USAID
FROM THE AMERICAN PEOPLE

USAID STRATEGIC ECONOMIC RESEARCH AND ANALYSIS – ZIMBABWE (SERA) PROGRAM

THE PENSION INDUSTRY IN ZIMBABWE: ITS REFORM, DEVELOPMENT, AND CONTRIBUTION TO SAFETY NETS AND LONG-TERM SAVINGS

CONTRACT NO. AID-613-C-11-00001

This report was produced by Nathan Associates Inc. for review by the United States Agency for International Development (USAID).

APRIL 2016

USAID STRATEGIC ECONOMIC RESEARCH AND ANALYSIS – ZIMBABWE (SERA) PROGRAM

THE PENSION INDUSTRY IN ZIMBABWE: ITS REFORM, DEVELOPMENT, AND CONTRIBUTION TO SAFETY NETS AND LONG-TERM SAVINGS

CONTRACT NO. AID-613-C-11-00001

Program Title:	**USAID Strategic Economic Research & Analysis – Zimbabwe (SERA)**
Sponsoring USAID Office:	**USAID/Zimbabwe**
Contract Number:	**AID-613-C-11-00001**
Contractor:	**Nathan Associates Inc.**
Date of Publication:	**April 2016**
Authors:	**Martha Kelly**
	Dr. Stanley Mutenga

DISCLAIMER

Acknowledgement

The Pension Industry Study was commissioned by the Ministry of Finance and Economic Development (MOFED) and undertaken by two consultants, Martha Kelly, international pension expert and Stanley Mutenga, a local pension expert. The study has been supported with funding from the USAID-Strategic Economic Research and Analysis – Zimbabwe (SERA) Program under Contract No. USAID-613-C-11-00001.The study team acknowledges the support provided by all stakeholders in the Pension Industry, including, Ministry of Finance and Economic Development, Public Service Commission, and Ministry of Labour, Public Service and Social Welfare, Industry Pension Commission, who spared their time to answer questions and provide useful information that used in this study. The list of people interviewed is shown in Annex B.

The views and findings of this study do not necessarily reflect the views of USAID-SERA. The contents of this paper as well as any error or omission remain the sole responsibility of the authors.

TABLE OF CONTENTS

ABBREVIATIONS

AfDB	African Development Bank
AG	Attorney General
CIS	Collective Investment Schemes
EDDC	External and Domestic Debt Management Committee
EMCOZ	Employers' Confederation of Zimbabwe
FY	Fiscal Year
HR	Human Resource
HRMIS	Human Resource Management Information System
IAIS	International Association of Insurance Supervisors
ICT	Information and Communication Technology
IDBZ	Infrastructure Development Bank of Zimbabwe
IFRS	International Financial Reporting Standards
ILO	International Labour Organization
IOPS	International Organization of Pension Supervisors
IPEC	Insurance and Pension Commission
ISSA	International Social Security Association
LAPF	Local Authorities Pension Fund
LOAZ	Life Offices Association of Zimbabwe
MDA	Ministry, Department and Authority
MoFED	Ministry of Finance and Economic Development
MoPSLSW	Ministry of Public Service, Labor and Social Welfare
NECI	National Economic Conduct Inspectorate
NEC	National Employment Council
NPS	National Pension System
NSSA	National Social Security Authority
ZimPIRT	Zimbabwe Pension & Insurance Rights' trust
ZimPost	Zimbabwe Posts (Pvt) Limited
PA	Prescribed Asset
POBS	Pension and Other Benefits Scheme
PPFA	Pension and Provident Fund Act
PSC	Public Service Commission
PSPF	Public Sector Pension Fund
RBZ	Reserve Bank of Zimbabwe
SADC	Southern African Development Community
SECZ	Securities and Exchange Commission Zimbabwe
S&P	Standard & Poor's
ToR	Terms of Reference
USD	US Dollar

WCIF	Workers Compensation Insurance Fund
ZCTU	Zimbabwe Congress of Trade Unions
ZFTU	Zimbabwe Federation of Trade Unions
ZSE	Zimbabwe Stock Exchange

EXECUTIVE SUMMARY

Few pension industries around the world have encountered and withstood such difficult economic shocks and destabilizing events as the Zimbabwe National Pension System, public sector pension and private pension schemes.

Officials said they were often unable to respond to the challenging circumstances that resulted from unprecedented back-to-back economic shocks including deep recession, economic sanctions, hyperinflation, growing national debt, bank closures, cash shortages, Zimbabwean dollar conversion and constant budgetary struggles to finance growing pension liabilities with increasingly limited financial resources.

Institutional weaknesses further magnified these problems: lack of good governance standards, lack of system-wide risk management practices, conflicts-of-interest, inadequate requirements for accurate administration and recordkeeping in the compilation of contributor and pensioner data, insufficient definition of allowable expenses that resulted in fees of some pension funds reaching 40 percent of incoming contributions, and inconsistent communication between ministries, regulators and employers created confusion for contributors and pensioners.

MoFED, MoPSLSW, NSSA and IPEC operate in an environment of weak governance that tolerates loose financial controls and partial responses to complex obstacles; not consistently understanding causes of problems; directing financial support to solve non-priority problems; lack of consistent application of technical expertise; and the routine change of senior policy making officials interrupting or delaying speedy progress.

The key recommendations are

1. Shift IPEC to Risk-Based Supervision with focus on preventive, protective and punitive to strengthen the environment in which private sector employer pension schemes operate`.
2. Standardize all pension schemes – NPS, public sector employee and private employee. Each should be mandated to have the following:
    a. Good governance
        i. Improve technical competency of pension trustees and Board members
    b. Investment
        i. Establish written Investment Policy Statement
        ii. Contract with licensed Independent Custodian
        iii. Contract with licensed Investment Manager
        iv. Expand investment options to include ex-Zimbabwe
        v. Expand PA mandate to NSSA and public sector pension scheme (after Public Service scheme is converted to partially funded)
    c. Financial Reporting
        i. Mandate use of Independent Auditor

        ii. Define allowable pension administration and investment fees
        iii. Define required financial reports
    d. Recordkeeping
        i. Reduce administrative fees while improving accuracy in administration
        ii. Establish minimum administrative requirements to become licensed pension administrator
3. Proposal to Convert the Public Sector Pension Scheme from an Unfunded to a Partially Funded Scheme
    a. Establish Public Sector Pension Fund (PSPF)
    b. Establish PSPF Board comprised of technically competent members
    c. Establish a long-term financing plan to begin the process to create a Partially Funded Public Sector Pension Scheme
4. Establish a Work Plan to address NPS contribution arrears of private employer pension scheme
5. Training & Capacity Building
    a. Develop and implement three training programs related to Governance, Investment, Financial Reporting and Recordkeeping for key government officials in MoFED, IPEC, MoPSLSW, NSSA and members of Parliament

1. INTRODUCTION AND OVERVIEW

Introduction & Background

The Pension Industry Study was commissioned by MoFED in October 2015 to expand evidence-based research to support policy reform in the Non-Bank Financial Sector of pension schemes and pension products provided by the life insurance industry. Annex A provides the Terms of Reference.

Key developments in the Pension Industry created the rationale for the Study.

1. NSSA officials announced[1] plans to restructure its investment management and financial operations following an audit prepared by the National Economic Conduct Inspectorate (NECI) that outlined financial mismanagement and investment fraud and an independent audit prepared by Deloitte that documented that the NSSA Board and management were complicit in fraud, misrepresenting investments, misreporting investment amounts and incurring large investment losses with little oversight of activities or requirements for disclosures. MoFED responded to the independent audit findings by appointing a new NSSA Board chair; the new NSSA Board chair removed the NSSA General Manager and four key department heads and publicly announced plans to strengthen investment technical capacity by hiring experienced investment advisors.
2. The President appointed a Commission of Inquiry in July 2015 to research and determine the legitimacy of thousands of claims of irregularities on conversion of contributor's and pensioner's rights when pension schemes converted from Zimbabwe dollars to US dollars. Thousands of pensioners claim their payments were reduced to nothing or reduced substantially. Contributors who were not yet pensioners claim that their rights were also reduced or eliminated. The Commission is expected to report its findings in March 2016.
3. MoFED officials commissioned an actuarial valuation of the public sector employee pension in 2012, with updates provided in 2014 and were reviewed in 2015 as part of the Fiscal Year (FY) 2016 budget process. MoFED officials reported the projected unfunded liability of the public sector pension is $6 billion. MoFED officials did not know if actuarial valuations have been conducted on public sector pension schemes of 87 parastatals and development authorities and as such do not the amount of the unfunded liability, if any, of these schemes. MoFED officials reported that in February 2009 the 7.5 percent employee mandatory salary deduction was waived and reinstated 83 months later, effective with the December 2015 payroll. Public Service Commission (PSC) Pension Office officials reported that during the 83 month period for which mandatory employee salary deductions were waived the calculation of monthly pensions and commutation payments for retiring employees would follow the same calculations as though deductions had been processed. Pension Office

[1] *'Shocking' NSSA Audit Complete*. November 19, 2015. The Financial Gazette.

officials said the mandatory employee 7.5 percent salary deductions were deemed to have been made as MoFED officials transferred approximately $1.2 billion from the budget during the 83 month period.

4. MoFED officials recommended to maintain the public sector pensions as a defined benefit scheme and proposed to convert the public sector unfunded pensions to a partially funded defined benefit scheme, that would commence through the FY 2016 budget. Converting from an unfunded to a funded scheme creates an additional financial burden during the initial 20 years during which the national budget would finance both the current monthly and commuted pension benefits and begin budget transfers to create a funded scheme. MoFED officials reported that one objective of a partially funded scheme would be to invest the accumulated monies with the expectation that the partially funded scheme would increase in value through budget transfers and investment growth and losses. Converting a public sector scheme from unfunded to partially-funded requires substantial governance, transparency, investment, accounting, recordkeeping and actuarial technical support.
5. The Public Debt Management Act was enacted in April 2015 to standardize the growing Prescribed Asset (PA) bond market and through the External and Domestic Debt Management Committee (EDDC) develop procedures for issuing development and other bonds underwritten by the government for which private sector pension schemes and insurance companies are mandated to invest 10 percent of their assets under management.
6. NSSA officials commissioned an actuarial valuation of the NPS in 2012, financed by the International Labour Organization (ILO). NSSA Board members approved increasing the mandatory employer and employee contribution rates from 3 to 3.5 percent (to a total employer and employee contribution rate of 7 percent) and more than tripled the contributors' monthly pensionable salary ceiling from $200 to $700. These changes were effective June 2013, which increased contributions made by the majority NPS contributing employers, and generated the unintended consequences of a continually increasing growth of NPS contribution arrears and a decreasing trend in the number of compliant employers.
7. The Minister MoFED dissolved the IPEC Board in 2013. Almost 26 months later in November 2015 the Minister MoFED notified a new IPEC Board, which was widely reported as part of a plan to strengthen IPEC capacity. The appointment of the new Board members closes a corporate governance vacuum that had existed for more than two years. Had new board members not been appointed, the corporate governance vacuum would have continued impeding the institution's strategic focus and damaging the financial market's confidence in the regulator like many other Parastatal Boards, however, the IPEC Board has not yet met the specifications of the National Code of Corporate Governance 2014, which stipulates in Section (a) (7): "That no Permanent Secretary should be a member of a public enterprise board."
8. MoFED and IPEC officials recommended restructuring the pension and insurance regulatory framework to bring IPEC in line with the International Association of Insurance Supervisors (IAIS) core insurance principles, referenced in this Study as shifting to risk-based insurance supervision. A separate study published on the

harmonization initiatives of insurance regulatory frameworks within the Southern African Development Community (SADC) made similar recommendations.

9. The World Bank undertook a study in 2015 on evaluating and providing recommendations for consumer financial protection and strengthening financial literacy. The study recommended a comprehensive assessment of problems generated by the conversion from the Zimbabwean to US dollar (see paragraph 2 above, establishment of the Commission of Inquiry) and identified the need for an holistic review of the pension system including the occupational and social security schemes.

Methodology

The methodology of this Study includes interviews with key stakeholders and analyses of secondary publications.

Primary information was gathered through structured interviews with key stakeholders detailed at Annex B, Register of Persons Met. Fieldwork was conducted between October 12 to November 6, 2015 and November 18 to 21, 2015.

Reports were analyzed that were generated by both the public sector and private sector on the Pension Industry such as the National Budget Statements, primary and secondary legislation, IPEC reports, actuarial reports, Industry Journals, Private Sector Pension Fund Annual Reports and media publications.

MoFED officials hosted the initial Reference Group Meeting in August 2015 to provide a forum to consider and finalize the study scope and thrust, thus serving as a vital tool to assess the comprehensiveness of the Study Terms of Reference.

MoFED officials hosted a Validation Workshop 20 November 2015 to discuss initial draft findings and recommendations, and provide an opportunity to secure feedback from NSSA, IPEC, members of the Pension Industry and representatives of employer and employee groups.

Time Limitations

Though the Study made an attempt to cover the entire industry, the time allocated could not suffice to provide sufficient room to do so. Fieldwork was limited to Harare. If time had permitted more information could have been obtained by conducting meetings in large cities in addition to Harare and in rural areas. MoFED and Public Service Commission Pensions Office officials were unable to provide all data requested due to time limitations; outstanding data requirements are catalogued at Annex C. Making this information available will greatly sharpen the recommendations.

Remaining Chapters

The remaining chapters of the Pension Industry Report include:

- Chapter 2: Assessment of the Zimbabwe Pension Industry. Summary of the policy and infrastructure of the NPS, public sector pensions and the private sector licensed pension funds and insurance company managed pension funds regulated by IPEC.
- Chapter 3: Top 10 Key Findings. Reflects the finding ascertained from the Assessment of the schemes.
- Chapter 4: Provides key recommendations and the way forward.

2. ASSESSMENT OF THE ZIMBABWE PENSION INDUSTRY

Description of the Zimbabwe Pension Industry

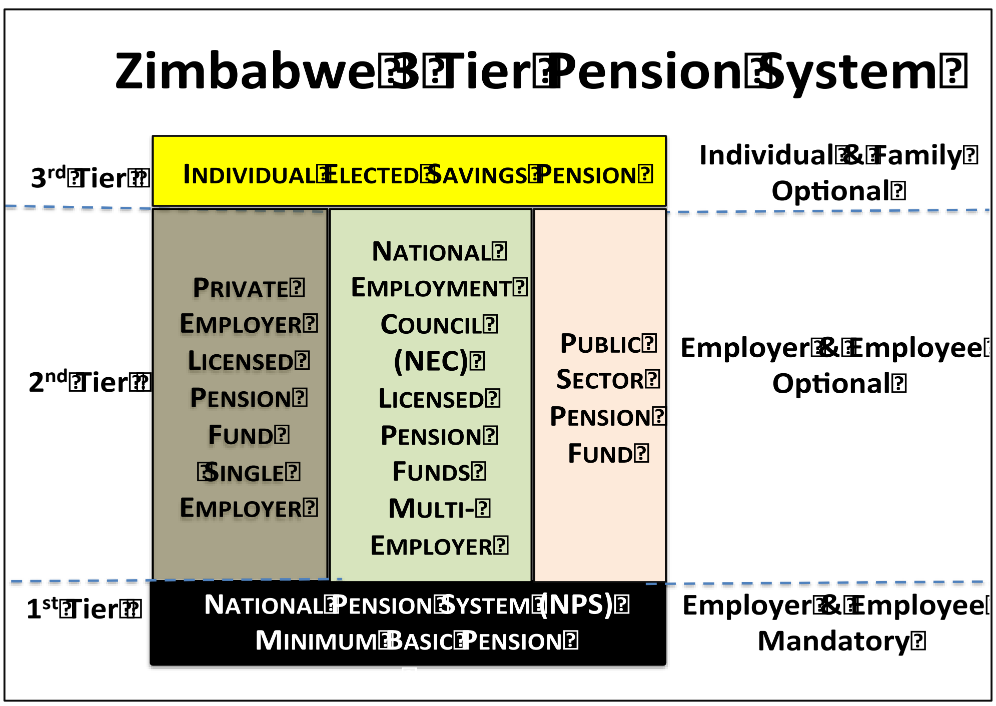
Zimbabwe has a three-tier pension system. Tiers 1 and 2 are the subject of this Pension Industry Study.

Tier 1: National Pension System (NPS) is the basic compulsory pension for employees working in the formal economy

Tier 2: Employer sponsored pensions are provided through

- Private Sector Employer in single employer schemes
- Private Sector Employers in multi-employer schemes that are members of the National Employment Councils
- Public Sector Pension, for public service employees only
- Local Authority Employers, for employees of local authorities only

Tier 3: Individual savings or pension options



National Pension System

National Pension System Policy

1. **Scheme Type**

NPS is a compulsory participation, defined benefit scheme, also referred to as the Pension and Other Benefits Scheme (POBS).

2. **Coverage**

NPS covers all formal sector employed persons, including employees in the private and public sectors, excluding self-employed persons and employees who work for employers that have 5 or fewer employees. NSSA officials reported that although the NPS became operational in 1994, many employers did not immediately register or begin withholding employee salary deduction pension contributions or begin remitting contributions.

In 2002 Parliament and the NSSA Board approved providing NPS coverage to public service and local authority employees.

NSSA officials expressed concern that only 14.5[2] percent of employment age employees contribute to the NPS. NSSA officials reported plans to expand NPS to the remaining 85.5 percent of employment age workers who function primarily outside of the formal economy. The majority of the 14.5 percent are public service employees (civil service, armed forces and police).

3. **Target Replacement Rate**

The target replacement rate is 69 percent of the monthly $700 pensionable earnings ceiling after a maximum of 40 years of service. As at November 2015 that amount would be $483 per month for 40 years of service but would be higher for employees whose employment and contribution years exceed 40. The monthly target salary replacement rate of 69 percent is higher than the majority of the member countries of the International Social Security Association (ISSA)[3].

4. **Contributions**

Employers and employees each contribute 3.5 percent of the monthly pensionable earnings ceiling of $700, which consists of the employee basic salary pensionable allowances.

---

[2] Source: NSSA, November 2015.

[3] NSSA is a member of ISSA, the leading global organization that promotes and supports accuracy in and sustainability of national social security programs. ISSA is affiliated with the International Labour Organization (ILO), which financed the most recent NPS actuarial valuation.

5. **Funded or Unfunded**

NPS is a funded scheme, which means contributions are deposited to the NPS trust account and pensions are paid from the same trust account.

6. **Financing Pensions**

Pension payments are financed from the NPS trust account, which is comprised of employer and employee contributions plus investment gains minus investment losses and minus administrative expenses. There are no transfers from the National Budget to finance NPS pension payments or administrative expenses. There are transfers from the National Budget to the NPS trust account, however, solely to finance the mandatory public sector employee salary deductions of 3.5 percent of monthly pensionable earnings ceiling of $700 to NPS and the matching government as employer NPS contributions.

7. **Oversight**

The nine-member NSSA Board has oversight responsibility of NSSA. Board member composition follows the ISSA recommendation for tripartite representation that includes:

- Contributing employers with representation through the Employers Confederation of Zimbabwe (EMCoZ)
- Contributing employees with representation through the Zimbabwe Congress of Trade Unions (ZCTU) and Zimbabwe Federation of Trade Unions (ZFTU)
- Government with representation through MoPSLSW, which was empowered under the NSSA Act to create the NPS and the Workers Compensation Insurance Fund (WCIF) and one of the government's NSSA Board representatives, is a MoPSLSW Director.

8. **Pension Indexation**

The NPS does not index monthly pension or survivor payments to a common measurement. Adjusting payments to pensioners and survivors without a stated indexation policy creates challenges for the NSSA Board and management team to forecast and budget for pension increases. In countries where the national social security scheme is not indexed to a common indicator, political interference is frequently a problem.

NPS Process Provided Through NSSA

1. **Management and Administration**

NSSA is responsible for managing the core functions of the NPS. (NSSA also manages the WCIF, although the WCIF is not included in the Pension Industry Study.) NSSA general manager and department heads carry out multiple core management and administrative functions:

- Financial operations, budgeting, forecasting pension costs and contribution revenues and preparing financial reports for stakeholders;
- Research and preparing actuarial valuations of current and projected short term cash flow and long term obligations for key stakeholders;
- Investment research, analysis and day-to-day management of the investment portfolios, reconciliation and settlement, valuation and preparing investment reports for key stakeholders;
- Identify and communicate NSSA and NPS information to key stakeholders and issue legally documents such as NSSA and NPS annual reports and is responsible for NSSA website content;
- ICT and administration of employer and contributor records, which includes: monitoring employer compliance and processing and recording contributions; calculation and payment of grants and monthly pensions to retired contributors and their survivors; and compiling and providing key analytical data required to complete financial operations, actuarial valuations and establishing and revising investment goals as market conditions change.

One key function that ensures the financial sustainability of all national social security systems is a high level of employer compliance to contribution and data submission requirements. NSSA officials reported a substantial decline over the most recent 24 months in employer compliance of NPS contributions. The economic shocks described in Chapter 1 Introduction resulted in employers going out of business or experiencing reduced business and responding by reducing NPS contributions or reducing the number of employees. Declining confidence that NSSA leadership will institute governance and transparency further account for why some employers have abandoned their NSSA obligations according to EMCoZ representatives.

NSSA officials reported that not all employers update contributor records annually. NSSA communicates with employers to secure the missing or incorrect contributor data. Examples of contributor data include: date of birth, date of employment, salary and contribution history. As a result of missing and incomplete contributor records the data submitted by NSSA officials to the actuary who conducted the actuarial valuation were incomplete. Representatives of EMCoZ, ZCTU and ZFTU complained that incomplete contributor data causes delays in the process to commence pensioner and survivor payments.

NSSA requires employers to submit contributions monthly and submit reconciling statements annually – reconciling statements is the procedure that allows NSSA to match contributions to each contributor. The use of monthly contribution and annual reconciliation has previously been recommended by ISSA. The ISSA Technical Committee on Contribution Collection and Compliance has scheduled a release for July 2016 of new contribution compliance guidelines[4].

NSSA officials reported that an effort has been underway to restructure the NSSA ICT system for NPS recordkeeping, although it is not complete. NSSA officials projected a third quarter 2016 implementation date of the new recordkeeping system.

2. **Method to ID Pensioners and Survivors**

NSSA is responsible for accurately confirming the identity of eligible pensioners and survivors at the time payments start and to confirm continued life of pensioners and survivors annually. NSSA officials reported that the NSSA recordkeeping and administrative ICT system maintains the national identity card number for each pensioner and survivor and uses the national identity card as the means to confirm identification. National Registry officials reported that the Zimbabwe national identity card has de-duplicative features and uses biometric measures to accurately confirm identity and continued life of recipients, consistent with recommendations of ISSA, World Bank and other groups. Such measures are designed to avoid, and ultimately eliminate, ghost pensioners; prevent fraud of pension and survivor payments; and coordinate updates between NPS and National Registry when pensioners or survivors die to ensure payments are immediately discontinued. NSSA officials reported that a test to exchange data records between the NSSA ICT and National Registry ICT is underway but could not inform test outputs.

3. **Pension Calculation Formula**

NSSA officials reported that NPS monthly payments are determined by multiplying the number of contribution months by the contributor's monthly pensionable earnings at pensionable age multiplied by 1.333 percent. The pensionable earnings replacement value can be as high as 69.3 percent for 40 years of contributions and 79.7 percent for 47 years of contributions. The minimum monthly old age pension payment is $60 and the minimum monthly invalidity pension payment is $30. The funeral grant is $300.

---

[4] ISSA has engaged its member organizations, such as NSSA, to improve accuracy of contribution collection and compliance as a financial sustainability priority. ISSA has created seamless integration of ISSA guidelines and ISSA technical training workshops, which will be part of the announced release at the July 2016 international ISSA meeting and will be accessible online.

4. **Eligibility for Pension Payments and Grants**

Regarding the process to evaluate requests to commence monthly pension, invalidity and survivor payments, NSSA officials reported:

- Retirement pensions are paid to an employee who attains age 60, has retired from employment and NPS records show that the employer and employee contributed to NPS for at least 120 months. Retirement age is age 55 when an employee has been employed in “arduous” employment. An example is a miner who works in a mine but not an office worker in the mining industry.
- Invalidity pensions are paid to employees who can no longer work due to reasons other than work related injuries or illness prior to age 60 (age 55 for arduous work) due to permanent invalidity. Medical certificate is required. For eligible work related injuries or illnesses NSSA disburses payments from the WCIF, not the NPS.
- Retirement grants are paid (but not monthly pension payments) to an employee who attains age 60 (age 55 for arduous work), has retired from employment but NPS records show that the employer and employee have not contributed for at least 120 months but have contributed for at least 12 months. The grant is equivalent to return of the employee contributions plus a rate of accrued interest.
- Funeral grants are paid on behalf of an employee contributor who dies in service (or a pensioner who dies while receiving pension or invalidity payments or a survivor who dies while receiving survivor payments) and NPS records show that the employer and employee contributed for at least 60 months.

Eligible survivors of contributors who die pre- or post-retirement are entitled to survivor payments.

NSSA officials reported that the NSSA ICT system is used to calculate pension payments using the contributor date of birth, date of appointment and historical contribution records. When the contributor data is incorrect or incomplete the accuracy of NSSA eligibility determinations and accuracy of payment calculations is limited.

5. **Means of Payment**

NSSA officials reported that monthly pensions and one off grant payments are disbursed through ZimPost and local banks. NSSA officials reported a strong preference to offer payments through mobile banking but do not do so presently.

6. **Investments**

NSSA Board Chair announced plans to restructure and rationalize its investment management and financial operations following a Forensic Audit Report compiled by the National Economic Conduct Inspectorate (NECI). The NECI Audit described multiple levels of financial mismanagement and fraud within NSSA: investments intentionally misrepresented and for which proper transaction settlement documentation was missing, e.g., unsecured loans made to multiple banks on the RBZ supervisory “watch” list were reported as money market instruments (money market instruments are low risk investments while unsecured loans to banks on the “watch” list carry substantially higher risk). Reported amounts exceeded the value of invested amounts. The NPS investment portfolio suffered losses when some of the banks that had been provided unsecured loans failed. MoFED responded to the NECI audit findings by appointing a replacement NSSA Board chair; the new NSSA Board chair removed the NSSA General Manager and four key department heads and announced plans to strengthen technical capacity by hiring experienced investment advisors.

MoFED officials did not provide a copy of the NECI Audit or the Independent Deloitte Audit to the Consultants. Consultants recommend that the findings should be formally provided to continue to inform this Pension Industry Study. Without reviewing the NECI and Deloitte Audit findings the Consultants note that the immediate actions by MoFED and MoPSLSW officials to replace the NSSA Board and by the new Board chair to dismiss the NSSA general manager and four key department heads would be correct responses to the audit findings outlining lack of governance and compliance to investment oversight, disclosure and transparency resulted in investment losses.

The NSSA investment policy[5] states:

- Paragraph 3: Investment objectives are to invest: “at least match or exceed prevailing market standards and at a minimum should match inflation in order to enable the Authority to meet the ongoing needs of its members and beneficiaries.”
- Paragraph 3.3: Investment performance is subject to triennial review by the NSSA Board or more often to respond to economic environmental changes.
- Paragraph 5: Investment criteria include: safety, liquidity, and profitability, and balance, security, matching of assets with liabilities, economic and social utility and empowerment/indigenization initiatives.
- Paragraph 6: Allowable investment avenues: equity, fixed income, property and empowerment funds. Investments may be in listed or unlisted securities with the proviso that investment in unlisted securities (which are considered to be riskier than listed securities) should be done with the Board investment committee approval has adequate evidence to expect to secure an above market return for the portfolio.

[5] NSSA Investment Policy, January 2015.

In comparing the NECI and Deloitte audit findings with above investment policy mandate there is no provision permitting NSSA to make unsecured loans to banks or misrepresenting the loans as money market instruments. Media accounts are that the department head that allowed the fraudulent transactions is no longer employed by NSSA and removal of the general manager and key department heads is a good first step.

Ensuring such transactions do not continue, however, requires that the NSSA Board address the circumstances that allowed financial mismanagement and investment transactions that violated the investment policy: lack of governance and lack of transparency.

Best practices for social security system investments require that the Board would contract with an independent licensed[6] custodian to validate each transaction against the investment policy statement ***prior*** to the Custodian authorizing the release of monies to settle the transaction. The independent licensed custodian would record all investment transactions (amount, buy and sell amounts, earnings, etc), calculate investment performance and report investment holdings and investment performance (gains, losses, earnings, etc) directly to the Board investment committee as well as the Investment Directorate.

The NSSA investment policy[7] meets some international standards such as a written policy that defines allowable investments and procedures for seeking and granting exceptions to the basic investment policy. The investment policy, however, lacks transparency requirements that would be designed to connect investment decisions to correctly executed investment transactions such as described above in terms of the Board contracting with an independent licensed custodian. Such procedures have been developed over the years with the specific intention of preventing collusion among officials to misrepresent investments, make fraudulent investments and misrepresent investment performance. The investment policy does not require NSSA officials to publicly disclose NPS portfolio holdings and report monthly performance and annual investment audit findings to Parliament or post the information to the NSSA website.

Representatives of NPS contributing employer and employee groups, such as EMCoZ, ZCTU and ZFTU, stated that their members have lost confidence in the NSSA Board to protect their mandated contributions and ensure that pension payments would be made as is legally required. They voiced frustration that despite a troubled history of investment losses and inadequate financial management MoFED and MoPSLSW

[6] The reference to independent licensed custodian refers to licensing by RBZ.

[7] NSSA officials provided the investment policy dated January 2015 to the Consultants for review but all investment decisions cited in the NECI audit and the independent audit conducted by Deloitte were made prior to January 2015. Thus the comment that the investment policy appears to meet international standards would not apply to the version of the investment policy prior to January 2015, as NSSA officials did not provide earlier versions to the Consultants.]

officials still have not mandated that NSSA follow ISSA investment transparency requirements.

Weakness in one part of NSSA management such as the investment functions creates questions of other actions and how such actions relate to the investment problems. NSSA, MoFED and MoPSLSW officials questioned whether the 2013 NSSA Board decision to increase NPS employer and employee contribution rates to 3.5 percent (total of 7 percent for employer and employee) of monthly pensionable salary and raise the monthly pensionable salary ceiling from $200 to $700 was an attempt to cover up investment losses resulting from investment fraud. If this is the case, the need for NSSA Board member continued technical training must be prioritized to ensure that Board members can evaluate and understand the implications and unintended consequences of each Board approval. Continued reforms are still needed to hold accountable the NSSA general manager and department heads for their actions including their recommendations to the NSSA Board and Board members accountable for voting on recommendations proposed by the NSSA general manager and department heads. Procedures are needed on and training is required to learn: governance, fiduciary responsibility, conflict of interest, consumer protections, actuarial projections, investments, public disclosures and ICT data management.

7. **Prescribed Asset Mandate**

NSSA officials reported that the NPS trust fund is not mandated to invest in PA issued bonds. IPEC and MoFED officials and representatives of ZAPF and LOAZ question why private sector employer pension schemes that are managed by licensed pension providers and life insurance companies and are required by IPEC to disclose investment holdings and report investment returns are subject to the 10 percent PA mandate but not the NPS investment portfolio, which is not under the supervisory authority of IPEC (but is supervised by the NSSA Board). Extending the 10 percent PA mandate to the NSSA investment portfolio would signal MoFED continues to have confidence that PA mandated bonds act are appropriate pension scheme investments, whether Tier 1 or 2.

8. **Legislation**

The enabling legislation is the National Social Security Administration Act 12 (1989); NSSA began operations in 1994 and employer and employee contributions by some employers to NPS started in October 1994.

9. **Process Support of Policy**

Consultants conclude that the processes and structure of the NSSA do not comprehensively support NPS policies as demonstrated by the findings of the NECI and Deloitte independent audits regarding financial mismanagement and investments, low levels of coverage, recent decrease in employer compliance with contributions, lack of indexation of pension payments, and inconsistent compliance with the 10 percent PA mandate. More information is provided at **Chapter 3**: **Key Findings and Chapter 4: Way Forward.**

Public Sector Pension

MoFED officials identified three types of public sector employee pension provisions:

- Employees of national government including civil service, police and military;
- Employees of local authorities; and
- Employees of parastatals and infrastructure development authorities.

The description of policies and processes for all three public sector employee groups are included in this section.

The establishment of separate pension provisions for different categories of public employees is not unique. Many countries similarly provide different pension benefits based on different category of public or quasi-public employee. It is, however, worrisome that a standard has not been established. For example, a standard definition would be applied to pensions across the spectrum of public or quasi-public employees: governance, adherence to international financial reporting standards, recordkeeping and administration, investment policy, use of a custodian and annual reporting to IPEC. Most importantly, a standard would provide all public employees equal protection of their pension rights and would state for which categories of public employees the government-as-employer guarantees the financial liability for pension payments.

MoFED officials reported with clarity that the National Budget will continue to finance the commutation and monthly pensions of public service employees, but were not sure regarding the pensions of employees of local authorities, parastatals and development authorities.

The purpose of describing the policy and process of each of the three groups of public employees is to highlight the need for the development of a comprehensive public service employee policy as regards how the national budget will or will not guarantee pension liabilities and ensure that the decision would be clearly stated in the enabling legislation of each employee group pension parameters.

Public Sector Pension Policy

1. **Scheme Type**

Employees of national government civil service, police and military:
Public sector employees are provided a Defined Benefit Pension. Technically, there is no scheme or fund, as the public sector pensions are unfunded and, as explained below, are financed from the national budget on a Pay-As-You-Go-Basis. An unintended consequence of having no fund is the lack of a policy oversight board that would have a

mandate to ensure that the correct processes, management and administration protect public sector employees' pension rights.

Employees of local authorities:

Local government authorities' employees are provided a defined benefit pension. The Local Authorities Pension Fund (LAPF) is structured as a separate fund and is not financed on a Pay-As-You-Go-basis. The LAPF Board is the oversight function to ensure protection of the pension rights of the local authorities' employees and their survivors.

Employees of parastatals and infrastructure development authorities:

MoFED officials reported that there are 87[8] parastatals and development authorities but did not know the types of pensions they provide their employees and are not sure whether the 87 schemes are complying with IPEC pension oversight as does the LAPF.

2. **Coverage**

Employees of national government civil service, police and military:

Public sector pension covers virtually 100 percent of permanent employees of civil service, military, police, members of Parliament and other employee groups.

Employees of local authorities:

Employees of local authority governments are provided pensions through a separate pension scheme, created through independent legislation. LAPF officials reported that the rationale for establishing legislation and scheme separate from the public service scheme is that local authorities generate local taxes and do not rely solely on national budget transfers.

Employees of parastatals and infrastructure development authorities:

MoFED officials reported that they do not know the pension coverage provided by schemes of parastatals and development authorities.

3. **Target Replacement Rate**

Employees of national government civil service, police and military:

Public sector pension provides a target salary replacement rate of 67 percent of the employee's final basic pensionable salary.

Employees of local authorities:

LAPF provides a target salary replacement rate of 80 percent of the employee's final basic pensionable salary.

---

[8] MoFED officials estimated 87 parastatals and development authorities in 2014. No estimate was available of the number of employees of parastatals and development authorities.

Employees of parastatals and infrastructure development authorities:
MoFED officials reported they are not aware of the target salary replacement rates provided by the parastatals and infrastructure development authorities.

4. Contributions

Employees of national government civil service, police and military:
Employees contribute through mandatory salary deductions 7.5 percent of annual pensionable salary, which are employee basic salary plus housing, transport and representation emoluments. MoFED officials report employee contribution as budget revenue. Public sector pension payments (commutations and monthly pensions), which PSC Pension Office estimate are almost $45 million monthly are financed from the mandatory pension salary deductions, which MoFED officials estimated are about $15 million monthly. MoFED officials report that the difference is financed by budget expenditures, also called the government-as-employer contributions, which is about $30 million monthly.

MoFED officials reported that the employee monthly mandatory salary deductions of 7.5 percent of pensionable salary were waived between February 2009 and November 2015. Consultants estimate that for 83 months, almost $1.2 billion was waived in employee mandatory salary deductions.

MoFED officials reported that monthly pension and commutations were 100 percent financed by budget expenditures, also called government-as-employer contributions, during this 83 month period. MoFED officials reported that budgetary expenditure cash flow was inadequate to finance the $45 million monthly pension payments. PSC Pension Office officials reported that delays of issuing commutation payments started in 2013 and are paid only when cash flow is adequate. Consultants requested, but were not provided, an explanation of how retiring employees were notified of delays in paying commutation payment or how commutation payment priorities were determined.

Employees of Local Authorities:
Employees contribute through mandatory salary deductions 7.5 percent of employee's pensionable salary, which are employee basic salary plus housing, transport and representation emoluments. Due to a smaller base of contributors over which to spread the management of the longevity risk and to a high level of employer non-compliance with contribution remittances, LAPF officials reported they have been forced to steadily increase the employer contribution rate up to17.3 percent of employee pensionable salary.

There was no confirmation whether the 7.5 percent mandatory employee salary deduction contribution was waived for local authority employees for 83 months.

Employees of parastatals and infrastructure development authorities:
MoFED officials reported that they do not know the mandatory employee salary deduction or the government-as-employer contributions financed by the parastatals and infrastructure development authorities or whether employee deductions were waived for 83 months.

5. **Funded or Unfunded**

Employees of national government civil service, police and military:
MoFED officials reported that the public sector pension scheme unfunded liability for civil service employees only was $6 billion in 2014 and has increased since then. MoFED officials said that an Actuarial Valuation has not been undertaken to determine the unfunded liability of the uniformed service employees (armed forces and police). In some countries the unfunded liability for uniformed employees (police and armed forces) equals or exceeds the unfunded liability of the civil service.

Employees of local authorities:
The LAPF is a funded scheme and LAPF officials reported that the scheme is under-funded and cited lack of budgetary support as one of the reasons. LAPF report their unfunded pension liability to IPEC.

Employees of parastatals and infrastructure development authorities:
MoFED officials said that if the parastatal and development authority pensions are defined benefit it was expected that they would be IPEC compliant in terms of reporting their unfunded liability, as is the case with LAPF. IPEC could delineate the public sector pension information with MoFED.

MoFED proposed to Parliament as part of the FY 2016 Budget to convert the public sector employee pension from an unfunded to a partially funded scheme. MoFED and MoPSLSW officials explained the motivation to convert to a partially funded scheme is that without an accumulation of pension contributions officials expressed concern that public service employees will not be paid their pensions.

Employees of national government civil service, police and military:
MoFED officials reported that the public sector pension scheme unfunded liability for civil service employees only was $6 billion in 2014 and has increased since then. MoFED officials said that an actuarial valuation has not been undertaken to determine the unfunded liability of the uniformed service employees (armed forces and police). In some countries the unfunded liability for uniformed employees (police and armed forces) equals or exceeds the unfunded liability of the civil service.

Employees of local authorities:

The LAPF is a funded scheme and LAPF officials reported that the scheme is underfunded and cited lack of budgetary support as one of the reasons. LAPF report their unfunded pension liability to IPEC.

Employees of parastatals and infrastructure development authorities:

MoFED officials said that if the parastatal and development authority pensions are defined benefit it was expected that they would be IPEC compliant in terms of reporting their unfunded liability, as is the case with LAPF. IPEC could delineate the public sector pension information with MoFED.

6. **Financing Pensions**

Employees of national government civil service, police and military:

The public sector pension scheme is currently pay-as-you-go with mandatory employee salary deduction pension contributions reported as revenues to the Consolidated Revenue Fund and commuted and monthly pensions reported as liabilities paid from the Consolidated Revenue Fund. The government-as-employer finances any monthly shortfalls between the mandatory employee salary deductions collected and the public sector pension liabilities. MoFED officials reported that the 7.5 percent employee mandatory salary deductions were stopped in February 2009 and were reinstated with the payments of December 2015 salaries.

Employees of local authorities:

The LAPF is financed from the LAPF Trust Account of accumulated contributions plus investment gains and minus investment losses. The local authorities' government-as-employer contributions have been increased to finance growing shortfalls between the value of the LAPF and the actuarial valuation. The government-as-employer contribution rate has steadily increased from 7.5 to 17.3 percent.

Employees of parastatals and infrastructure development authorities:

MoFED officials reported that they do not know how the pension schemes of the 87 parastatals and development authorities are funded but that the financing is not from the Consolidated National Budget, although officials acknowledged that budget transfers from the Consolidated National Budget to provide budgetary support to parastatals and development authorities may be used to finance pension obligations.

7. **Oversight**

Employees of national government civil service, police and military:

There is neither an oversight board nor a regulatory authority that approves target salary replacement rates, changes to future or past pension rights and rates of contributions. MoFED officials prepare recommendations to change target salary replacement rates, future or past pension rights or rates of contributions for submission to the Cabinet for approval, and if approved, the recommendations are included in the budget proposal to Parliament.

Employees of local authorities:
The LAPF is under the supervisory authority of IPEC.

Employees of parastatals and infrastructure development authorities:
MoFED officials reported that the 87 parastatal and development authority pension schemes are under the supervisory authority of IPEC as is the case with the LAPF.

8. **Pension Indexation**

Employees of national government civil service, police and military:
Payments to pensioners and survivors are indexed to public sector salary adjustments. Using the final salary grade prior to termination of employment at retirement or death, a pension is indexed accordingly.

Employees of local authorities:
LAPF does not index pension payments but the trustees of the local authorities scheme propose pension payment increases from time to time.

Employees of parastatals and infrastructure development authorities:
MoFED officials reported that they do not know whether the pension schemes of the 87 parastatals and development authorities follow the same indexation rules as the public sector scheme and index pension increases to public sector salary increases or follow the LAPF rules and make increases from time to time.

Public Sector Pension Process

1. **Management and Administration**

Employees of national government civil service, police and military:
No single Ministry or entity has sole responsibility for public sector pension policy, operations, administration, research and planning.

The PSC determines employee eligibility for pensions using public sector employee grade, date of birth and date of appointment records. The PSC notifies the Pension Office of the employees who should be retired or who have died in service. The Pension Office calculates the commutation and monthly pensions using public sector employee records.

PSC officials reported the creation of a Human Resource Management Information System (HRMIS) to manage employee data records of public sector employees including: employee name, date of birth, date of appointment, national ID number, grade, salary, post and rate of mandatory salary deduction of pension contribution. PSC officials reported that the HRMIS is not operational.

PSC officials reported that once the HRMIS is operational the PSC Human Resources (HR) Department would use the computerized employee records to support HR decision-making, e.g., training, transfers and promotions.

PSC officials reported the creation of an advanced payroll system that would use the same HRMIS basic employee data records to calculate and pay salaries, withhold taxes, determine allowances and calculate the mandatory employee salary deduction pension contributions. PSC officials reported that the payroll system is not operational.

MoFED officials reported that MoFED carries out public sector pension financial operations; forecasts future pension costs; and analyzes options to manage risks identified in the actuarial valuations such as longevity risk. Longevity refers to the number of years each pensioner will live or, when a pensioner dies, the number of years each survivor will live. The pensioner and survivor longevity is the number of years for which actuary projects the pensioner and survivor will survive and calculates the amount that will be required to fund pension and survivor payments. As public service employees and survivors live longer the actuarial continually adjusts the projected life expectancy increases to determine the scheme's unfunded liability increases.

In managing the financial sustainability of the public sector pensions, MoFED officials may adjust one or more of the following:

- Increasing or decreasing employee salaries;
- Increasing or decreasing factor to index pension payment;
- Increasing or decreasing rates of employer and employee contributions;
- Increasing or decreasing the maximum pensionable salary ceiling amounts on which contributions are calculated;
- Adjusting the pension formula to calculate each pensioner's lifetime benefit;
- Adjusting the one-third to two-third split between commutation and monthly pension;
- Increasing or decreasing the normal pensionable age;
- Converting from an unfunded pay-as-you-go scheme to a partially or fully funded scheme in which contributions are invested;
- Increasing or decreasing investment gains and losses to the accumulated pension funds;
- Increasing or decreasing administrative expenses.

But the above adjustments are not referenced in the legislation and if one or more of factors are adjusted without understanding that doing so changes the financial sustainability, the result can create unintended consequences. As such the legislation for all pensions should require for defined benefit schemes to have an actuarial valuation to inform the short and long term consequences.

Converting from an unfunded to partially funded scheme as MoFED has proposed in the FY 2016 budget proposal requires development of infrastructure:

- Changes to the establishment of a separate legal pension trust into which pension contributions would accumulate; development and approval of an investment policy statement; creation of an investment division infrastructure to interact with a custodian bank to hold all securities in the name of the public sector pension trust; all transactions (investment buys and sells) would clear through the custodian for settlement and payment; custodian would record buy and sell prices, monitor for dividend payments and calculate and report monthly, quarterly and annual investment returns. Provisions would be required for an independent audit and for the investment fund to be audited at least annually and for the HRMIS and automated payroll system (from which data is used to calculate pension payments) would be audited at least annually as well.

Employees of local authorities:
The LAPF self-administers the LAPF scheme under the supervision of IPEC.

Employees of parastatals and infrastructure development authorities:
MoFED officials reported that the pension schemes for the 87 parastatals and development authorities are under the supervision of IPEC.

2. **Method to Identify Pensioner and Survivor**

Employees of national government civil service, police and military:
PSC officials reported that they secure the Zimbabwe national card number of each public service employee as part of the HRMIS. Pension Office officials reported that the national identity card is used to confirm identity of eligible pensioners and survivors at the time payments start and confirm continued life of pensioners and survivors annually. PSC officials confirmed that they have already exchanged data with the National Registry office and found that some updates reported by PSC had not been notified to National Registry and vice versa. This is a positive development that underscores the importance of the need to accelerate requirements that all licensed pension administrators, public service pensions and NSSA be mandated to at least annually validate identification numbers of contributors and pensioners with the National Registry.

As outlined elsewhere in this report, the Zimbabwe national identity card has de-duplicative features and uses biometric measures to accurately confirm identity and continued life of recipients, consistent with recommendations of ISSA, World Bank and other groups. Such measures are designed to avoid, and ultimately eliminate, ghost pensioners; prevent fraud of pension and survivor payments; and coordinate between NPS and National Registry when pensioners or survivors die to immediately discontinue payments.

Employees of local authorities:
MoFED officials reported that they did not know the process to used by LAPF to validate continued life of pensioners and survivors.

Employees of parastatals and infrastructure development authorities:
MoFED officials reported that they did not know the process to used by pension schemes of parastatals and development authorities to validate continued life of pensioners and survivors.

3. **Pension Calculation Formula**

Employees of national government civil service, police and military:
Public sector pension payments consist of:

a. A commutation payment (one-third the value of a pensioner's lifetime benefit); and
b. Monthly payments (remaining two-third value of the pensioner's lifetime benefit). Monthly payments consist of: retirement, survivor and invalidity.

Pension Office officials reported that the value of a pensioner's lifetime benefit is determined by multiplying the employee's average monthly pensionable salary for the most recent 24 months prior to employment termination by the number of months of service multiplied by 1/600.

Employees of local authorities:
LAPF pension payments consist of:

a. A commutation payment (one-third the value of a pensioner's lifetime benefit); and
b. Monthly payments (remaining two-third value of the pensioner's lifetime benefit). Monthly payments consist of: retirement, survivor and invalidity.

Employees of parastatals and infrastructure development authorities:
MoFED officials reported that they did not know the benefit structure or pension calculation formula of the of the parastatal and development authority pension schemes.

4. **Eligibility for Pension**

Employees of national government civil service, police and military:
Public sector pensions are paid to retired employees at pensionable age of 65 after 20 or more years of service.

Employees of local authorities:
LAPF pensions are paid to retired employees at pensionable age of 65 after 20 or more years of service.

Employees of parastatals and infrastructure development authorities:
MoFED officials reported that they do not know the eligibility requirements for pensionable age for the pension schemes of the 87 parastatal and development authority.

5. **Means of Payment**

Employees of national government civil service, police and military:
Public sector commuted and monthly pensions are disbursed through ZimPost and local banks.

Employees of local authorities:
LAPF commuted and monthly pensions are disbursed through ZimPost and local banks.

Employees of parastatals and infrastructure development authorities:
MoFED officials reported that they do not know the method of pension payment of the 87 parastatal and development authority pension schemes.

6. **Investments**

Employees of national government civil service, police and military:
Through 2015 the public sector pension has been an unfunded pay-as-you-go scheme, which means that the government-as-employer does not accumulate contributions and, as such, there is no money to invest and no investment policy.

Employees of local authorities:
The LAPF is a funded scheme in which accumulated assets are invested. The LAPF follows the investment policy requirements mandated by the IPEC, which limit investments to domestically issued securities, money market instruments and real property. The LAPF reports investments to IPEC.

Employees of parastatals and infrastructure development authorities:
MoFED officials reported that they do not know the investment means or rules of the 87 parastatal and development authority pension schemes and whether the schemes are like the public sector with no investments due to being unfunded or like the LAPF and follow the investment requirements of IPEC.

7. **Prescribed Asset Mandate**

Employees of national government civil service, police and military:
As there is no fund, no accumulation of contributions and therefore no investments in the public sector pensions, the prescribed asset mandate currently does not apply to public sector pensions.

Employees of local authorities:

The LAPF is subject to the 10 percent PA mandate, although LAPF officials reported that the LAPF did not meet the minimum mandate in 2015 in part to restrictions of being underfunded.

Employees of parastatals and infrastructure development authorities:

MoFED officials reported that they do not know whether the pension schemes of the 87 parastatals and development authorities are subject to or meet the PA mandate.

8. **Legislation**

Public Sector Pensions are covered by three enabling legislative acts: Local Authorities Employees (Pension Schemes) Act 30 (1971); Parliamentary Pensions Act 11 (1978); and State Service (Pensions) Act 7 (1989).

9. **Process Support of Policy**

The process put in place to support the Public Sector Pension Scheme does not adequately support the policies of public sector employees due to financing limitations, restricting the payments of commuted payments since 2013 that were caused in part by the decision to waive the public employees' mandatory salary deductions for 83 months. Chapter 3: Key Findings and Chapter 4: Way Forward provides additional information on recommendations to convert from an Unfunded to a Partially Funded Scheme, establish a Public Sector Pension Fund and an Oversight Board as well as establish rules for investing the accumulated monies.

Private Sector Pension Schemes

Private Sector Pension Policy

1. **Types of Employers**

Private sector pensions, also called Occupational Pensions, are provided through non-governmental employers, also called private employers, and are divided into two categories: single employer and multiple employer schemes. With less than 5 percent of employment age employees, private sector schemes have about 498,000[9] contributors. Private employers and their employees finance the contributions to private sector pensions.

Multiple employer schemes are established and provided through national employment councils (NECs) and represent industrial workers. There are 34 NEC pension schemes all of which are defined benefit schemes.

Single employer schemes are established at the election of the employer on behalf of the employees. Each employer is limited to a single scheme that covers all employees and can be established as defined benefit or defined contribution. Most private employer schemes were originally established as defined benefit. In response to economic conditions in which employers were obligated to increase defined benefit employer contributions, many private sector employers chose to either terminate their schemes or convert to defined contribution schemes.

2. **Scheme Types**

Private sector employers initially established defined benefit schemes but in recent years most private sector defined benefit schemes were converted to defined contribution schemes. Due to lack of policy guidelines on how to value defined benefit scheme employee accrued pension rights prior to closing the defined benefit scheme and transferring the pension assets to defined contribution schemes, many contributors and pensioners assert that their pension rights were not honored and that their transferred values are incorrect. Further, many of these conversions took place at the same time the Zimbabwe dollar was converted to the US dollar and again, due to lack of policy guidelines in how to calculate and carry out the conversion, many contributors and pensioners assert that their pension rights were not honored.

The President convened a Commission of Inquiry to investigate the process undertaken by Private Pension schemes to determine if contributors and pensioners were prejudiced in these conversions and whether they are owed additional monies.

[9] Source: IPEC, November 2015.

3. **Target Replacement Rate**

Private Employer Pension Schemes vary in target replacement rates; there is no set requirement comparable to the target replacement rate of public sector pensions.

4. **Contributions**

The Pension and Provident Fund Act (with amendments) require that Private Employer Pension Schemes that elect to establish private sector schemes cover all employees a mandated contribution rate is not established.

5. **Funded or Unfunded**

Private Employer Pension Schemes are funded but almost half of the employers have accumulated contributions arrears (the schemes are underfunded) and there is no easy means by which to bring the employers up to date with their contributions.

6. **Financing Pensions**

Employer and employee contributions and investment earnings, if any, finance Private Employer Pension Schemes.

7. **Oversight**

Private Employer Pension Schemes, life insurance companies and licensed pension administrators are regulated and supervised by IPEC. Investment management firms are regulated and supervised by the SECZ and Custodians are regulated and supervised by the Banking Supervisory.

8. **Pension Indexation**

Pension payments from Private Employer Pension Schemes are almost always not indexed regardless of whether they are defined contribution or defined benefit. Life insurance annuities can offer indexing as an option, at an increased expense.

Private Sector Pension Schemes Process

1. **Management and Administration**

Pension trustees, most of who are not educated in or completely understand pension schemes, manage Private Employer Pension Schemes. The pension trustees approve a life insurance company or a licensed pension administrator to establish and maintain records of employer and employee contributions, to provide reporting and to calculate and pay pensions at retirement.

2. **Method to Identify Pensioner and Survivor**

The pension administrators and life insurance companies uses the Zimbabwe national identity card to confirm the identity of eligible pensioners and survivors at the time payments start and annually confirm continued life of pensioners and survivors. National Registry officials reported that the Zimbabwe national identity card has de-duplicative features and uses biometric measures to accurately confirm identity and continued life of recipients, consistent with recommendations of ISSA, World Bank and other groups. Such measures are designed to avoid, and ultimately eliminate, ghost pensioners; prevent fraud of pension and survivor payments; and coordinate between pension administrators, life insurance companies and National Registry when pensioners or survivors die to immediately discontinue payments. Officials of licensed pension schemes and life insurance companies reported that they were not interacting and / or sharing data with the National Registry.

3. **Pension Calculation Formula**

Private Employer Pension Schemes do not provide a pension calculation formula. If the pension scheme is a defined benefit, the pension trust will provide the pension calculation formula. If the scheme is defined contribution the pensioner is entitled to the balance of his or her individual account, which consists of employer and employee contributions and investment gains or losses minus pension administrative and investment expenses.

4. **Eligibility for Pensions**

Private Employer Pension Schemes would state the eligibility for a pension within the pension trust document. If the scheme is defined benefit, retirement age is usually established between age 60 and 65. If the scheme is defined contribution, there can be more flexibility, as the contributor will be paid on his or her account value plus investment gains or losses minus pension administrative and investment expenses.

5. **Means of Payments**

Private Employer Pension Schemes that are defined benefit will almost always provide an annuity while a defined contribution scheme will often pay single sum amount to contributors at retirement based on the contributor's account value plus investment gains or losses minus pension administrative and investment expenses.

6. **Investments**

Private Employer Pension Schemes may be invested domestically in listed securities, PA designated bonds and short maturity securities. Presently off shore investments are not permitted. More importantly, however, the employee is not routinely provided the opportunity to direct his or her own investments nor is there availability of many financial products that are easy for the average contributor to understand.

7. **Prescribed Asset Mandate**

Pensions financed by private sector employer contributions (except for NPS) are mandated to invest 10 percent of assets under management in prescribed assets. A full assessment of the prescribed asset program is included at the end of this Chapter.

8. **Legislation**

The enabling legislation that created private sector schemes is the Pension and Provident Fund Act. The enabling legislation for the IPEC is the Insurance and Pensions Commission Act 7 (2000). As part of the work of MoFED and the Office of the Attorney General to draft new primary and secondary legislation, the Pensions and Provident Fund Act should be benchmarked in preparation for integration with the SADC insurance regulation, scheduled for 2016.

9. **Process Support of Policy**

Process does not support policy in several areas. Some problems are highlighted below with more information at Chapter 4 Way Forward, Strengthening Private Sector Pension Schemes through IPEC.

IPEC reported that:

- Contributors and pensioners have stated that their legally accrued pension rights have not been protected and their pensions have been taken away from them illegally. A Presidential appointed Commission is now investigating these claims to determine who should provide financial compensation to offset the losses to contributors and pensioners.
- Employers inconsistently remit employer and employee contributions to the private employer Pension Trust, which means the pension trust will not be funded to its regulatory required level in order to be operating as today's contributors retire.
- Pension trusts are managed with wide ranging levels of competency of investing pension assets and reporting and crediting accurate investment returns, accuracy of recordkeeping and administration and charging reasonable fees.
- Pension trusts have not created risk management plans, do not use an independent auditor or follow international practices of pension fiduciaries and with regard to public disclosures of fees, expenses and charges or in the calculation of investment returns.

Prescribed Asset Status Review

Background

Accelerating infrastructure development, which supports national economic activity and the wellbeing of the citizenry, is a key government priority in Zimbabwe. There is established academic and empirical analysis on the relationship between infrastructure coverage, economic growth and job creation in developing countries.

Infrastructure development bonds usually meet three objectives:

- Bonds raise capital for specific stand-alone projects
- Bond holders are repaid from the cash generated by the project
- Bonds assume, and bond performance is subject to, certain project specific risk

Securing access to sustainable, predictable and affordable long-term financing of infrastructure projects has proved a challenge in Zimbabwe. In response, the government has designated PA status to specific infrastructure related bonds. A bond with PA designation means that the government has evaluated the bond offering and its components and has agreed to guarantee to bond holders, if needed, payment of interest and repayment of principal.

Such a guarantee is referred to as a contingent liability, as the government's requirement to underwrite a payment depends on a future event occurring or not occurring. Governments are required to distinguish on their public financial statements[10] between probable and possible contingent liabilities.

- If the government determines that a contingent liability is *probable* (more likely to require government payment), the government would state the amount of the contingent liability on the government's financial statement and would fully disclose the bond repayment details in the financial statement.
- If the government determines a contingent liability is *possible* (less likely to require government payment), the government is not obligated to state the amount of the contingent liability on the government's financial statement but would still disclose the underlying bond repayment details on the financial statement.

MoFED officials established a mandate that licensed pension funds (whether invested through a licensed investment manager or a life insurance company) would purchase bonds with a designated PA status equal to 10 percent or more of assets under management for each pension scheme.

[10] According to International Financial Reporting Standards (IFRS).

As Zimbabwe financial markets rely almost exclusively on domestic institutional investors for long-term investment, MoFED officials stated that the PA mandate was established on private employer sponsored pension schemes in an effort to support the growth of the financial markets.

While governments in other countries often mandate that national social security systems, public sector pensions and private pension funds equally invest in PA designated bonds, in Zimbabwe MoFED officials applied the PA mandate to investing the accumulated contributions of private pension funds. MoFED officials did not establish a PA mandate for the NPS or public sector pensions (public sector pension fund has not yet been established nor an investment policy statement developed so this point is non-applicable).

Recent examples of bonds to which the Zimbabwe government accorded PA status include:

- Fidelity Life issued housing development bond, $10 million, 2015
- Bindura Corp Ltd issued Nickel Smeltering Plant Bond, $20 million, 2014
- Infrastructure Development Bank of Zimbabwe (IDBZ) issued bonds
    - Refurbishment of Kariba South Power Station and Repowering of Harare Thermal Power Station, $50 million, 2014
    - ZETDC Prepaid Metering Project, $30 million, 2014
- CBZ issued infrastructure bond, $20 million, 2012

Differences between Pension Investment Goals & Government Public Policy Goals

Directing long-term pension contributions into long-term bonds initially appears to be a natural investment fit. Indeed in the African Development Bank (AfDB) publication[11] on infrastructure development bonds, reference is made that "Pension funds and national social security systems are the natural constituency of investors for infrastructure. They are natural buyers of long term debt and have been the biggest investors in infrastructure private equity funds targeted at the developed markets."

In many countries designating the use of pension funds to finance the cost of strengthening infrastructure for transportation, water and energy and increasing the housing supply is regarded as supporting the government's public policies and is sometimes referred to as social investing.

[11] *Structured Finance: Conditions for Infrastructure Development Bonds in African Markets*, by Cedric Achille Mbeng Mezui and Bim Hundal, 2013. African Development Bank Group.
http://www.afdb.org/fileadmin/uploads/afdb/Documents/Project-and-Operations/Structured_Finance_-_Conditions_for_Infrastructure_Project_Bonds_in_African_Markets.pdf

Best practices emphasize that pension fund investment, however, should focus on attaining the best investment return at the most acceptable risk level. Best practices do not recommend that PA mandates be established on private sector employers' decisions to voluntarily increase pension savings (in private sector pensions the employer has voluntarily established a scheme into which the employer and employees contribute (such contributions are in addition to the mandated employer and employee obligations to contribute 3.5 percent of monthly pensionable salary into the NPS).

Implementing objectives that ensure liquidity of PA designated bonds can improve the balance between the competing objectives of: 1) satisfying the government's intent to direct long term investment into bonds that support government's public policies; and 2) satisfying the private trustees' obligation to direct long term pension scheme investments to secure the best possible investment returns with the least possible risk levels.

Pension's trustees around the world are slow to expand bond purchases when publicly available information on upcoming offerings is limited and when bonds come to market without a credit rating. The more often that reliable information is shared with institutional investors, the more quickly that the 10 percent mandate can be met and even exceeded. Institutional investors follow the old adage: *money follows information*.

In recognition of the fact that reported trends of the last 24 months reflect declines in employer and employee contributions, liquidity of PA designated bonds is of key importance to pension schemes.

Continued tradability of PA designated bonds on the secondary market is an important policy decision on which MoFED and the Public Debt Management Office (discussed below) should remain committed.

Recent decisions[12] by the RBZ provide examples of the government's commitment to strengthening the PA designated bonds. *The Financial Gazette* summarized some bond market decisions:

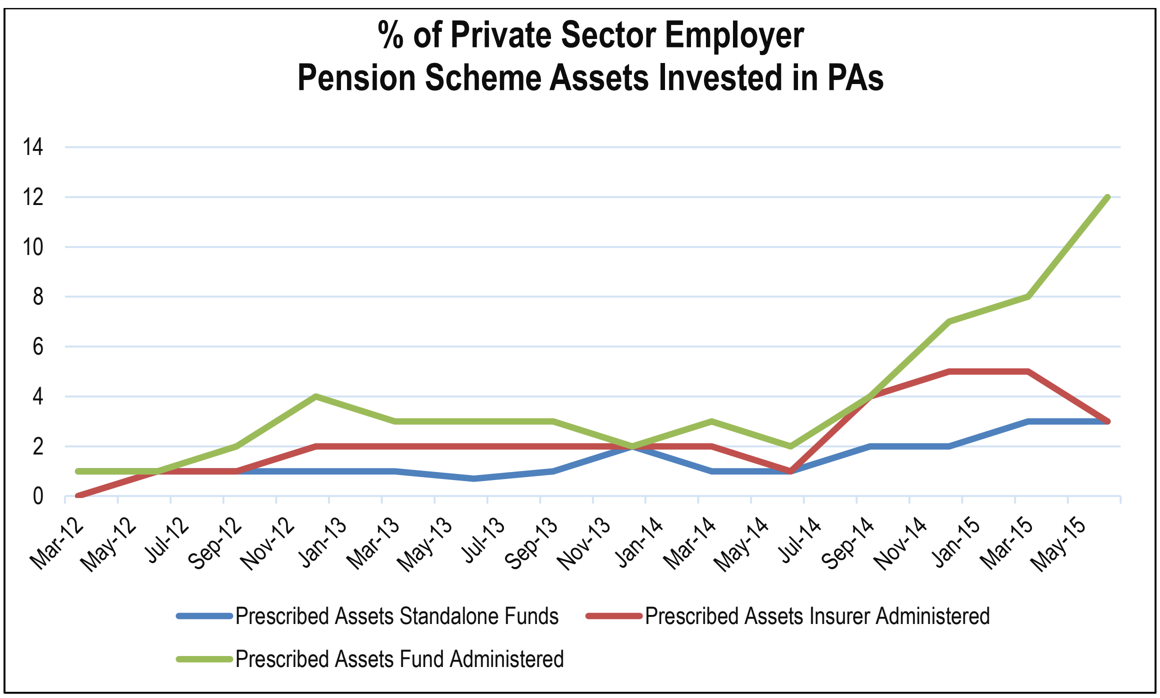
"In order to increase foreign participation in the bond market, the ZSE also lobbied for removal of restrictions on participation of foreign investors in the bond market. Foreign investors were restricted to invest up to 40 percent of primary bond issues and were prohibited from purchasing from the secondary market. The RBZ removed the limit on the primary issuance as well as the inhibition to participate in the secondary market. The ZSE also proposed that all government and parastatal bonds be listed on the ZSE, which the Ministry of Finance and Economic Development acceded to in the 2015 Mid-Term Fiscal Policy review."

---

[12] ZSE Moves to Revive Bond Market, Phillimon Mhlanga, *The Financial Gazette*, Zimbabwe. November 5, 2015.

MoFED officials expressed concern that pension trustees have not complied with the 10 percent PA mandate.

- IPEC reported that by June 2015 Fund Administered Schemes had collectively invested 12 percent of assets under management in PA designated bonds. Fund Administered Schemes crossed the 10 percent mandate during second quarter 2015. With total pension assets under management of $341 million Fund Administered Schemes invested about $41 million in PA bonds.
- IPEC reported that for the same period the Insurer Administered Schemes and Standalone Schemes each had invested 3 percent of assets under management in PA designated bonds. With $330 million of assets under management the Insurer Administered Schemes collectively invested $9.9 million in PA designated bonds and with $1.27 billion in assets under management the Standalone Schemes collectively invested $38.1 million in PA designated bonds.
- While the trend is an increase for the Fund Administered Schemes, there is not enough meaningful data to indicate whether the trend will continue long term. The statistics sorted by Fund, Insurer or single employer Standalone scheme is one way to analyze data. Other analyses that also may provide meaningful insight may be of schemes by asset size and percentage of PA bonds; regional analyses sorted by asset size and PA bonds; and by asset size, incoming contributions and contribution arrears and percentage of PA bonds.



Source: IPEC, 2015.

The Consultants met with representatives of pension trustees, investment management firms, life insurance companies, ZAP Pension Funds and LOAZ. The collective feedback is that pension trustees are keen to meet the PA mandate but the following constraints have restricted them from a higher rate of compliance:

1. Inadequate supply of PA designated bonds to permit meeting the 10 percent mandate of total assets under management of pension funds and life insurance companies (this same point has been made by the ZSE and RBZ).
2. Frequent timing mismatch between pension scheme cash flow (the amount available to direct investments) and issuance of PA designated bonds (the amount needed to purchase bonds). A timing mismatch occurs when pension scheme cash flow is available but the PA designated bonds are not available or when bonds come to market but the pension cash flow is not available.
3. Pension scheme cash flow is directly impacted by the decrease in total employer and employee contributions into private sector pension schemes since fourth quarter 2013 due to combined impact of:
    a. Pension trustees converting from defined benefit to defined contribution pension schemes with the specific intent of smoothing out employer contribution increases that were resulting from periods of hyperinflation;
    b. NSSA Board approval of two simultaneous increases: 1) in the mandatory employer and employee NPS contribution rates from 3 to 3.5 percent; and 2) in the monthly pensionable salary ceiling from $200 to $700. An unintended consequence of the NSSA Board approval in total contribution rate and pensionable salary ceiling resulted in private sector employers decreasing contributions to private sector pension schemes (as NPS contributions are compulsory, some employers essentially redirected contribution amounts from their optional private pension scheme to become part of their compulsory mandate; other employers dropped out of funding both NSSA contributions to the NPS and private pension schemes altogether).
    c. Continuing effects of a series of back-to-back shocks to the Zimbabwe economy resulting in reduced business revenues creating employee redundancies (fewer employees equates to less contributions).
4. Lack of effective communication to pension trustees, investment management firms and life insurance companies of the: implementation of MoFED evaluation and procedures to accord PA bond status. This policy mandate is addressed in part through the Public Debt Management Act[13], Section 38, Regulations (c): “the issuance of guarantees, including the terms and conditions subject to which guarantees may be given.”

    The Public Debt Management Act created the EDDC to develop a strategy and make recommendations to the Public Debt Management Office on, “all external

[13] Public Debt Management Act approved by Parliament and signed into law by the President, April 2015.

borrowings, domestic debt issuances and guarantees" and requires the EDDC to compose a list of guarantees already issued by the government including a classification of guarantees according to their probability of being called in. The Act designates the Secretary Finance as the EDDC Committee Chairperson and the Chairperson of the Reserve Bank and the Attorney General (AG) as other Committee members. The Act states that the EDDC is to meet every other month.

5. Lack of credit rating by an international credit rating organization such as one of the three largest internationally recognized statistical rating organizations that together support almost 90 percent of the bond rating market: Fitch, Standard & Poor's (S&P) and Moody's.

3. KEY FINDINGS AND CONCLUSIONS

MoFED is responsible for supporting the investment markets and growth of the financial sector. MoFED officials stated their continued commitment to financial sector reforms including steps to improve pension solvency, management and oversight.

MoFED officials submitted that they recognize that accumulated contributions to the NPS and private pension funds provide a stabilizing and predictable source of domestic investment that can strengthen the financial markets. Conversely, when employers and employees reduce or cease contributions to pension schemes the impact on financial markets can be destabilizing.

Restoring public confidence in the Pension Industry is key to growing financial markets. With almost 1.27 million[14] Zimbabwean contributors, pensioners and survivors, the Pension Industry involves almost one-quarter of all households. Many Zimbabwe households measure government competency by the strength of the Pension Industry.

Key Findings of Zimbabwe Pension Industry

The Pension Industry Report recommendations are based on 10 Key Findings.

1. ***Lack of confidence by the public that the government will protect their pension rights***. A three-tiered Pension Industry provides old age income through a basic social security system and optional employer sponsored pension schemes. Scheme features overlap allowing individuals and their families to customize old age savings. But there is no evidence that the majority of Zimbabwean households use the Pension Industry to maximum potential. Contributors and survivors do not believe the government will protect their rights.

2. ***Lack of technical understanding by senior policy making officials.*** Members of Parliament, Ministers and senior and mid-level government officials are limited in evaluating options to overcome the problems plaguing the Pension Industry and creating more robust financial markets and monitor progress of implementation of approved options.

3. ***System-wide lack of international standards of governance***. The government has been unable to respond proactively and institute requirements of good governance, transparency, accountability, accurate record keeping and public disclosures that would apply equally to Tier 1 and 2 schemes.

4. ***System-wide lack of international standards of financial reporting***. The entities of the Pension Industry do not uniformly follow international financial reporting

[14] Total contributors and pensioners represent author's calculation using reported data from NSSA, public sector pensions and IPEC report on private sector pensions.

standards to process financial transactions. IFRS is an approach to creating, reconciling and auditing transactions that ensures uniformity and is designed to create stability and transparency.

5. ***Leadership Role of IPEC is not fully utilized***. As the regulator of the Pension Industry IPEC is in an excellent position to define compliance of processes. Perhaps with the newly appointed IPEC Board the leadership role can be better advanced. Compliance should apply to MoFED, PSC and PSC Pension Office for the public sector and NSSA management of NPS as well as the private employer pension schemes.

    a. Mandate all financial transactions and reporting to conform with IFRS;
    b. Mandate reporting monthly investment portfolio holdings and monthly investment performance (1, 3, 5 and 10 years);
    c. Define the investment performance calculation;
    d. Define allowable and non-allowable administrative expenses and investment expenses;
    e. Define standards for independent audits;
    f. Define minimum pension administrative functions for defined benefit and defined contribution schemes; and
    g. Mandate use of licensed custodians in all funded schemes.

6. ***Inconsistent application of PA mandated bonds*.** MoFED established a 10 percent mandate investment in PA designated bonds only to private sector employer pension schemes and life insurance companies. If MoFED investment suitability is valid, there does not appear to be a suitable reason not to extend the mandate to NPS and to the public sector pension scheme when it is converted to partially-funded.

7. ***All Pension Scheme (NPS, Public Service and Private Sector Pensions) Legislation Lack a Requirement for Financial Sustainability*.** Changes to the following factors will impact the financial sustainability of NPS and public sector pensions but legislation does not state how financial sustainability will be obtained for each of the changes listed below. In the case of the public sector pensions, changes to one of the following would likely increase the government-as-employer financial obligation and increase the unfunded liability. Legislation should not indicate whether or not the changes should be effective. Legislation should require that MoFED inform Parliament of the need for an additional budgetary expenditure to finance the change.

    - Increasing or decreasing contributor salaries;
    - Increasing or decreasing factor to index pension payment;
    - Increasing or decreasing rates of employer and employee contributions;

- Increasing or decreasing the maximum pensionable salary ceiling amounts on which contributions are calculated;
- Adjusting the pension formula to calculate each pensioner's lifetime benefit;
- Adjusting the 1/3 to 2/3 split between commutation and monthly pension;
- Increasing or decreasing the normal pensionable age;
- Converting from an unfunded pay-as-you-go scheme to a partially or fully funded scheme in which contributions are invested;
- Adjusting actual investment gains and losses to projected investment returns;
- Increasing or decreasing administrative expenses;
- Waiving employee mandatory salary deductions; and
- Granting past service credits for which contributions have not been made.

8. Financial sustainability of the NPS is compromised by policy and process weaknesses:
    a. NSSA Investment weakness are referred to throughout this report: financial mismanagement, investment fraud; lack of accurate reporting of investment transactions; lack of routine investment performance review; an Investment Policy Statement that requires updating to assure more dynamic scrutiny of changing market conditions; and lack of use of an independent licensed custodian to assure documentation of transaction records that would settle all trades and calculate investment performance.
    b. NPS does not have a formal indexation policy, such as indexing pension payments to a consumer price index or the year-over-year change in the rate of inflation. Lack of indexation weakens NSSA's ability to manage pension increases.

9. NSSA is hindered by a weak communication strategy with employers, contributors and pensioners that impacts contribution compliance. Opportunities are missed to interact with employers to identify and participate in ensuring records of their contributor records are current. Claims procedures are not clearly communicated requiring in-office visits that are cumbersome and time consuming and do not consistently produce accurate information. Effective communication relies on repeated interactions and facilitates two-way exchanges.

10. ***Lack of documentation on critical policy exceptions*****.** MoFED has proceeded with critical policy exceptions without securing approval and without documenting the financial impact of the exception. MoFED should prepare and secure documentation of the decision (after the fact) to waive the employee mandatory salary deductions of 7.5 percent for 83 months and the decision to "deem" the contributions to have been made for purposes of calculating pension payments and commutations. PSC Pension Office lacks documentation describing how commutations are "queued" when insufficient budget capacity restricts ability to pay commutations, e.g., description of the "queuing order."

4. RECOMMENDATIONS

The Consultants recommend that the following proposals should be evaluated and prioritized for implementation. Recommendations have been organized to support strengthening the financial markets and ensuring the solvency and reliability of the Pension Industry.

Due to the interdependent and overlapping nature of the recommendations, one option is to group recommendations into a single technical assistance support. If resources are not adequate to develop technical assistance support to all proposals simultaneously, the recommendations can be tackled individually on a one-at-a-time basis.

1. Recommendations to Shift IPEC to Risk-Based Supervision

IPEC: Preventive, Protective & Punitive

Risk based supervision considers the pension industry from the perspective of IPEC being preventive, protective and punitive.

- Preventive is avoiding problems by having close scrutiny of registration process;
- Protective focuses on protecting the rights of contributors, pensioners and survivors and protecting the pension industry by establishing high standards and ensuring independence in supervisory actions; and
- Punitive requires acting swiftly to assess and apply rulings on pension actions including when necessary fines, censures and legal actions to bring cases to prosecutors.

Risk Based Supervision & Proposed Organogram

The proposed plan to shift IPEC to risk based supervision is fundamental. Doing so will create change between the IPEC Board and IPEC professional staff. Change will occur among employers; contributors; pensioners; survivors; other financial sector regulators: banking and securities; and professionals that support the employers and pension service providers: actuaries, auditors, accountants and attorneys.

Financial regulators around the world are more closely analyzing the risks posed by the structure of their pension and insurance industries and investment policies to better align supervisory practices to developments in pension schemes, insurance companies, other financial institutions, operations and risk management practices.

Regulators seek to develop complex tools to quickly and accurately conduct risk assessments, establish industry rankings and immediately link the regulator’s resources and authority to respond first to the highest / greatest risks to protect the pensions and insurance industries and continue to address next levels of risk in sequence.

While substantial planning and implementation work remains ahead for IPEC, two critical challenges identified by pension and insurance regulators that successfully redesigned and redeployed to risk based supervision are:

1. Making significant cultural change within the Regulator itself; and,
2. Supporting the education of key policymakers who will have policy, budget and legislative approval of the shift to risk based supervision.

The purpose of the proposed Organogram is to support the type of analysis that will be undertaken. Many decisions will still need to be taken to shape the complete Organogram, departmental functions, reporting lines, opportunities for appeal and complaints – all of which did not fit on the proposed organogram – but will play important roles going forward.

Objectives of a Restructured IPEC

Converting to risk based supervision is to first develop and secure IPEC Board approval of a set of IPEC objectives. It is often more productive to have a facilitator to guide a meeting of the IPEC management and IPEC Board through the process of establishing objectives. Examples of objectives used by other risk based pension supervisors[15] include:

1. State that IPEC has been created to protect the pension rights of (identify all stakeholders that will be served by IPEC)
2. Build and promote trust by the general public in financial institutions and pension trustees of pension schemes
3. Build and expand the size and quality of financial providers in Zimbabwe pension industry
4. Ensure that IPEC can provide stakeholders accurate and timely investment performance returns and pension administration fees

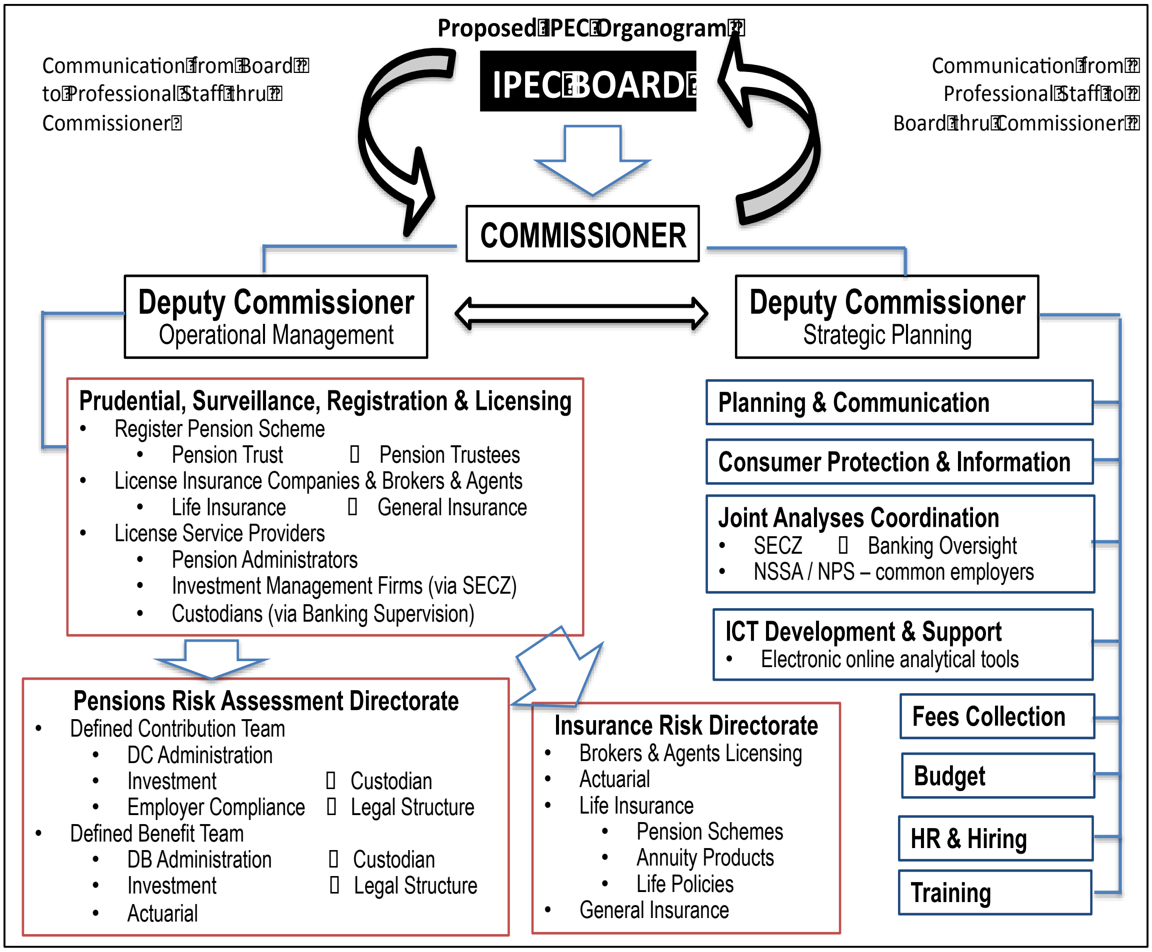
A successful organizational structure must guarantee IPEC the ability to be:

1. Transparent and open – all plans should be posted on the IPEC Website for any stakeholder to access;
2. Independent and free from political interference;
3. Act swiftly to protect the rights of contributors, pensioners, survivors and employers; and
4. Defend its actions, including defending actions in court as may be needed.

The Consultants recommend substantial technical support to IPEC in developing a comprehensive plan to define policy intent, authority requirements, complex tools, management, and legislative support, communication with stakeholders, training, and

[15] Samples from the International organization of Pension Supervisors (IOPS) website.

assistance in defining departments and job descriptions and hiring and training professional staff members.



Interventions to Strengthen Pension Industry Governance

The Consultants recommend and support that IPEC should issue regulations defining minimum requirements for pension administration and recordkeeping, defining a validation of the minimum requirements for administration and recordkeeping with IPEC and validation of the contributors' and pensioners' information directly to the contributor or pensioner at least annually. According to best practice, when a pension scheme administrator collects information on contributors, IPEC should require the pension scheme administrator to ask the contributors to confirm the correctness of the data.

One reason to do this is that IPEC reported that employers inconsistently remitted employer and employee contributions, which puts in jeopardy the likelihood that the pension trust would not be funded to its regulatory required levels in order to be operating as today's contributors retire in the future.

Operational Management – 30 professional staff

The process to evaluate and register qualified entities to become licensed pension administrators and trustees; analyze and make recommendations on trends, issues and market factors impacting the pension industry; to evaluate, intervene and enforce actions by financial institutions, pension trustees, employers and even, if necessary, by other supervisors requires sufficient manning capacity to discharge their expected duties. These complex actions are heavily dependent on the ability to analyze large data and develop action plans to respond to changing market conditions, which is the rationale for placing ICT Development and Support to work closely with Strategic Planning.

Operational Management can be successfully structured in three ways: vertical, also called functional organization; horizontal, also called portfolio organization; and matrix, also called a hybrid approach.

- In a vertical risk based supervisory approach the functions to be carried out in the Operational Management would be supported by teams of professionals as illustrated in the Organogram. For example a team of Registration & Licensing professionals would become specialists in understanding and analyzing the merits of awarding licenses and monitoring the strength of potential administrators. Team Registration & Licensing (between 6 and 10 professionals) would become proficient in all aspects of this discipline. Team Prudential & Risk Management (between 8 and 12 professionals) would similarly become proficient in analyzing aspects of risks imposed by market or economic changes and would apply analysis of these risks on all licensed pension schemes.

The specialty being developed is becoming proficient in a single aspect such as licensing. Team composition would permit balancing new staff with experienced professionals.

- The horizontal supervisory approach permits teams to be comprised of one professional from Prudential, Registration & Licensing, and one from Financial Analysis. Each team would be assigned specific licensed pension schemes or alternatively all the schemes of the same administrator or alternatively all the defined benefit schemes and three other teams would become proficient in all defined contribution schemes. In the portfolio approach each licensed and reporting entity would be assigned the same IPEC team from registration to continued management. The specialty being developed is all aspects of the same licensed entities or licensed pension schemes. Team composition could allow pairing of experienced IPEC professionals with new hire IPEC professionals for maximum training and mentoring opportunities.

- The hybrid approach often has a main organization structure similar to functional expertise but then inserts key professionals that effectively bring a team support approach to a single group of pension schemes, a good example is on hiring specialists in defined benefit to defined contribution conversions; another example is developing experts in supporting NEC pension schemes or pensions that are administered by life insurance companies.

Strategic Planning – 25 professional staff

Initially, the Strategic Planning Deputy Commissioner would lead the effort to create risk based supervision plan that would include many steps including the development of objectives and identify training needs of existing IPEC professionals and a road map to restructure the IPEC.

As an example, one key deliverable would be development of a Communication Plan to interface with the stakeholders, including:

- The IPEC Board
- IPEC existing professionals and new hires – many would be required over next 12 months
- MoFED and MoPSLSW
- NSSA and NPS
- Other financial regulators in Zimbabwe
- Other financial regulators in the SADC region
- Pension scheme employers
- Pension service providers
- Contributors, pensioners and survivors

Risk based pension supervision is heavily data dependent, which relies on compiling and updating data monthly and quarterly. Effective tools would need to be developed first from a strategic planning perspective and then from the perspective of who would be users creating data, submitting data to the IPEC and then within IPEC in terms of who would analyze the data.

Strategic planning would consider market changes and challenges, trends within the markets and trends by employers and pension providers.

The ICT Development Group would create the infrastructure to permit the Operational Management teams to carry out their work.

Strategic Planning would also include legal, budget and management planning.

2. <u>Investment Policy, Investment Settlement & Reporting of Investment Performance</u>

The Consultants recommend that all funded pension schemes be mandated to follow the same standards regarding investments:

- Each Pension Scheme including NPS would be required to have a written Investment Policy Statement consistent with the Security Exchange Commission of Zimbabwe (SECZ) Investment Policy Statement requirement for Collective Investment Schemes (CIS) and licensed investment management firms. The NSSA Board or Pension Trustees would be permitted to modify in writing the Investment Policy Statement at any time on a prospective basis only. NSSA Board / Pension Trustees would be required, at least annually, to review the investment returns, investment expenses and re-approve or change the Investment Policy Statement with the intent that the NSSA Board or Pension Trustees should review investment performance and expenses to determine whether or not to continue with the same investment policy statement. If a licensed investment management firm were contracted, IPEC would require that the investment management firm would secure and maintain insurance protecting the pension scheme from errors and omissions of the investment management firm.

- Each funded Pension Scheme would be required to contract with a licensed[16] custodian that would hold securities and properties in safe keeping for the exclusive benefit of each scheme. All investment transactions (buys and sells) would be cleared through the custodian. The custodian would settle and pay for each trade / transaction and would validate that the transaction was in compliance with the currently approved investment policy statement. The custodian would be obligated to report to the IPEC and the SECZ any Investment Policy Statement violations observed by the custodian. The custodian would calculate monthly the 1, 3, 5 and 10 year investment returns based on purchase price, sale price, dividend, interest or other payment. The calculation formulae would be provided by IPEC and the industry would have an opportunity to comment. In the case of NSSA employers and contributors could follow the investment returns. In the case of private employer schemes an objective would be to create a basis for employers, contributors, pensioners and survivors to make side-by-side comparison based on investment performance. IPEC would require that the custodian would secure and maintain insurance protecting the pension scheme from errors and omissions of the custodian and would be required to maintain its licensed status in good standing with the Banking Supervisor.

- Propose a modification to the current Investment Policy restriction of exclusively domestic investments. In an effort to de-risk current investment policies, the IPEC and SECZ would recommend a phased-in plan over 24 months to allow up to 10 percent of the value of a pension scheme to be invested outside Zimbabwe once the scheme had attained the IPEC 10 PA mandate. The objective would be to reduce the exposure of each Pension Trust to the current mandate that results in a single economy investment risk. To make this recommendation viable, IPEC and SECZ

[16] Licensed by the RBZ.

officials should be provided training and technical assistance to design and supervise a policy allowing cross boarder investments.

- Modify the enabling legislation of each of the pension schemes, NPS and public sector pension scheme (once it has formally implemented procedures and established the Public Sector Pensions Fund Trust) to reflect the above changes.

3. Use of Independent Auditor

Each Pension Scheme including NPS would be required to contract an Independent Auditor that would prepare an Annual Audit of the Pension Trust and determine the accuracy of the calculation by the custodian of the investment returns. The Auditor would validate in writing the audit opinion and accuracy of the investment return required performance calculations to the NSSA Board Investment Committee, Pension Trustees, IPEC and SECZ. In the case of defined contribution schemes the Auditor would confirm the accuracy of the crediting of investment gains or losses to each contributor's individual account. The objective would be to create a basis on which NSSA Board, employers, contributors, pensioners and survivors could rely on the accuracy that contributions have been correctly accounted for, investment returns correctly credited to allocable contributions and accrued rights and that pension have been correctly calculated. IPEC would require that each Independent Auditor would secure and maintain insurance protecting the pension scheme from errors and omissions of the Auditor.

4. Allowable Fees & Expenses

Costs are incurred by all pension schemes in all countries. The contributors and pensioners most often pay the costs, which is the case in Zimbabwe.

Below is a summary of how pension costs are paid by Zimbabwe contributors and pensioners, followed by recommendations to codify allowable and prohibited expenses.

NSSA Pension Fee Recommendations

NSSA acts as investment manager and administrator for the NPS and WCIF (as stated earlier, this Study does not include the WCIF). Fees are calculated, segregated and allocated between the NPS and WCIF.

Typically, national social security systems report each of the above the financial entries and express the operational cost of the national social security system as a percentage of incoming annual contributions and / or as a percentage of total assets under management.

Costs should be managed as part of the NSSA budgetary process. In keeping with good governance and transparency standards of the ILO, the Consultants recommend that the NSSA Board should adopt rules for allowable and prohibited expenses that have already been proposed by the NSSA Board Chairman. According to the findings of the NECI and Deloitte audits some NSSA officials were provided tuition for their children, no-interest loans and excessive salaries. To avoid continuation of financial mismanagement allowable expenses should include the NSSA employee salaries but not unrelated expenses Other allowable operating expenses typically permitted by social security systems around the world include updates to computerized recordkeeping and changes in procedures to incorporate use of the national identity card to streamline the life certificate process and prevent fraud in paying pensions to pensioners who have already died. The cost of purchasing vehicles for Board members, Department Heads and staff are increasingly being reclassified as prohibited expenses.

The National Social Security Administration Act, NSSA's enabling legislation, should be expanded to define allowable and prohibited expenses.

NSSA Policy and Process Issues Identified for Priority Attention:

The Consultants recommend for managing complex recommendations that one or more Task Force be established. When recommended changes cross over multiple departments and ministries and include participation from both NSSA and other groups such as IPEC, RBZ and MoFED a formal Task Force notification can ensure more quickly bringing together the key officials to bring about change. Further, the NSSA Board and other senior officials can more formally be provided Task Force updates or be notified when obstacles occur.

a. ***Increasing Coverage***. NSSA Board should develop a policy to provide coverage for workers outside the formal economy by notifying a specific Task Force comprised of NSSA policy and operational experts and members of the Zimbabwe Chamber of Informal Economy Association and supported by an Actuary to evaluate and compare the merits and costs of attempting to expand coverage of the current NPS to cover employees who work outside the formal economy versus creating a separate old age program uniquely designed for workers outside the formal economy and whose needs for old age income and abilities to submit contributions and submit records are different from formal economy employers.

   The Task Force should analyze costs and processes implemented regionally to create pension options for informal economy workers. Employer and employee groups expressed concern that members of the previous NSSA Board were keen to propose to increase NPS coverage with the expectation that initially contribution increases would offset investment losses identified in the Deloitte audit with inadequate attention focused on the creation of increased pension liabilities.

b. **Target Replacement Rate.** NSSA Board should recommend a formal policy of NPS target salary replacement rates by notifying the same Task Force mentioned above and supported by an Actuary to evaluate and make recommendations after studying regional target replacement rates and analyzing the cost impact of making changes. Salary replacement rates that are too high create the unintended consequence of massive non-compliance by employers and employees, which weakens the entire NPS system. At the same time, salary replacement rates that are too low also create the unintended consequence of massive non-compliance when contributors believe future benefits are not worth the trouble of participating in the system.

Establishing a formal policy on salary replacement rates is difficult for the Board of every national social security system. An accurately structured replacement rate policy, however, is a key factor of achieving contribution compliance and should not be ignored. Employer and employee groups raised concerns that members of the previous NSSA Board were keen to raise the target salary replacement rates with the expectation that initially increased contributions would offset investment losses identified in the Deloitte audits with inadequate attention focused on the creation of increased pension liabilities.

c. **Pension Payment Indexation.** NSSA Board should recommend a formal pension payment indexation policy by notifying a Task Force comprised of NSSA policy and ICT technical experts supported by an actuary. ISSA and similar groups report that a well-structured indexation policy supports NPS financial sustainability and provides assurance to pensioners and their survivors that their pension payments will keep pace with inflation. Lack of an indexation policy almost always exposes a national social security system to political interference, which eventually destabilizes the scheme.

   Examples of political interference in adjusting pensions is when a government announces an increase in pension payment minimums immediately before an Election or proposes to increase pension payments of certain groups of voters, e.g., teachers, health care workers or police officers (large population pensioners and large population voters). Such ad hoc decisions weaken the ability of the NPS to ensure sustainable pension payments.

d. **Recordkeeping and Administration**. NSSA Board should develop a policy recommending adoption of ISSA Contribution Compliance Guidelines to improve financial stability through enhanced contribution flows by notifying a Task Force comprised of NSSA ICT and operational experts and public communication experts along with employer representatives, e.g., EMCoZ, and anti-corruption advocates such as the Coalition against Corruption. The Task Force should recommend changes to increase the accuracy of contributor data and establish enhanced reporting and communication to employers and contributors with the intention of decreasing the time required to apply for, approve and commence pension payments and grants.

The Task Force should identify reasons that contributor and pensioner data provided to the actuary was not accurate or complete and propose recommendations to ensure that the NSSA Board is informed at least annually of the percentage of correct and complete contributor and pensioner data in the NSSA ICT recordkeeping system. When NSSA General Manager and department heads provide incorrect and incomplete contributor and pensioner data to the actuary the risk is created that the actuary's projections may be inaccurate. This in turn puts the NSSA Board members in the position of being asked to approve recommendations based on inaccurate projections.

e. **Investments.** NSSA Board Investment Committee should develop two investment policy recommendations by notifying an Investment Task Force to improve technical investment capacity and develop and implement NSSA system-wide use of investment disclosure and transparency provisions. Capacity target creation of auditable procedures that link investment decisions to investment transaction settlement requirements. Disclosure and transparency provisions should create requirements for auditable reporting of investment transactions, investment holdings and investment performance for posting to the NSSA website of monthly portfolio holdings and investment returns (1, 3, 5 and 10 year investment returns). The Investment Task Force should recommend investment technical and disclosure related training topics and recommend frequency of training, official positions that would be required to attend investment training and pass rate for evaluation of training knowledge. NSSA Board Chair should be required to submit an annual independent audit report within 30 days of receipt to Parliament and Ministers of MoFED and MoPSLSW and post the audit reports to the NSSA website within 30 days of submission to Parliament. MoFED should extend the Prescribed Asset 10 percent mandate to the NPS investment portfolio.

f. **Governance**. NSSA Board should improve system-wide governance within NSSA Board to guarantee an effective oversight and leadership responsibility. The appointment of members to the Board must be informed by the need to strike a balance in the skills mix that can deliver the requisite capacity to preside over a public pension mandate. The National Corporate Governance Code launched by the Government in 2015 should inform the governance framework for NSSA.

Public Sector Pension Fees

Presently, fees are not imposed on the public sector pensions. PSC officials explained that the administrative work is completed by the PSC in terms of recording and compiling public sector employee dates of appointment, retirement (or death, in the case of pre-retirement death) or termination; contributions; and grade and salary (although as stated earlier this information has not verified and the HRMIS is not yet operational). The PSC Pensions Office completes the work of calculating the commutation and monthly pension amounts and for indexing pension increases when public salaries are adjusted. Again, this information has been discussed and regulations reviewed but not yet validated.

The process to convert from unfunded to a funded scheme will create additional expenses that should be defined, determined and charged against the funded scheme consistent with the way in which the NSSA charges fees on NPS contributions and the private employer pension schemes are charged fees as well. The Consultants recommend that in the legislation operational expenses would be defined and only those expenses may be charged as fees. The Consultants recommend use of a custodian and an independent auditor, similar to recommendations for NPS and private sector pension schemes.

Private Sector Pension Fees

The Consultants recommend that the IPEC establishes and defines allowable expenses for private sector pension schemes to charge against pension scheme assets. For example, the cost of creating and maintaining computerized records of contributors and calculating and paying pensions would be allowable expenses. Expenses have been reported in this Pension Industry as high – more than is usual in other countries without an explanation as to why such large percentages of employer and employee contributions are used to pay fees. At this point the Consultants do not recommend imposing fee caps. In countries in which fee caps are imposed, the industry often will immediately jump to the limit without making an effort to understand the factors driving expenses.

5. Reducing Fees While Maintaining High Standards of Accuracy in Administration & Recordkeeping

Advancements in computerized recordkeeping increasingly permits high standards of accuracy and ease of reporting to employers and employees alike while keeping fees at competitively priced levels. The only situations in which fees should be unusually high are in cases where advanced computerized recordkeeping is not being used. Recordkeeping can be complex but with the right tools, experienced staff and economies of scale in processing contributions and pensions for thousands of contributors and pensioners monthly, accurate services can be offered at competitive prices.

The Consultants recommend that the IPEC defines and establishes allowable administration expenses. Any costs that do not meet the definition of allowable expenses would not be permitted to be charged to contributors or employers. Further, IPEC would require that all licensed pension administrators report their expenses, which would be reported as public information by IPEC on its website. The objective would that pension trustees, employers and contributors would have independent access to general expense information and accordingly would shop among pension administrators for the best price and service.

6. Minimum Requirements for Recordkeeping & Administrative Functions

The Consultants recommend that all pension schemes follow appropriate international pension supervisory standards for recordkeeping and administrative functions and as regards allowable expenses that can be paid from the pension fund trust account. The objective would be to introduce the concept that employers, pension trustees, licensed pension administrators and licensed investment management companies and licensed custodians are fiduciaries and have a legal obligation to protect the pension assets and ensure that pensions are accurately paid. The IPEC would be obligated to turn over to local prosecutors' cases of where a fiduciary is believed to have violated IPEC rules.

Propose specific IPEC recommendations to define:

- Specify required pension recordkeeping and administrative functionality of licensed pension administrators, e.g., separate requirements for defined benefit and defined contribution scheme recordkeeping of employee records, need for back up of employee records and contribution totals, ability to correctly calculate pension payments and ability to produce contributor and pensioner records if required by IPEC in case of an orphan pension fund takeover;

- Define allowable and permissible investment expenses and administrative expenses (and state specific expenses that would be prohibited from being charged to pension fund trust accounts including a pension trustee's child's education, purchase of vehicles for pension trustees or other fiduciaries) and position IPEC as the regulator that reports comparative investment and administrative expense data as a means to provide timely disclosures of the costs charged for investment and administrative services and to develop IPEC credibility with the general public;

- Define the precise investment return calculations and position IPEC and the SECZ as the regulators that report easy to compare investment returns by each licensed investment management company and / or CIS and position and to develop IPEC credibility with the general public;

- Define minimum standard requirements for pension trustees including a requirement to sign a conflict of interest policy statement; and

- Define minimum standard requirements for licensed pension funds that seek to self-manage investments, administration to ensure that the same level of competence and oversight scrutiny is applied in each area of expertise as though the services were not self-administered.

The Consultants recommend introduction of formal requirements regarding the establishment of a systemic risk management plan for each licensed investment management company, licensed pension administrative provider, custodian and financial institution that provides services to pension funds.

Consultants recommend that IPEC would define systemic risk management plan component requirements. It is recommended that IPEC be supported through training on how to review the plans and incorporate their use in risk-based supervision of the pensions and insurance industry.

7. **Establish Best Options to Establish sister-like NPS for Employees Working in Informal Economy**

NSSA officials discussed high level concerns that NPS, which was designed for the formal sector employees (private and public sector), covers 14.5 percent of adults of employment age. The government would like to understand options for a way forward to ensure that employees who operate in the informal economy have provisions for long-term pension benefits as well.

In examining pension options for informal employees in neighboring countries three key concerns were raised:

- Informal economy employees often rely on different communication and payment methods than formal economy employers and employees. A successful program to reach out to informal economy employees would depend on customizing contributions that would not be mandated monthly (as is the case with NPS). Further, communication and transmission of monies is often completed via mobile phone and mobile banking, which is another way of reaching out to informal economy employees.

- Consider why and how other financial options have been implemented with success among informal economy employees such as micro financing, micro lending and funeral insurance. Learning from what already works provides insight into financial tools and products that informal employees already use.

- Consider success implemented in the region. Ghana has made advancements in establishing a two-fund pension system for employees operating in the informal economy. One fund is short term and permits withdrawals before pensionable age in the case of financial emergency. The other fund is long term and requires that money remain until the contributor attains pensionable age. The requirement of monthly contributions is eliminated and, as such, pensions are calculated based on amounts contributed not on a structure monthly contribution system. The result is a dependable pension in old age that is not as high as the formalized national social security system but without restrictions also without the restrictions of the more formal system.

The Consultants recommend the establishment of a Task Force represented by NSSA, Informal sector associations, members of the informal economy employees as well as other experienced stakeholders already supporting the informal economy employees such as the microfinancing, micro-lending, mobile banking and funeral insurance providers.

Expertise in the informal pension's scheme sector in Ghana could be provided an opportunity to visit Zimbabwe as part of an exchange program to provide learning benchmarks to the Zimbabwean authorities on this subject. The expertise could be drawn from the Ghanaian Social Security institution to provide the Task Force with some learning experience on how the two-fund process has worked well in that country and which aspects of the same, or variations thereof could inform our own approach.

8. **<u>Bringing Defined Contribution Schemes into Compliance with OECD Standards</u>**

The Consultants recommend that IPEC adopt the OECD Road Map to strengthen defined contribution private employer schemes. The aim of this regulatory road map is to strengthen the adequacy of retirement income provided in a defined contribution environment.

IPEC reported that defined contribution scheme administration and communication are inconsistent and do not follow standard good practice guidelines for design and management. The Consultants recommend that IPEC adopt the OEDC principals for defined contribution schemes, which are summarized below using the Zimbabwe context. Defined contribution design should be:

- Coherent to each contributor from the accumulation phase to the pay-out phase and within the overall structure, e.g., level of contribution, investment policy statement, reporting of contributions and other communications, explanation of fees / expenses and options provided at retirement.

- Encourage each contributor to participate and contribute for long periods.

- Provide balanced incentives so that employees understand the value to save for retirement, particularly where employee participation and contributions is voluntary and the design should provide easy options for the employer to provide subsidies for employees who pay low or no tax.

- Promote low-cost retirement savings instruments. Policymakers as well as providers need to ensure incentives are in place to improve efficiency and reduce costs of defined contribution expenses. IPEC reported that pension schemes are contribution expense ratios as high as 74 percent and 111 percent. If a low cost environment is not created, growth in Zimbabwe financial markets will not be achieved.

- Ensure appropriate default investment strategies, while still providing choice between investment options with different risk profile and investment horizon. This will allow contributors who would like to select their investment options to do so, based on risk profile and risk tolerance levels as well as nature of pension arrangement.

- Permit establishment of future default life-cycle investment strategies as a default options to protect contributors who are closer to retirement age against extreme negative investment outcomes in the immediate future. Default life-cycle investment funds or strategies have a long record in many other countries with positive results.

- Design of the contributor's pay-out phase can have many options, but require educating contributors to understand the difference between a single sum payment versus annuitization as protection against the risk of outliving the single sum payment, also called managing the contributor's longevity risk. Educate employees who are approaching retirement age on purchasing annuities in order to protect them against the risk of outliving their income.

- Promote the supply of annuities and cost-efficient competition within the annuity market. The average cost of providing retirement savings to contributions and total income for insurance company administered schemes is 27 and 26 percent respectively. The insurance industry is not yet providing a cost efficient annuity market. There is an expectation – and rightly so – that insurers can be induced to shift to a service oriented philosophy with competitive pressures. Through recommendations to IPEC to define allowable expenses, the ability charge fees will be balanced by the fact that pension fees will be communicated by IPEC to encourage competitive fee shopping by employers and pension trustees.

- Design is the first step in effective communication and addressing financial illiteracy and lack of awareness. The World Bank recommendations on Consumer Protection and Financial Literacy pointed out that there is currently no financial capability program specifically related to pension led by government and few of the employee appointed trustees have knowledge on financial let alone pension issues. According to the same report IPEC should make resources available and should lead the financial industry in educating trustees, employers and contributors.

9. <u>Recommendations on Public Sector Pensions:</u>

Conversion from Defined Benefit to Defined Contribution & Conversion from Unfunded to Funded

In 2010 a published report[17] referenced the unsustainable burden of the cost of public sector pension payments on the Consolidated National Budget with the conclusion that establishment of a defined contribution scheme would resolve the problem. The report stated under paragraph 5.6: "*The Minister (of Finance) has since at least 2005 indicated*

[17] *Evaluation of Retirement Systems of Countries Within the Southern African Development Community (SADC). Country Profile: Zimbabwe*, by Oxford Policy Management. Published by Fin Mark Trust, April 2010.

the intention to switch from a defined benefit to a defined contribution system. In 2005 it was indicated that such a Public Service Pension Fund was approved by Cabinet in 1999. The 2010 Budget indicated that such a Fund will now be established in 2011."

MoFED officials included in the FY 2016 Budget request to Parliament that the current public sector defined benefit scheme should not be converted to a defined contribution scheme due to lack of fiscal capacity to finance the conversion.

MoFED officials said that estimated monthly budget transfers would be too high to proceed. Such budget transfers would pay current and new pensioners while simultaneously making budget transfers of the amount of mandatory employee salary deduction pension contributions into defined contribution individual accounts for current contributors, according to the projections in the Actuarial Valuation dated 2012 and updated 2014. The National Budget lacks adequate capacity simultaneously to finance both monthly budget transfers.

MoFED officials submitted that estimated investment returns would have to be in excess of reasonably achievable rates of return for a conversion to a defined contribution scheme to ensure payment to future pensioners of a comparable commutation and monthly pension amount as is paid to new pensioners under the current defined benefit scheme. MoFED officials explained that these estimates were also provided in the Actuarial Valuation of 2012 and updated 2014.

MoFED officials requested that the Cabinet reverses its earlier approval in order to *avoid the* establishment of a Public Sector Defined Contribution Scheme and hence not convert from the present Defined Benefit to the earlier suggested defined contribution.

The Consultants requested to review the original Cabinet approval from 1999 authorizing a conversion of the Public Sector Scheme from Defined Benefit to Defined Contribution and a copy of the recent Cabinet approval not to convert from Defined Benefit to Defined Contribution but they were not provided. MoFED officials explained that the plan to convert from unfunded to funded was approved by the Cabinet but, as the National Budget lacked fiscal capacity, the conversion from unfunded to funded would be delayed although the recommendation was still part of the FY 2016 Budget.

MoFED officials recommended to the Cabinet the establishment of a separate Public Sector Pension Trust in order to permit the accumulation of employee mandatory salary deduction pension contributions. This is a recommendation that the current defined benefit unfunded pension scheme be converted to a funded scheme and remain a defined benefit scheme.

Under a funded scheme scenario, future employee mandatory salary deductions would continue to finance today's pension payments (approximately $39 million to $45 million monthly) and permit the employee mandatory salary deduction pension contributions ($20 million monthly) to accumulate in a separate trust account. Such a scheme would allow the government to build a cash buffer (provided prudential investments methods are in place), to counter the possible risk of inability to meet pension liabilities as they fall due in the medium- to- long- term. This risk is currently existing, as government is funding pensions from the budget, and with the current fiscal constraints, we have witnessed deferment of pension payments to confirm this challenge.

Public officials encounter this same problem in other countries when evaluating options to convert from unfunded to funded pension schemes. Officials sometimes seek to convert to a funded scheme with the incorrect expectation that fiscal capacity burdens would immediately be reduced. In fact in many cases the fiscal capacity burden is increased for the 20 year initial period of a defined benefit to defined contribution conversion while budget transfers finance current pension payments and current accumulation build-up of contributions for investment purposes. By year 20 the percentage of pensions financed through budget transfers would decrease and the percentage financed from the defined contribution individual accounts would increase. This would be attributable to deaths of pensioner and survivor cohorts whose payments had originally been financed through the budget transfers.

MoFED, MoPSLSW, PSC and Pension Office officials commented that having a funded scheme would provide a higher confidence level that their own pensions would be paid. Many officials expressed concern that relying on future budget capacity to ensure pension payments does not instill confidence that their pensions will be paid.

This approach may be successful but will depend on development of a budget transfer accumulation and investment process of policy and process that follows a disciplined approach with strict adherence to governance standards, transparency, and audit requirements. MoFED may need 12 to 24 months to complete the actuarial valuations to identify the unfunded liabilities of the public employee schemes, develop a financing plan, prepare legislation, develop a governance plan, create transparency and disclosure requirements and ensure annual audits.

These provisions should be in place prior to the development of the Investment Policy Statement. During this 12 to 24 month development phase directing the accumulated contributions into government debt and PA bonds would ensure at least minimal levels of governance and oversight. If the decision is taken to begin investing accumulated budget transfers without first developing provisions of governance, transparency, disclosures and audits, the possibilities of incurring huge losses on these investments cannot be discounted, if the NSSA scenario is anything to go by. If the first key reason to convert to partially funded was to ensure pension payments, having the money lost to bad investments or fraud would certainly undermine that objective.

MoFED and MoPSLSW officials expressed hope that by investing accumulated contributions and earning investment gains the accumulation fund would grow more quickly than relying solely on budget transfers.

Investing accumulated contributions with the expectation of generating positive investment returns requires an Investment Policy Statement, custodian, performance investment calculations, agreement on in-house or outside contracting with a licensed investment advisor and licensed custodian, which will require 6 to 12 months after the legislation is in place. Proceeding to invest public pension monies without best practices minimum standards would be folly. The track record of NPS investment returns and practices provide a sobering review of what not to do.

The alternative to converting to a partially funded scheme would have been a series of increasing budget transfers to finance increasing pension liabilities that would eventually reduce the National Budget capacity and limit the government's ability to make investments and support other priorities.

Financing pensions through increasing reliance on the National Budget creates the very real concern that the government will be forced to decrease budget transfers resulting in decreases to pension payments. The public would consider payment decreases as the government failing to keep pension promises. This was one of the very reasons to convert to partially-funded – so that pension promises can be kept. But there is a paradox that each month pension payments would be financed from the National Budget ***and*** each month the accumulations would also be financed from the National Budget. An alternative is to invest the accumulated contributions in PA bonds during first several years of dual budget transfers.

By using public sector pension accumulations to purchase government bonds the value of the bonds increases the government's revenues and offsets the impact of larger budget outflows. While this process can seem complex to explain and document, MoFED would be supported by the Actuary who would complete the pension scheme actuarial valuations. By purchasing government bonds, MoFED would increase flexibility to resolve the conflict caused when one budget transfer is financing pension payments and a second budget transfer is financing the accumulation of funds to be invested.

The Consultants recommend that the MoFED follows a multi-step process:

1. **Financing**
    a. *Determine the unfunded liability*. MoFED would have an Actuarial Valuation prepared on all public sector schemes to determine the collective unfunded liability of the schemes for which the government guarantees the pensions payments. In 2014 the Actuarial Valuation defined the unfunded liability for civil service employee pensions only as $6 billion (the number has increased since 2014). In countries in which the number of uniformed employees is equal to or exceeds the number of civil service employees, the unfunded liability of armed forces and police is often the same or more than civil service. MoFED officials could not confirm whether parastatals and local

authorities provide defined benefit pensions to their employees and, if they do, whether the pension schemes of the parastatals have had actuarial valuations prepared to determine the unfunded liabilities of the parastatals' pension schemes. If parastatals and local authorities do provide defined benefit schemes, additional unfunded liabilities attributable to these schemes would exist. The unfunded pension liabilities could exceed more than twice the amount of the $6 billion determined in the civil service pension scheme actuarial valuation.

   b. *Disclose the unfunded liability*. MoFED would report on the government of Zimbabwe financial statement the value of the consolidated unfunded liability amounts.
   c. *Develop a plan to finance the unfunded liability*. MoFED would develop a long-term financing plan to finance the unfunded liability. Financing plans developed by Actuaries are often 20 year plans and are normally revised and adjusted based on related factors such as employee salary increases that would increase contributions and is the indicator for indexing pension payments, change in pensionable age and other factors.

2. **Investment**
   a. Develop a structured plan to purchase government bonds each month with monies that are transferred into the pension accumulation funds. The structured plan would reflect the projected inflow and outflow of monies.

3. **Governance**
   a. *Public Pension Policy Oversight Board*. Establish public service pension policy oversight Board comprised of technically competent members whose function would be to ensure that the pension policies in the public pension legislation are followed.
   b. *Technical process*. PSC Pension Office would continue to compile contributor data during employees' working years, determine pension eligibility and calculate pension awards to retiring employees or survivors when employees die in service PSC Pension Office would present contributor and pensioner summaries quarterly to the newly formed Public Sector Pension Board.

4. **Disclosures & Transparency**
   a. Establish standards to adhere to IFRS that would include disclosing investments (government bonds, maturities, rates of return, tradability on secondary government bond market).
   b. Publish investment holding reports and investment performance on separate website for public sector pension scheme.

5. **Legislation**
    a. Ensure that appropriate legislation is enacted by Parliament to ensure that the conversion from unfunded to partially funded scheme is backed up by statute.

Public Sector Pension Fund Trust

As stated earlier, substantial infrastructure would be needed to support a conversion of the public sector pensions from unfunded to funded. Costs of creating this additional infrastructure should be evaluated as well as the conversion itself.

The very basic infrastructure that should be developed immediately would include:

1. Establish a PSPF Trust
2. Establish the PSPF Board with recommendations that the Board members be technically competent and not be ex-officio named to avoid political interference and conflicts of interest
3. Establish an Investment Policy Statement
4. Contract with a Custodian to hold securities, calculate investment return and monitor adherence to investment policy statement at all times
5. Contract with independent auditor (not to replace the Auditor General but in addition to) to conduct pension audits
6. Contract with an actuary to propose a long term financing plan to finance the conversion from unfunded to funded
7. Determine whether the PSC HRMIS can provide contributor, pensioner and survivor data and pension payment indexing or whether a separate pension IT system would be required
8. Develop management team, budget, reporting lines to manage PSPF, establish legislation, communication plan

10. <u>Address Employer Arrears in Making Contribution Remittances to NPS and to Private Sector Pensions (Single and Multi- Employer Schemes)</u>

Employers remitting contributions to NSSA and private sector funded pensions schemes have been adversely impacted by the financial crisis.

NSSA and IPEC both reported that fewer employers remit employer and employee contributions on a timely basis. NSSA and IPEC should develop coordinated resolution so employers that are interested in fulfilling their contribution obligations would have a single source to request for a delayed payment plan, rather than each employer having to prepare separate and possibly different appeals.

NSSA reported that between 2013 and 2014 only 55 percent of employers remitted NPS contributions and that almost 45 percent of employers owe one or more months of pension contributions.

If economic conditions do not improve and employers continue to fall behind in their monthly NPS contributions and contributions to private pension schemes, drastic action will have to be considered and implemented quickly to avoid putting at risk the remaining employers, contributors and pensioners.

Consultants recommend that the IPEC and NSSA jointly identify employers that are no longer operational and contact their employees and to identify which employers are still operational and seek to work out a payment plan. The Consultants can assist the task force in developing options, analyzing the financial impact of the options to the NPS and the private pension schemes with and without creating payment plans to remit contributions in arrears over extended time periods and to suggest viable operational implementation options.

11. <u>Prescribed Assets</u>

Compare Supply & Timing of PA Designated Bond Offerings to Percentage of Private Employer Pension Scheme Assets under Management

Conduct a formal analysis of PA designated bonds issued in the past 24 months (period ending December 31, 2015) compared to the PA 10 percent mandate by each licensed pension scheme and by each life insurance company. After the initial analysis is completed the comparison should be continued on a quarterly basis.

The findings of this analysis would inform the validity of the claim of a lack of suitable PA designated bonds. IPEC could formally provide allowance for when there is indeed a bona fide shortage of PA designated bonds or demonstrate that there is no shortage in which case IPC would apply sanctions against the licensed pension schemes and life insurance companies that fail to comply with the 10 percent PA mandate.

IPEC would report total pension assets under management based on the 2014 and 2015 quarterly filing of licensed pension schemes and life insurance companies and compare with the following information from MoFED Public Debt Management Office.

The EDDC would analyze the following information for each PA designated bond:

Prescribed Asset Bonds	
Data	**Description**
Date of Public Offering	Initial Date
Subscription Dates	Open Investment Window
Issuance Amount	Total Bond Offering
Denomination	Dollar Value of Units Sold
Coupon Rate	Interest Payment
Principal Repayment	Schedule of Dates & Amounts
Term	Number of Years
Type of Issue	Fixed Rate Bond
Method of Issuance	Public Offering & Private Placement
Tradable on Secondary Market	Yes / No

Analysis of Quarterly Contributions between NPS and Private Pension Schemes

IPEC should conduct an initial analysis for the previous 24 months of quarter-to-quarter contributions versus arrears of the incoming contributions and arrears for the licensed pension schemes. The can be limited only to employers for which contributions are in arrears. IPEC should provide NSSA a list of the employers that are in arrears in the licensed pension schemes. NSSA should conduct a formal analysis for the previous 24 months of quarter-to-quarter contributions versus arrears for the NPS limited only to employers as reported by IPEC. After the initial analysis is completed the comparison should be continued on a quarterly basis.

The findings of this analysis by IPEC and NSSA for the same employers would inform IPEC of the validity of the claim that decreasing levels of contributions are indeed creating a bona fide constraint to licensed pension schemes to increase their purchase of PA designated bonds and, if appropriate, IPEC would be in a position to formally provide allowance to such schemes.

Alignment and Streamlining of the EDDC[18], Guarantees and Clarification on How Future PA Designated Bonds Will Be Issued and Managed

The Consultants recommend that the Secretary Finance draft a proposal as to how the EDDC will evaluate and determine according PA bond status. The Secretary should request feedback from officials of MoFED Treasury Office, IPEC, SECZ, RBZ, ZSE and IDBZ and other interested parties such as the ZAPF and LOA and incorporate the

[18] The EDDC was created under the Public Debt Management Act 2015 to: 1) establish a procedure to determine which bonds will be accorded PA status; and 2) to use the newly created procedures to evaluate each new bond and existing bonds for possible PA status designation.

feedback into a standard process. The EDDC would meet every other month (per legislation) to make PA designations.

The Consultants recommend that the EDDC withhold future PA designations until each such offering secure a credit rating by an internationally recognized statistical rating organization. Doing so would meet three critical components:

- Ensure compliance with the MoFED 2015 Mid-Term Fiscal Policy Review that all PA designated bonds are listed on the ZSE
- Ensure compliance with the ZSE requirement that listed bonds are rated
- Inform the pension trustees as to how each bond would comply with each scheme's investment policy statement in meeting risk and investment return objectives

The Consultants regard that public dissemination of PA designations is critical to the expansion of Zimbabwe's financial markets and as such the process that the EDDC will create and implement should include specific reference to how PA bond status would be communicated.

12. <u>Training & Capacity Building</u>

Create a process to develop and deliver ongoing and continual training on pensions for two target groups of senior and mid-level management within MoFED, MoPSLSW, IPEC, NSSA, SECZ, Banking Supervisor and members of Parliament. The objective is to substantially enhance deep technical pension expertise within government.

Develop multi-year work plan to define scope of and deliver training on multiple pension topics. Examples include:

- 1 week in-house course to model the financial impact of proposed changes to public sector salaries and to illustrate how today's salary changes will have profound pension cost impact over periods of 1, 5, 10, 20 to 50 years;
- 1 week in-house course on pensions governance, fiduciary liability, risk management, conflicts of interest and public disclosures
- 1 week in-house course on developing and maximizing a strategy on ICT, record keeping and pension administration and to show the how inefficient administration acts as a cash drain on the national budget and reduces pension payment amounts to pensioners and their families when administration and ICT is not 100 percent accurate.

Provide substantial technical training to relevant senior officials in MoFED, MoPSLSW, IPEC, NSSA SECZ and RBZ, Ministers and members of Parliament.

Provide technical financial analysis of each key pension policy issue to demonstrate and train on how decision makers can be supported with informed financial analysis.

13. Use of RBZ-Licensed Investment Manager

Assist NSSA Board and IPEC to bring stability to investment management and reporting of investment returns of funded pension schemes invested through licensed investment managers and life insurance companies by proposing ways in which funded pension schemes manage investments. Pension schemes would:

- Rely on a custom investment policy statement or a standardized SECZ pre-approved investment policy statement or to use a Collective Investment Scheme (CIS) for 100 percent investment. Investment policy would define permissible and prohibited investment options. Propose phased in approach to permitting non-Zimbabwe securities up to 10 percent of incoming contributions. Define appropriate structure of prescribed assets conforming to international standards of acceptable risk levels.
- Ensure investment return measure calculations are the same – let the public compare apples to apples by having a standard calculation for investment returns and standard time periods to compare
- Standardize use of custodian to hold investments in the name of the pension scheme, to validate the correctness of each transaction to the permissible and prohibited securities, pay for and settle all purchases and sales of investment portfolio holdings, calculate the investment return following mandated calculations and report investment return performance following standard calculation to allow for ease of comparing investment return performance.
- Ensure standard disclosure of investment fees for ease of comparison and to engender public confidence in IPEC as a reliable source of fee comparison.

Bibliography

Government of Zimbabwe Reports

- Minister of Finance and Economic Development National Budget Statements, November 27, 2014 and November 26, 2015
- NSSA Investment Policy, January 2015
- Actuarial Study on the National Pension Scheme: Report to the Government of Zimbabwe (prepared by ILO, 2012).
- Actuarial Valuation for the Establishment of the Public Service Pension Fund, Final Report, October 29, 2012, amended 2014 (prepared by Atchison and Alexander Forbes (East Africa) Actuaries and Consultants).
- IPEC Annual Reports 2012, 2013, 2014 and 2015

Government of Zimbabwe Legislation

- National Social Security Administration Act, 1989
- National Pension System, 1993
- Local Authorities Employees (Pension Schemes) Act 30, 1971
- Parliamentary Pensions Act 11, 1978
- State Service (Pensions) Act 7, 1989
- Pensions and Provident Fund Act
- Insurance and Pensions Commission Act, 2000
- Public Debt Management Act, 2015
- National Registration Act Chapter 10:17 (national identification registration)
- Securities Act, 2004
- Insurance Bill, 2015
- Insurance and Pensions Commission (Amendment) Bill, 2015
- Pensions and Provident Funds Bill, 2015
- Statutory Instrument 771 of 1982, Industrial Agreement, Mining Industry (Pension Fund), CAP 267.
- Statutory instrument 331 of 1995, Collective Bargaining Agreement: Mining Industry (Pension Fund), ACT 16/85

Third Party Reports

Evaluation of Retirement Systems of Countries Within the Southern African Development Community, Country Profile: Zimbabwe. Oxford Policy Management. Published by FinMark Trust, April 2010.

Structured Finance: Conditions for Infrastructure Development Bonds in African Markets, by Cedric Achille Mbeng Mezui and Bim Hundal. Published by the African Development Bank Group, 2013.

Structure of Pension Supervisory Authorities and Their Approaches to Risk Based Supervision. Published by the International Organization of Pension Supervisors, July 2012.

2015 Annual Survey of Investment Regulation of Pension Funds. Published by the Organization for Economic Cooperation and Development, 2015.

Innovations in Contribution Collection and Compliance. Louis D Enoff (Enoff Associates Ltd, US) and Raúl Ruggia-Frick, ISSA. Published by the International Social Security Association, November 2013.

Zimbabwe: Diagnostic Review of Consumer Protection and Financial Literacy (Draft), Volumes I and II. Published by The World Bank Group. July 2015*.*

Final Report on the Conversion of the Insurance and Pensions Industry from Zimbabwe Dollar to US Dollar, Acumen Actuaries and Consultants. September 2012.

Insurance Core Principles, Standards, Guidance and Assessment Methodology, International Association of Insurance Supervisors*.* October 2013.

Case for Consolidated Financial Sector Regulation in Kenya, Nzomo Mutuku, Research & Development Department, Retirement Benefit Authority. June 2008.

The OECD Roadmap for the Good Design of Defined Contribution Pension Plans, The OECD Working Party on Private Pensions*.* June 2012.

Review of the Irish Pension System, Preliminary Version, OECD. April 2013.

Coordination of Social Security Schemes, The Case of SADC, KFG Working Paper No. 60, Ockert Dupper. May 2014.

Contractual Savings in The Life Insurance Industry, Regulatory Reforms: Commission Scales & Minimum Early Termination Values, Department of National Treasury, Republic of South Africa*.* February 2008.

Managing Pension Funds in Zimbabwe: Ethical Issues and Challenges, Batsirai W. Mazviona, Chinese Business Review*,* ISSN 1537-1506 July 2013, Vol. 12, No. 7, 449-458.

The Chilean Pension System, Superintendencia de Pensiones*,* Santiago, Chile, 2010.

Newspaper Articles

Audit Report Details Rot at NSSA. January 15, 2016. Zimbabwe Independent.

Senior Bosses Cream Off NSSA, January 8, 2016. Zimbabwe Independent.

ZDF & Chinese Investor at Loggerheads Over Multimillion Dollar Borrowdale Long Cheng Plaza Mall. January 8, 2016. News Zimbabwe Vision.

NSSA Loses US$11.4 million in Closed Banks. December 11, 2015. Zimbabwe Independent.

NSSA Fingered in Fidelity Life Chaos. December 7, 2015. The Herald.

'Shocking' NSSA Audit Complete. November 19, 2015. The Financial Gazette.

ZSE Moves to Revive the Bond Market. November 5, 2015. The Financial Gazette.

State Embarks on Head Count of Pensioners to Weed Out "Ghosts". September 4, 2015. News Day.

Massive Fraud at Pensions Office. August 5, 2015. The Zimbabwean.

President Sets Up Pensions Conversion Commission. July 25, 2015. The Herald.

Zim Pensions Industry in Dire Straits. May 14, 2015. The Financial Gazette.

Zimbabwe: Dangers of Defaulting on NSSA Payments. February 24, 2015. The Herald.

Thousands Suffer as Zimbabwe Fails to Pay Pensions. March 19, 2014. The Zimbabwean.

ANNEX A PENSION INDUSTRY STUDY: TERMS OF REFERENCE

In the current circumstances where the Life Pension industry is performing in a sub-optimal manner, an analysis of a number of pertinent questions relating to the governance and regulatory environment in this industry is required.

These include:

1. To assess the adequacy of the legal, regulatory and institutional frameworks for all schemes - private and public pension schemes;

2. To assess the adequacy, appropriateness and compliance to investment thresholds for Pension Funds and Life Assurers in a dollarized environment;

3. To establish the appropriateness of liberalizing offshore investments by Pension Funds and Life Assurers and recommend (if feasible) appropriate classes and thresholds of offshore assets for investment;

4. To assess fully IPEC's regulatory capacity, establish and recommend specific headcount and skills gaps to strengthen its regulatory capacity;

5. To critically assess the coverage of the National Pension System and explore ways of mainstreaming the informal sector into the National Pension System;

6. To assess the adequacy and efficacy of the current investment policy for the National Pension Scheme vis-à-vis its current and future obligations;

7. To explore the viability of the existing Public Sector/ Civil Service Pension system in Zimbabwe and proffer recommendations for any improvements;

8. To recommend an appropriate, technical and analytical assessment framework to objectively guide Government when according prescribed asset status to projects of national interests.

ANNEX B: REGISTER OF PERSONS MET FOR OF PENSION INDUSTRY STUDY

	Name	Title	Ministry or Organization		
MoFED					
1	Dr J. Kateera	Permanent Secretary (Non-Accounting)	MoFED		
2	Mr E. Tsuro	Economist	MoFED		
3	Mr A.S. Mutsau	Economist	MoFED		
4	Mr. K. B. Moyo	Chief Economist	MoFED		
5	Mrs M. Makuwaza	Director	MoFED		
6	Mr. J. Mufararikwa	Principal Director	MoFED		
7	Mr F. F Chidavaenzi	Chief Economist	MoFED		
8	Mr Z.R.Churu	Principal Director	MoFED		
9	Mr Edwin F Vela-Moyo	Director	MoFED		
10	Mrs V. Paketh	Chief Economist	MoFED		
11	Mr K. Mushangwe		MoFED		
12	H. M. Jayi	Principal Economist	Financial and Capital Markets, MoFED		
Zimbabwe Association of Pension Funds (ZAPF) http://www.zapf.co.zw/					
13	Mrs Tendayi Gwature-Kakora	Director General	ZAPF, Stewart House North, 4 Central Ave, Harare		
Life Offices Association of Zimbabwe (LOAZ) http://loa.co.zw/					
14	Mr Rufai Masvikeni	Secretary General	LOA		
Zimbabwe Pension & Insurance Rights Trust (PIRT) http://zimpirt.com/					
15	Mr Martin Tarusenga	General Manager	ZimPIRT		
Securities and Exchange Commission Zimbabwe (SECZ) http://www.seczim.co.zw/					
16	Ms Tariro P Musikavanhu	Investor Awareness Officer	SECZ, 20 York Ave, Newlands, Harare		
17	Mr Kundai Msemburi	Head of Corporate Finance and Market Development	SECZ, 20 York Ave, Newlands, Harare		

ANNEX B: REGISTER OF PERSONS MET FOR OF PENSION INDUSTRY STUDY

	Name	Title	Ministry or Organization		
Zimbabwe Congress of Trade Unions www.zctu.co.zw					
18	Ms Vimbai Zinyama	Parliamentary Affairs, Advocacy & External Relations Director	ZCTU, 3rd Floor Gorlon House, Jason Moyo Ave, Harare		
19	Dr Banda	Health and Safety Executive	ZCTU, 3rd Floor Gorlon House, Jason Moyo Ave, Harare		
20	Felix Simika		NUCT		
21	Jane Gweshe		Employment Council Harare City Council		
22	Henry Tarumbira		NUMAIZ		
23	Emson Sibanda		Zimbabwe Tobacco Industry Workers Union (ZTIWU)		
24	March Makanga	Education Director	Clothing Workers Union of Zimbabwe (CWUZ)		
25	Samuel Tsvangirai		Food Federation - FFAWUZ		
USAID Zimbabwe					
26	Tom DiVincenzo	Economist, Economic Growth Office	USAID, 1 Pascoe Ave, Belgravia, Harare		
Insurance and Pension Commission (IPEC) www.ipec.co.zw					
27	Munyaradzi Machinjika	Manager – Prudential Supervision	IPEC, 160 Rhodhesville Ave, Greendale, Harare		
28	Mrs Manett S. Mpofu	Commissioner of Insurance	IPEC		
Reserve Bank of Zimbabwe (RBZ)					
20	Mr Simbarashe Mashonganyika	Principal Bank Examiner	RBZ, 80 Samora Machel Ave, Harare		
30	Phillip Tapera Madamombe	Deputy Director – Bank Supervision	RBZ		
31	Anna Siwadi	Deputy Director – Bank Supervision	RBZ		
32	Rachel S. Mushosho	Deputy Director – Bank Supervi	RBZ		
Public Service Commission					
33	Sylvester J Mnkandla	Pensions Master General	PSC – Pensions Agency, Mukwati Building, Causeway /Harare		
34	Lawrence S Rwaringesu	Deputy Pensions Master (Operations)	CSC – Pensions Agency		
35	Kudakwashe Makiwa	Deputy Pensions Master (Coordination)	CSC – Pensions Agency		

ANNEX B: REGISTER OF PERSONS MET FOR OF PENSION INDUSTRY STUDY

	Name	Title	Ministry or Organization		
36	Mr O Kawonde	General Manager	PSC - HRMIS, 9^{th} Floor Social Security Centre, Cnr Julius Nyerere Way/1sam Nujoma Stt, Harare		
	National Social Security Authority				
37	Barnabas Matongera	Director – Contributions and Compliance	NSSA House, Cnr. S Nujoma/Selous Ave, Harare		
38	Cloupas Makoni	Chief Economist	NSSA		
39	Shepherd Muperi	Manager – Benefits (WCIF)	NSSA		
	Ministry of Public Service, Labour and Social Welfare				
40	Memory Mukondomi	Director Finance and Administration & NSSA Board Member	MOPSLSW, 9^{th} Floor Kaguvi Building, 4^{th} Street/Central Ave, Harare		
41	Mr S Tarupuwa	Deputy Director Industrial Relations	MOPSLSW		
42	Lindiwe Mutseriwa	Administrative Officer Industrial Relations	MOPSLSW		
	Construction Industry Pension Fund				
43	Mr E Ngunga	General Manager	CIPF, 1^{st} Floor Construction House, 110 Leopold Taka Harare		
	Zimnat Life Insurance				
44	Mr Francis Masukusa	Operations Manager	Zimnat Life, 3^{rd} Floor, Zimnat House, Cnr 3^{rd} Street/Nelson Mandela, Harare		
	Comarton Consultants/Atchison Actuaries				
45	Richard G Muirimi	Group Managing Director	Comarton Consultants, 116 McChlery Ave, Eastlea, Harare		
46	KenethSupiya	General Manager	Comarton		
47	Molly Makusha	Financial Director	Comarton		
	Employers Confederation of Zimbabwe				
48	John W. Mufukare	CEO/President	EMCoZ, 21 Smit Crescent,Eastlea, Harare		

ANNEX B: REGISTER OF PERSONS MET FOR OF PENSION INDUSTRY STUDY

	Name	Title	Ministry or Organization		
			Fidelity Life Assurance of Zimbabwe		
49	R.S. Chihota	General Manager – Employee Benefits,	Fidelity House, 66 Julius Nyerere Way, Harare		
			Registrar General		
50	Mr TobaiwaMudede	Registrar General	Registrar General Office		
51	Mr G Tsuro	Provincial Registrar	RG		
52	E Munonyara	Registrar – Births and Deaths	RG		
53	R Nyahau	Registrar IDS	RG		
			Zimbabwe Chamber of Informal Economy Association		
54	Lorraine B Sibanda	National President	ZCIEA, 2nd Floor, Gorlon House, 7 Jason Moyo Ave, Harare		
			Old Mutual		
55	Mr Reuben Java	General Manager	Old Mutual, Mutual Gardens, 100 The Chase West, Emerald Hill, Harare		
56	Loreen H Makwanya	Actuarial Head	Old Mutual		
57	Kudakwashe Magasu	Actuarial Specialist	Old Mutual		
			Zimbabwe Electricity Supply Authority (ZESA) Pension Fund, (Self-Administered)		
58	Mr WA Lungu	General Manager	ZESA Staff PF, Megawatt House, 4th Floor, 44 Samora Machel Ave, Harare		
59	Mr Noel Jakaza	Admin Manager	ZESA Staff PF		
60	Mr AV Sova	Finance Manager	ZESA Staff PF		
			First Mutual Life		
61	Peter Shoniwa	Employee Benefits Executive	First Mutual Life, First Floor, First Mutual Park, 100 Borrowdale Road, Borrowdale, Harare		
			Local Authorities Pension Fund (LAPF)		
62	Mr Charles Mandizvidza	CEO	LAPF 10th Floor, Throgmorton House, Samora Machel Ave, Harare		

ANNEX B: REGISTER OF PERSONS MET FOR OF PENSION INDUSTRY STUDY

	Name	Title	Ministry or Organization		
Mining Industry Pension Fund					
63	Rejoice Chipendo	Deputy Principal Officer Legal and Operations	MIPF House, 5 Central Ave, Harare		
64	Daniel Sithole	Pensions Manager	MIPF House, 5 Central Ave, Harare		

ANNEX C: INFORMATION REQUESTED TO COMPLETE THE STUDY

28 Cleveland Avenue, Milton Park, Harare, Zimbabwe • Tel: +263(0)4 702520/ 764364 • mjenje@sera-program.co.zw

SERA PROGRAM
USAID STRATEGIC ECONOMIC RESEARCH AND ANALYSIS - ZIMBABWE

RGE

25 November 2015

Secretary for Finance and Economic Development
Ministry of Finance and Economic Development
6th Floor, Government Complex
Cnr 4th Street/ Samora Machel
HARARE

Attention: Mr. Z. Churu

RE: REQUEST FOR ADDITIONAL DATA TO FINALISE PENSIONS INDUSTRY STUDY

Reference is made to the above subject that was highlighted during the High Level Stakeholder Workshop to validate the Pensions Industry Study hosted by the Ministry on the 20th of November 2015.

We wish to formally request for information as catalogued on the attached tables in order to complete the Pensions Industry Report. In addition to the data on the tables, it would be greatly appreciated if you could also provide:

1) a copy of the notification of the Policy Document that guided the decision to waive employee salary deductions in February 2009; and

2) the notification that waived mandatory employee salary deductions would be "deemed" to have been made and that in calculating employee's pensions at retirement or death, there would be no penalty imposed.

3) The Policy Document that covers the proposed Public Sector Pension Scheme.

We are targeting to finalise the Study Report for your purposes by the 4th of December 2015 and hence your cooperation and facilitation towards getting this information would be greatly appreciated.

Yours Sincerely

....
R. Chizema
Senior Economist
USAID-SERA

cc: Dr. J. Kateera
Non Accounting Secretary for Finance and Economic Development

A Program of NATHAN ASSOCIATES INC.

Public Sector Employee Salaries

A. Table of employee salary data by month between February 2009 and October 2015 as follows:

Public Sector Pensionable Salary Data 2-2009 to 10-2015			
	Total Number of Pensionable Employees	Total Amount of Paid Pensionable Salaries	7.5% of Pensionable Salaries for Pensionable Employees
2-2009			
3-2009			
4-2009			
10-2015			
Note: Create a separate table for each employee group for which the mandatory salary deduction is different than 7.5% and indicate the rate of salary deduction (if none, indicate zero).			

B. Grade and salary data between 2-2009 and 10-2015 as follows:

Public Sector Grade & Salary 2-2009 to 10-2015							
	2-2009	3-2009	4-2009	5-2009	6-2009	7-2009	10-2015
Pensionable Grade							
Pensionable Salary							
Pensionable Grade							
Pensionable Salary							
Note: Create a separate table for each employee group for which the mandatory salary deduction is different than 7.5% and indicate the rate of salary deduction (if none, indicate zero).							

Public Sector Employee Contributions to NPS

C. Table of Government-as-Employer NPS Contributions to NSSA

Government-as-Employer Contributions & Employee Mandatory Salary Deductions to NPS 2-2009 to 10-2015					
Salary Month Year	Total Employees	Total NPS Contribution	NPS Contribution Rate	NPS Salary Ceiling	Date Contribution Payment to NPS
2-2009					
3-2009					
4-2009					
10-2015					
Note:					

D. Table of Monthly Payments, Commutations & Grants to Pensioners & Survivors

Monthly, Commutation & Grant Payments to Pensioners, Survivors 2-009 to 10-2015					
		2-2009	3-2009	4-2009	10-2015
Payments to Pensioners	$ Monthly payments to Pensioners				
	Number Payments to Pensioners				
	$ Commutations to Pensioners				
	Number Commutations to Pensioners				
Payments to Survivors	$ Monthly payments to Survivors				
	Number Payments to Survivors				
	$ Commutations to Survivors				
	Number Commutations to Survivors				
Commutation Backlogs to Pensioners & Survivors	$ Commutations Backlog to Pensioners				
	Number Commutations Backlog to Pensioners				
	$ Commutations Backlog to Survivors				
	Number Commutations Backlog to Survivors				
Grants to Terminating Employees	$ Grants to Eligible Terminating Employees				
	Number Grants to Eligible Terminating Employees				
Grants to Survivors	$ Grants to Survivors				
	Number of Grants to Eligible Survivors				
Note: If payments were delayed and paid in a following month, notate accordingly.					