

Secure yourself,
Secure your future



Understanding Defined Benefit vs. Defined Contribution Pension Schemes

When Mr and Mrs Moyo retired from different companies in the same year, their stories took very different turns. The couple had met at university, where they were both studying accounting and were in the same class. After graduation, they married the following year and were both fortunate to find jobs straight out of school, each joining reputable organisations in Harare. They remained loyal to their respective employers for more than four decades, building parallel careers as accountants.

Mr Moyo had worked for a company with a Defined Benefit (DB) pension scheme while Mrs Moyo, had been with a company whose pension operated as a Defined Contribution (DC) scheme.

Both were diligent workers who saved faithfully, yet their retirement experiences differed greatly because their pension schemes were structured differently.

This fictional story reflects a reality facing many Zimbabwean workers: most of them do not know whether they belong to a defined benefit or defined contribution pension scheme, yet this distinction has a major impact on the benefits they will receive at retirement.

There are two main types of pension schemes: Defined Benefit (DB) and Defined Contribution (DC).

A Defined Benefit scheme promises to pay a specified amount at retirement, often calculated using a formula such as:

Final salary × number of years served × accrual rate
Under a DB scheme, the employer guarantees that you will receive a certain level of benefit regardless of how the fund's investments perform. In other words, the employer bears the investment risk. If the investments do not perform, the employer provides financial support to ensure that you receive the set minimum benefit. Under this scheme, benefits can be pre-determined.

In a Defined Contribution (DC) scheme, the benefits cannot be predetermined, as is the case in a DB scheme. The benefit depends on: the total contributions paid by both the member and the employer, expenses incurred by the fund and the investment returns of the fund.

Under this scheme, the member bears the investment risk, meaning the pension outcome can be higher or lower depending on the levels of contributions and how well the fund's investments perform over time.

The two schemes differ in that: under a DB scheme, members enjoy the comfort of predictability. The pension fund promises a stable income for life. In contrast, DC schemes' value grows with market performance. However, the absence of guarantees means members must take a more active interest in their pension's investment performance.

For example, Mrs Moyo's final pension pot depended on how much she and her employer contributed each month and how well the fund's investments performed over 40 years.

Many workers never ask which scheme they belong to, assuming all pensions work the same way. This misunderstanding often leads to unrealistic expectations at retirement.

If you are in a DB scheme, you should monitor the fund's financial health of the employer, funding level as determined by the actuarial valuation, and how the final salary is determined. Even though your pension is guaranteed, the guarantee is only as strong as the fund and the sponsoring employer.

If you are in a DC scheme, your focus should be on ensuring:

- Contributions (yours and your employer's) are remitted fully and on time.
- The fund invests prudently to generate good returns.
- You receive and review annual benefit statements showing your accumulated balance.

Globally, there has been a gradual shift from DB to DC schemes. Employers prefer DC models because they shift the risk from the employer to the member. For instance, in Zimbabwe, as at 30 June 2025, only 34 out of 968 pension funds, were DB schemes while DC schemes were 931, with only three (3), being hybrid— a combination of both defined benefit and defined contribution schemes.

For workers, this shift means greater responsibility. This makes it crucial to contribute meaningfully and for as long as possible. Board of funds play a vital role in both DB and DC schemes. They are responsible for ensuring the fund is properly managed, contributions are invested prudently, and members' interests are protected.

However, members also have responsibilities:

- Know your scheme type and how benefits are calculated.
- Attend your fund's Annual General Meetings (AGMs) to understand investment performance and policy changes.
- Engage board of funds and administrators, if anything is unclear.

Whether your pension is DB or DC, one truth remains: your retirement security depends on understanding how your scheme works.

Mr Moyo's guaranteed monthly pension gave him peace of mind, while Mrs Moyo's experience taught her the importance of active engagement, tracing the contributions, expenses and investment returns. Both approaches can deliver dignity in retirement if members are informed and proactive.

About IPEC

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

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