the Consolidated Revenue Fund to a funded scheme, with its own investments.

Voluntary Private Occupational Pension Schemes: Employer-sponsored pension schemes that provide retirement benefits to employees, usually through defined benefit or defined contribution structures. These pension schemes are managed by pension funds or pension fund administrators.

Individual Pension Plan (IPP): Designed for individuals seeking to supplement their retirement income beyond employer-sponsored schemes and the mandatory scheme. These also include micropensions in the form of provident funds, which are tailored for those with irregular incomes, such as the informal sector - addressing the needs of workers without formal employment structures.

Regulatory oversight

The Insurance and Pensions Commission (IPEC) only regulates and supervises Voluntary Private Occupational Pension Schemes and Individual Pension Plans. The National Social Security Scheme and the State Service Pension Scheme fall under the Ministry of Public Service, Labour and Social Welfare.

Why Insurance and Pensions Matter

Going back to Martha's story, after her father's passing, she realised the importance of financial planning. She took out a life insurance policy, ensuring that her children would not face the same financial difficulties, if something happened to her. She also enrolled in a pension scheme to secure her financial future in retirement.

A Call to Action

The Insurance and Pensions Commission (IPEC) is committed to increasing awareness and ensuring that every Zimbabwean has access to financial security through insurance and pensions. We urge individuals, employers, and policymakers to take action in promoting a culture of financial planning.

To learn more, visit IPEC's website: www.ipec.co.zw, follow our social media platforms, or consult with licensed/registered insurance and pension providers.

Just like Martha, you too can take control of your financial future. The best time to start planning for life's uncertainties is today.

About IPEC

The Insurance and Pensions Commission (IPEC) is a statutory body established in terms of the IPEC Act [Chapter 24:21] to regulate the insurance and pensions industry for the protection of policyholders and pension scheme members.

For feedback or enquiries, please contact us at: pr@ipec.co.zw