Pension Projection: Communication with Members and its Supervision: Experience from Botswana

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Agenda

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About Botswana

Size: 581,730 Sq.km

GDP: P180,113 million (USD 18 billion)

GDP per Capita: P79,908 million (USD 7990.8)

Life Expectancy (at birth): 68 years

Population: 2.2 million

Population structure:

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<th>0-14</th>
<th>15-64</th>
<th>65+</th>
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<td>32.7%</td>
<td>62.3%</td>
<td>3.9%</td>
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Pension Funds at a Glance: December 2017

- **Coverage**
  - 12.3% of Population
  - 58% of formal working Population

- **259,301 Members**

- **P82 billion**
  - 45% of GDP

- **Investments**
  - **Offshore Investments** 66%
  - **Local Investments** 34%

- **Equities**: 74%
- **Bonds**: 22%
- **Others**: 4%

- **Growth**
  - 2015: P59.4b
  - 2016: P73.8b
  - 2017: P75.1b
  - 2018: P82.2b
Overview - Pension Pillars

Three Pillar pension system

Pillar 1: Basic Pension
Pillar 2: Occupation Pension
Pillar 3: Individual Voluntary Contribution

- Voluntary system;
- Defined contribution;
- Contributions rates are not legislated;
- Length of contribution (retirement age) not legislated;
- Permitted pre-retirement withdrawals;
- Taxation: EET

Structural Challenges;
- Low coverage;
- Inadequate pension income
Members’ Protection Regulatory Framework

Members Right to Information (Section 42) → Members Right to be heard (Section 48) → Communication with Members (Regulation 44)

Section 14: Board of Trustees shall manage the pension funds in the best interest of the members

Communication Policy
Benefit Statements
Pension Projections
Pension Projections: Objectives

- Educational tool
- Communication Tool
- Retirement Readiness Tool

- Sensitize members of the road ahead
- Influencing members behavior towards their pension benefits
- Raising members awareness about their pension benefits
- Enhancing understanding and knowledge of the pension system

"Predicting rain doesn't count. Building arks does." - Warren Buffett
Pension Projections: Supervision

Frequency

• The projections must be provided to members on an annual basis

Methodology

• Real rate of return only;
• Estimation of the real rate of return must be based on the long-term view of the expected return in line with long term macro economic performance of the economy;
• The estimated rate of expenses must be in line with the fund’s expenses historical trends;

Communication

• Disclaimer: projections are only guidelines, actual future benefits payable may be different from the projections;
• Communicated in a simple and easily understandable way;
• Monthly projections presented in current monetary terms;
• Summary of assumptions used in preparing the projections to be included in the statements.
• The assumption are to be submitted to the Regulatory Authority every 3 years as part of the Actuarial Review
Projections: Assumptions

- Real rate of Return takes in to account;
  - Estimated expenditure
  - Asset mix
  - Inflation

- Contributions -
  - GDP growth
  - Wages growth
  - Demographic Changes

- Retirement Age;
- No withdrawals;
- No employment breaks;

Trustees have the responsibility to ensure reasonableness of the Assumptions.

Assumptions must be reviewed every three years in line with the Actuarial Reviews
What is happening on the ground

• Disclaimer;

• Projections are communicated in;
  – monthly absolute figures, in current monetary terms, for ease of reference; and
  – As percentages of the projected last pensionable income;

• Some pension fund uses on-line projection tool;

• Majority of pension funds provide the projections in three deterministic scenarios;
  – Optimistic return
  – Average return
  – Pessimistic return.

• Some pension funds uses pictorial, some words and others a combination of both, to communicate the projections.
Each statement must be accompanied by an educational material to assist members to understand the use of the statement;
Example: Pension Projection Statement:

- Presented using three deterministic scenarios
- Provide information of the needed AVC
Challenges

• Projection are presented in current terms, which does not give the true value of the future benefits payable

• Lack of full understanding of the objectives of having pension projection by the members and the Trustees.

• Lack of understand projections and its assumptions – Misinterpretation of the projections.
Non - Bank Financial Institutions Regulatory Authority

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