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THE DIRECTOR GENERAL'S NOTE

A Blend of Time and Trust

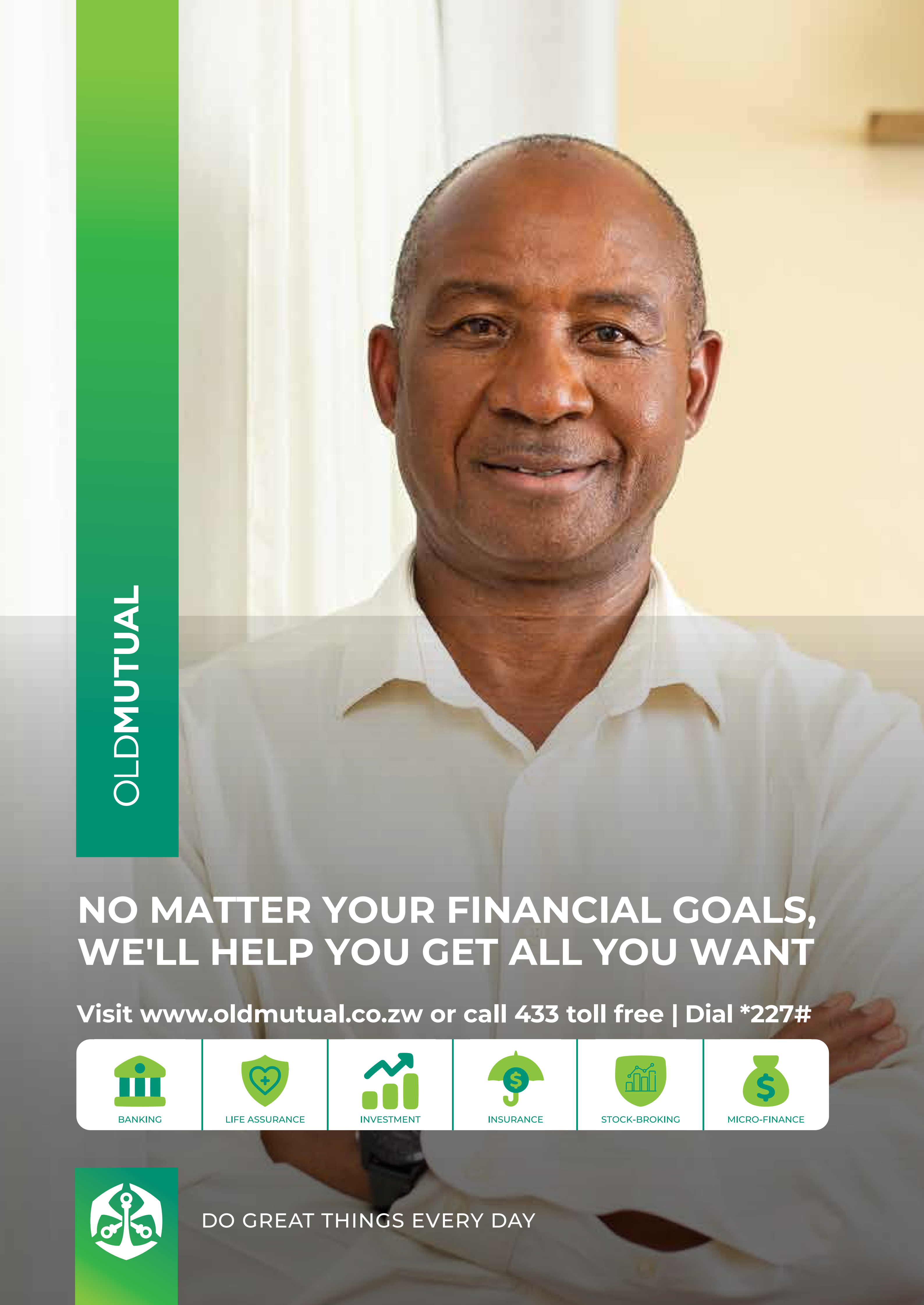
As we delve into this edition of our esteemed magazine, we find ourselves immersed in a tapestry woven with threads of time, trust and the unwavering dedication of those who safeguard the financial well-being of countless individuals. Our pages offer a glimpse into the intricate landscape of pension funds, a realm where foresight, prudence and a steadfast commitment to ethical stewardship converge to shape the contours of a secure future.

In this issue, amongst various issues, we delve into the pressing challenges and opportunities presented by demographic shifts, exploring strategies to ensure the sustainability of pension schemes in the face of evolving societal needs.

As we navigate the ever-evolving landscape of pension fund management, let us remain steadfast in our pursuit of knowledge, innovation, and ethical conduct. Together, we can build a future where the promise of a secure retirement is a reality for all. Happy Reading

Sandra. T. Musevenzo

Director General (ZAPF)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A SYMPHONY OF INQUIRY

Elevating Trustee Engagement in Pension Fund Governance Through Asking The Right Questions

| Authored by David Smith (Nivteil Capital – South Africa) |

The tapestry of pension fund governance is woven with threads of trust, stewardship and strategic acumen. At the heart of this intricate fabric resides the trustee, the sentinel safeguarding the financial well-being of countless individuals. Yet, the effectiveness of a trustee's stewardship is often contingent upon the quality of their inquiries. A well-posed question can illuminate a path through the labyrinth of financial complexities, while a poorly framed query may lead to a cul-de-sac of confusion.

In the realm of pension fund trusteeship, the art of questioning is akin to a conductor guiding a symphony. A deftly crafted inquiry can harmonize the disparate elements of financial planning, investment strategy and risk management. Conversely, a lackluster query can dissonant the harmonious interplay of these components. To elevate the level of engagement and insight within trustee meetings and interactions with service providers, it is imperative to cultivate a repertoire of thoughtful, probing and value-added questions.

NAVIGATING THE DEPTHS OF INVESTMENT STRATEGY

When delving into the intricacies of investment strategy, trustees must become astute interrogators. A well-placed question can unveil the underlying assumptions, risks and rewards of a proposed investment approach.

Consider the following queries:

•"How does our investment philosophy align with the evolving macroeconomic landscape?" This question encourages service providers to articulate the fund's investment strategy in the context of broader economic trends.

•"What are the key performance indicators (KPIs) we should monitor to assess the efficacy of our asset allocation?" This inquiry prompts a discussion of metrics that will provide a clear and objective measure of investment success.

•"How are we mitigating the risks associated with our capital markets and alternative investments?" This question probes the fund's risk management strategies and ensures that trustees are aware of potential pitfalls.

UNRAVELLING THE MYSTERIES OF RISK MANAGEMENT

Risk management is a cornerstone of effective pension fund governance. Trustees must be vigilant in their pursuit of understanding the fund's exposure to various risks and the strategies in place to mitigate them. **Consider the following questions:**

•"What is our stress testing methodology and how frequently is it applied to our investment portfolio?" This question helps trustees assess the fund's resilience to adverse market conditions.

•"How are we monitoring and managing cyber security risks, including the potential for data breaches and fraud?" This inquiry addresses the increasingly important issue of protecting the fund's sensitive information.

•"What is our contingency plan for addressing liquidity risks in the event of a market downturn?" This question ensures that the fund has adequate measures in place to meet its obligations during periods of financial stress.

SCRUTINIZING THE EFFICIENCY OF SERVICE PROVIDERS

Trustees must also be diligent in evaluating the performance of service providers, ensuring that they are delivering value for the fees they charge. **Consider the following questions:**

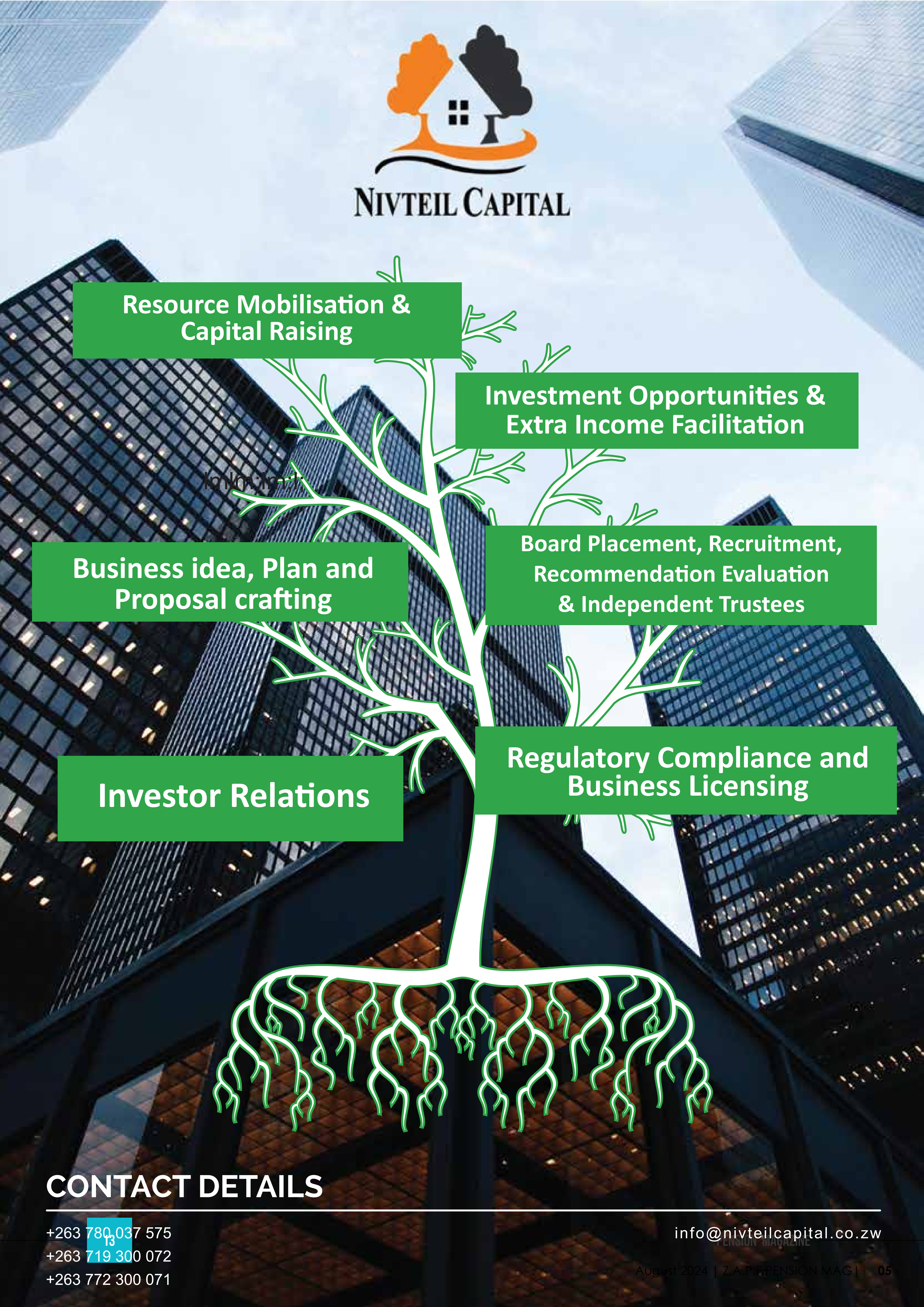
•"How are we measuring the cost-effectiveness of our service providers and what benchmarks are we using?" This question encourages service providers to justify their fees and demonstrate their value proposition.

•"How are we ensuring that our service providers are acting in the best interests of the fund and its members?" This inquiry probes the fiduciary duties of service providers and their commitment to ethical conduct.

•"How are we addressing any conflicts of interest that may arise between our service providers?" This question helps to mitigate potential biases and ensure that the fund's interests are always prioritized.

CULTIVATING A CULTURE OF INQUIRY

In addition to asking insightful questions, trustees must also cultivate a culture of inquiry within the fund. This involves encouraging open dialogue, fostering a climate of trust and empowering trustees to raise concerns without fear of reprisal.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EMBRACING RETIREMENT AMIDST FINANCIAL STRAINS

| Authored by Dr T. Moyo |

Retirement, a harmonious crescendo of life's melody, often evokes images of leisurely pursuits, serene landscapes and a newfound sense of freedom. Yet, the symphony of retirement can be marred by discordant notes, particularly when financial strains cast a shadow over its anticipated beauty. In the face of such challenges, it becomes imperative to cultivate a symphony of motivation, a harmonious blend of intrinsic and extrinsic factors that can sustain one's spirit and propel one toward a fulfilling retirement.

The first movement of this symphony is the cultivation of a resilient mindset. Financial anxieties, like tempestuous waves, can erode one's determination and dampen the joy of retirement. To weather these storms, it is essential to embrace a philosophy of resilience, viewing challenges as opportunities for growth and transformation. By adopting a positive outlook and reframing setbacks as stepping stones, one can cultivate a mental fortitude that transcends financial limitations. Moreover, seeking solace in the company of like-minded individuals can provide a supportive network that mitigates the isolation often associated with financial struggles.

The second movement of this symphony is the exploration of alternative avenues of income. While financial security is undeniably important, it is essential to recognize that retirement can offer a unique opportunity to pursue passions and interests that may have been neglected during one's working years. By exploring part-time employment, freelancing or entrepreneurial ventures, individuals can supplement their income while engaging in activities that bring them joy and fulfilment. Moreover, leveraging one's skills and experiences can open up new avenues of income generation, demonstrating that financial independence is not solely tied to traditional employment.

A FLORAL ODE TO RETIREMENT: CULTIVATING MOTIVATION IN THE FACE OF FINANCIAL FUTILITY

Retirement, a verdant oasis in the arid desert of life's relentless march, is a dream often adorned with visions of tranquillity, leisure and self-discovery. Yet, for many, the allure of this idyllic retreat is clouded by the spectre of of financial insecurity. The prospect of a future tethered to a meagre pension, a dwindling savings account or a precarious investment portfolio can sow seeds of doubt, anxiety, and even despair. How, then, can one cultivate the motivation to embrace retirement when the very means to sustain it seem so tenuous?

The answer lies not merely in the realm of financial prudence, but also in the cultivation of a resilient spirit and a profound understanding of life's true riches. For it is in the tapestry of our inner selves, woven with threads of purpose, passion and connection, that we find the most enduring sources of motivation.

To begin, let us consider the psychological underpinnings of financial anxiety. The fear of poverty, of being a burden to loved ones, or of losing one's sense of identity in the absence of work can cast a long shadow over retirement plans. It is essential to acknowledge these fears without succumbing to their paralyzing influence. By recognizing the root causes of our anxieties, we can begin to dismantle the emotional barriers that hinder our motivation.

One effective strategy is to reframe our perspective on retirement. Instead of viewing it as a time of decline and loss, we can embrace it as a period of growth and opportunity. Retirement offers a unique chance to pursue passions, cultivate new skills, and deepen our connections with loved ones. By focusing on the positive aspects of retirement, we can shift our mindset from fear to anticipation.

Moreover, it is crucial to develop a comprehensive financial plan that addresses our specific needs and concerns. This plan should include a detailed budget, a clear understanding of our retirement income sources and a strategy for managing potential risks. By taking proactive steps to secure our financial future, we can alleviate much of the anxiety associated with retirement.

Beyond financial considerations, it is essential to nurture our inner selves. Engaging in activities that bring us joy, fulfilment, and a sense of purpose can provide a powerful antidote to financial worries. Whether it is pursuing a hobby, volunteering in the community, or simply spending time in nature, these activities can help us rediscover our passions and reconnect with our true selves.

Furthermore, cultivating strong social connections is vital to maintaining our motivation. Surrounding ourselves with supportive friends and family can provide a sense of belonging and purpose. Engaging in social activities and volunteering can also help us expand our network and meet new people.

In addition to personal growth and social connections, it is important to find meaning and purpose in our retirement. Volunteering, mentoring, or pursuing a part-time job can provide a sense of fulfilment and contribute to the well-being of others. By finding ways to give back to our communities, we can create a legacy that extends far beyond our personal lives.

Finally, it is essential to remember that retirement is a journey, not a destination. There will be challenges along the way, but with a positive mindset, a comprehensive financial plan, and a focus on personal growth, we can navigate these challenges with resilience and grace. By embracing the opportunities that retirement offers, we can create a fulfilling and meaningful life that is truly our own.

In conclusion, the fear of financial insecurity can cast a long shadow over retirement plans. However, by cultivating a resilient spirit, developing a comprehensive financial plan, and nurturing our inner selves, we can overcome these challenges and embrace retirement with enthusiasm and optimism. By focusing on personal growth, social connections, and finding meaning and purpose, we can create a retirement that is not only financially secure but also rich in fulfilment and joy.

A SYMPHONY OF LEGAL COUNSEL

Selecting the Perfect Law Firm

In the intricate tapestry of life, legal matters often emerge as threads that weave together the fabric of our existence. The choice of a legal advisor, a harbinger of justice, can be a monumental decision, fraught with implications that reverberate far beyond the courtroom. The selection of a law firm is not merely a transactional endeavour but rather a strategic alliance, a partnership forged upon the bedrock of trust, expertise and a shared commitment to the pursuit of equitable outcomes.
The labyrinthine corridors of the legal realm, replete with intricate statutes and arcane procedures, can often leave the uninitiated feeling adrift and overwhelmed. In such a complex and multifaceted landscape, the judicious selection of a law firm emerges as a pivotal consideration, a decision that can significantly influence the outcome of legal disputes. To embark upon this journey of legal representation with confidence and clarity, it is imperative to employ a discerning eye, a discerning mind, and a discerning heart.

The labyrinthine world of law firms, replete with specialized practices and diverse methodologies, can be both daunting and exhilarating. To navigate this intricate terrain with confidence, it is imperative to embark on a journey of careful consideration, guided by a compass of discerning criteria.
Foremost among these is the firm's specialization in the relevant area of law. A law firm that has honed its expertise in a particular field possesses a depth of knowledge and experience that can be invaluable in navigating complex legal challenges. Whether it be corporate law, intellectual property, family law, or criminal defence, a firm that has a proven track record in the desired area can provide a level of assurance and competence that is indispensable.
Beyond specialization, the reputation of a law firm is a cornerstone upon which trust can be built. A firm with a sterling reputation is one that has consistently delivered exceptional results for its clients, garnered the respect of its peers and cultivated a positive image within the legal community.

Online reviews, testimonials and referrals from trusted sources can offer valuable insights into a firm's reputation. However, it is essential to approach such information with a critical eye, recognizing that subjective experiences can vary widely.
The size of a law firm is another factor that warrants careful consideration. Larger firms often possess a broader range of expertise and resources, enabling them to handle complex and multifaceted cases. However, smaller firms may offer a more personalized approach, with attorneys who are more accessible and invested in their clients' individual needs. The ideal size of a law firm will depend on the nature of the legal matter and the client's personal preferences.
Communication is a vital aspect of any successful attorney-client relationship. A law firm that prioritizes open and transparent communication will ensure that clients are kept informed throughout the legal process, understand the implications of their decisions and feel

empowered to participate actively in their cases. Regular updates, clear explanations and prompt responses to inquiries are hallmarks of a law firm that values its clients.
Fee structures can vary significantly from firm to firm. It is essential to obtain a detailed breakdown of fees, including hourly rates, retainer fees and potential additional costs. Understanding the fee structure upfront can help to avoid unexpected expenses and ensure that the financial burden of legal representation is manageable. Additionally, it manageable. Additionally, it is advisable to inquire about the firm's contingency fee policies, if applicable. The cultural fit between the client and the law firm is also a factor that should not be overlooked. A firm that shares the client's values, ethics and approach to legal matters can foster a more harmonious and productive working relationship. It is worth taking the time to meet with potential attorneys to assess their personality, communication style and overall compatibility.
In conclusion, the selection of a law firm is a decision that should be approached with deliberate care and thoughtful consideration. By evaluating factors such as specialization, reputation, size, communication, fee structures and cultural fit, individuals and businesses can identify a legal partner that is well-equipped to navigate the complexities of the legal landscape and achieve optimal outcomes.

ESG AND CLIMATE RISKS FOR PENSION FUNDS

The tapestry of modern finance is woven with threads of environmental, social and governance (ESG) considerations, a confluence that has become increasingly imperative, particularly for the stalwart guardians of retirement savings: pension funds. As the world grapples with the spectre of climate change, these venerable institutions find themselves at the intersection of fiduciary duty and societal responsibility. The integration of ESG factors into investment strategies is no longer a mere aspiration but a prudent imperative, a strategic move that can mitigate risks, enhance returns and contribute to a more sustainable future.

The confluence of ESG and climate risks presents a complex challenge for pension funds. On one hand, the imperative to generate competitive returns for beneficiaries necessitates a focus on financial performance. On the other, the growing awareness of the environmental and social consequences of human activities demands a more holistic approach to investment. The failure to adequately address these risks can lead to significant financial losses, reputational damage and a breach of fiduciary duty.

Climate change, a phenomenon of unprecedented scale and urgency, poses a multifaceted threat to pension funds. Physical risks, such as extreme weather events, rising sea levels and natural disasters, can directly impact the value of assets and the ability of companies to operate. Transition risks, arising from the shift to a low-carbon economy, can also pose significant challenges. As governments and businesses implement policies and regulations to reduce greenhouse gas emissions, companies that are slow to adapt

may face regulatory hurdles, stranded assets, and diminished market value. Moreover, the social and governance dimensions of ESG are inextricably linked to climate risk. Companies that prioritize ethical labour practices, human rights and responsible corporate governance are more likely to be resilient in the face of climate-related challenges. Conversely, those that engage in unsustainable practices may face reputational risks, legal liabilities, and investor backlash.

To navigate this complex landscape, pension funds must adopt a comprehensive and systematic approach to ESG and climate risk management. This involves several key steps:

1.Risk Assessment and Identification: Pension funds must conduct a thorough assessment of their exposure to ESG and climate risks, considering both direct and indirect impacts. This involves identifying vulnerable assets, assessing the potential financial consequences of climate-related events and evaluating the resilience of portfolio companies to climate change.

2.Investment Strategy Integration: ESG and climate factors must be seamlessly integrated into the investment strategy, ensuring that they are considered alongside traditional financial metrics. This may involve the development of bespoke investment benchmarks, the use of ESG-focused investment products and the engagement with portfolio companies on climate-related issues.

3.Data and Reporting: Accurate and reliable data is essential for effective ESG and climate risk management. Pension funds must develop robust data collection and reporting processes, ensuring that they have access to the information needed to make informed investment decisions

4.Governance and Oversight: Strong governance structures and oversight mechanisms are crucial for ensuring that ESG and climate risks are adequately addressed. This includes the establishment of ESG committees, the appointment of qualified ESG professionals and the implementation of robust risk management frameworks.

5.Stakeholder Engagement: Pension funds must engage with stakeholders, including beneficiaries, regulators and civil society organizations, to understand their expectations and address their concerns. This can help to build trust, enhance transparency and ensure that ESG and climate considerations are aligned with the fund's mission and values.

CONCLUSION

In conclusion, the integration of ESG and climate factors into the investment strategies of pension funds is a critical imperative. By adopting a comprehensive and systematic approach, these institutions can mitigate risks, enhance returns and contribute to a more sustainable future. As the world grapples with the challenges of climate change, pension funds have a unique opportunity to play a leadership role in driving a transition to a low-carbon economy.

GUIDING GENERATION Z TOWARDS FINANCIAL SERENITY

Generation Z, the digital natives, are poised to inherit a world shaped by unprecedented technological advancements and economic complexities. As they navigate the labyrinthine paths of adulthood, the imperative to secure a financially prosperous future looms large. This essay delves into the intricate strategies that can empower Generation Z to embark on a journey towards financial security and a serene retirement.

The cornerstone of financial well-being lies in the art of budgeting. This seemingly mundane task is, in fact, a powerful tool capable of transforming financial habits. By meticulously tracking income and expenses, Generation Z can identify areas where expenditure can be curtailed, thereby freeing up resources for savings and investments.The allure of instant gratification can often eclipse the long-term benefits of delayed consumption. By cultivating a mindset of delayed gratification, Generation Z can prioritize saving over spending, paving the way for a more secure future.

Investing is a double-edged sword, capable of both amplifying wealth and inflicting financial devastation. To wield this potent tool wisely, Generation Z must embark on a journey of financial education. Understanding the nuances of various investment vehicles, such as stocks, bonds and mutual funds, is essential. Moreover, the importance of diversification cannot be overstated. By spreading investments across different asset classes, Generation Z can mitigate risk and enhance returns.

Retirement planning is a complex endeavour that necessitates careful consideration. The earlier Generation Z begins saving for retirement, the more time their investments have to compound.

Debt can be a formidable adversary, hindering financial progress and eroding wealth. Generation Z should strive to minimize debt, particularly high-interest loans. By creating a budget and paying off debts promptly, they can liberate themselves from the shackles of debt and allocate more resources towards savings and investments.

Financial literacy is a vital skill that equips individuals with the knowledge and tools to make informed financial decisions. Generation Z should actively seek out educational resources, such as books, articles and online courses, to enhance their understanding of personal finance. Moreover, seeking advice from financial professionals can provide valuable guidance and personalized recommendations.

In conclusion, the pursuit of financial security is a lifelong journey that requires discipline, foresight, and a proactive approach. By adopting the strategies outlined in this essay, Generation Z can embark on a path towards financial prosperity and a serene retirement. Through budgeting, investing wisely, planning for retirement, managing debt effectively and cultivating financial literacy, Generation Z can secure a brighter future for themselves and their loved ones.

FUNDING ENTREPRENEURSHIP REQUIRES COLLECTIVE EFFORT

Thinking beyond the National Venture Capital Fund

| BY Prechard Mhako |

At the recent SADC Industrialization Week, Zimbabwe made a significant announcement through the Honourable Deputy Minister of Finance: the appointment of a CEO to the National Venture Capital Fund. This is a very positive development for Zimbabwe's entrepreneurial ecosystem, signalling a renewed focus on fostering innovation and supporting emerging businesses.

While this move is encouraging, it is important to recognize that Zimbabwe already has several financial institutions aimed at supporting entrepreneurship. These include the Industrial Capital Fund by IDC, the SME Revolving Fund by SMEDCO, EmpowerBank, Zimbabwe Women's Microfinance Bank etc. If the performance of the above institutions tells us a story, it is that 1, government can-not do it alone, and 2, that there may be need to consolidate efforts for better impact.

To maximize the impact of the National Venture Capital Fund and truly accelerate the growth of a robust, private-sector-led entrepreneurial ecosystem, additional strategic initiatives are essential.

Key Steps to Strengthen the Ecosystem may include

1. Establish a Venture Board on the ZSE or VFEX — Creating a dedicated venture board on the Zimbabwe Stock Exchange (ZSE) or Victoria Falls Stock Exchange (VFEX) would provide a platform for startups and high-growth companies to access capital and gain visibility. This could attract both local and international investors, creating a more dynamic and supportive environment for innovation.
2. Introduce Corporate Venture Capital Incentives — Zimbabwe could take inspiration from countries like Japan, where corporate venture capital (CVC) is incentivized through tax benefits and other policy measures. Encouraging large corporations to invest in startups not only provides crucial funding but also fosters collaboration between established businesses and emerging entrepreneurs, driving innovation across sectors. Companies. This could even be part of a commercialization roadmap for innovation outcomes, especially from universities

hubs.

3. Consider enacting a Startup Act to replace the SME act. — I have previously written about this and it is clear the SME Act has been superseded by progress; it was valuable in the past but no longer addresses the needs of contemporary entrepreneurship. This will be aimed at providing business and fiscal conditions necessary to allow startups an opportunity to scale without the burden of expectation. At present innovation and experimentation is expensive, and failure is fatal.

4. Consolidate efforts — Building in silos has already proven to be ineffective. As the old saying goes, "one finger cannot crush lice." New ventures and small businesses need a credible pathway tailored for each stage of their existence whether it is at ideation, prototyping, launch, scale, maturity or exit. The existing institutions, including the National Venture Capital Fund, must interact and leverage each other's core competences & strengths to create a cohesive support system for entrepreneurship.

By implementing the above, Zimbabwe can further enhance its entrepreneurial ecosystem, ensuring that the National Venture Capital Fund and other existing initiatives (including from current actors who include corporates, development partners and NGOs) work synergistically to support the next generation of Zimbabwean entrepreneurs. This will also allow Pension Funds and other institutional investors finding it difficult to tap into new and emerging opportunities to use this as an avenue to support the next generation of businesses whilst simultaneously creating value for their stakeholders.

Ecosystems win the day, any day, all day!

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On the Ivy League of Global Pension Systems Powerhouses? DISCUSS IN AUS!

| Co-authored by Gandy Gandidzanwa and Itai Mukadira |

At a very young age there is one principle we all learn – if not sure of what to do, look at what others are doing. The Zimbabwe pension fund industry, nearly 45 years old now under the current defined contribution regime, seems to have skipped that life skills lesson in its pre-adolescence.

In a world where knowledge is now freely available, there are no excuses for getting it wrong anymore. It cannot be that we remain stuck with an ineffective industry structure when others have long moved on. Technology being our enabler, we should be where others are, from both a product designing and industry organisational structure perspective.

But who are the dominant global powerhouses in the pension fund management space?

DISCUSS IN AUS

Denmark of course dominates any ranking table, but then in no particular order, there is also Israel, South Africa, Chile, UK, Sweden, Switzerland, Iceland, Netherlands, Australia, USA, and Singapore. You are sure to find at least eight of this dozen in the top ten of any pension fund

systems log that you stumble upon.

Struggling to remember them? Well, how about DISCUSS IN AUS, an acronym we coined a few years ago when one of us was presenting to a mostly Australian audience, and DISCUSS IN AUS seemed like the most appropriate and easiest acronym to bring back to mind the global ivy league of twelve in the pension fund industry.

The strength of any pension regime is measured on the robustness of its four and private personal pension mechanisms.

In this short piece, we focus on only one of the four pillars – the occupational pension system as we take a closer look at how the frontrunners are doing it.

PENSION FUND MANAGEMENT AND ADMINISTRATION

Interesting to note that most countries have moved towards Defined Contribution (DC) schemes over the last four decades, except for Switzerland and the Netherlands, where Defined Benefit (DB) schemes are still prevalent. In fact, Netherlands is leaning more towards Collective Defined Contribution (CDC) Schemes, which are Defined Contributions where risks are pooled and shared.

The UK also has a mixture of Defined Benefit and Defined Contribution, with a shift towards DCs in recent years. Chile is credited for pioneering the full-scale implementation of occupational DC schemes through its Administradoras de Fondos de Pensiones (Pension Fund Administrators), in the early 1980s. The concept had of course been developed, by accident, in the US in the late 1970s but never for occupational schemes. It was a concept crafted for the private personal pension version of the present-day US 401(k)s. Not surprising then that 401(k)s have stripes of both occupational and private personal pension systems. Their roots are in the private personal pension space, but were subsequently adopted for the occupational pension system.

Denmark, Israel, Chile, Sweden, Iceland, and Singapore have centralized pension administration systems, and naturally, that lead to lower costs and greater efficiency. In contrast though, United States, the United Kingdom, South Africa, Australia, and the Netherlands have decentralized systems with numerous providers, offering more choice, albeit at a cost.

CONTRIBUTIONS

Right across the top twelve countries, contributions are generally required from both employees and employers. Chile is unique in requiring only employee contributions to its occupational pension system, with no mandated employer contributions. Switzerland and Israel are different in their own way in that they adjust contribution rates based on an employee's age, increasing as workers get older to account for the shorter time until retirement and the need for higher savings. Behaviourally, young employees are likely to warm up to pension fund contributions if they do no leave a big dent in their net take-home income. Old employees, on the other hand, as they face the reality of the imminent retirement, will be more open to higher contributions into their retirement savings pots. Besides, they would also not be having many other financial commitments to worry about as they are likely to be having grown children, thus no school fees, and having their mortgages completely paid off too.

The top countries have combined employer and employee contribution rates ranges of between 15% and 18% of salary. Where there is a national pension scheme. The more common arrangement being the later. Where there is no national pension scheme, there would be, more likely than not, an old-age pension supported usually by a general tax on a pay as you go basis. For instance, while we have a national pension scheme, NSSA, we do not have a state old-age pension benefit. South Africa, on the other hand, has no an equivalent of NSSA, that is a national pension scheme, but it has a state old-age pension benefit.

Singapore has by far the highest contribution rate, at 37%, made up of employer contributions at 17% and employees at 20%. Important to note though that the benefits from the system include medical aid and housing loan benefits. Also, because the Central Provident Fund invests mostly in government bonds, the stable but low returns mean the rate of contribution has to be relatively high to yield meaningful net replacement ratios at retirement.

INVESTMENTS

Dutch, together with Danish, pension funds are known for their sophisticated investment strategies, including significant allocations to equities, bonds, real estate, and alternative assets like private equity, infrastructure, and hedge funds. They are at the forefront of global pension funds investments. These pension funds are amongst the world's largest single investors. Investing in a mix of domestic and international assets, they employ advanced risk management techniques, such as liability-driven investments and hedging strategies, to manage long-term risks.

On the other hand, Singapore's Central Provident Fund (CPF) invests primarily in special government securities, which are not traded on the open market, to provide a stable return. Prioritising the safety of capital, the CPF investments are highly regulated by the government to ensure safety and security. There are minimum guaranteed returns ranging from 2.5% to 4% per annum.

Icelandic pension funds, while investing in diversified portfolios, tend to focus on long-term stability and risk management, with a significant portion of assets invested in stable, income-generating investments like bonds. Stringent regulatory oversight is a fundamental aspect across all countries with some having far less flexibility than others though. The "Prudent Person Rule," seems to be the bedrock of all the regulatory provisions, requiring that investments be made with due care, skill, prudence, and diligence, focusing on long-term returns and the security of the pension assets.

Clearly visible is that, with a heightened sense of urgency, and rightly so, all countries are increasingly requiring that their pension funds focus on incorporating Environmental, Social, and Governance (ESG) criteria in their investment processes.

FUND GOVERNANCE AND COSTS

The trust legal structure remains by far the most dominant structure for housing retirement fund savings across the globe. Israel is different though. There, pension funds are managed by private financial services companies with governance handled by boards of directors, as opposed to boards of trustees. The success of the Israeli retirement fund reforms in the last two decades has been attributed largely to this. Singapore also has a completely different structure – neither a trust structure or a company structure. Its Central Provident Fund (CPF) is government-managed with broad representation managed under a government directorate.

Regardless of the governance structure, the regulatory authorities from all the global top twelve heavily emphasize transparency and accountability as core to the integrity of their industries. The UK, US, Australia and the Netherlands are particularly strong on this, with stringent requirements for regular reporting, member communication and engagement, high fiduciary standards, robust risk management practices, and unambiguous conflict-of-interest policies.

It is clearly not lost on any one of these global pension powerhouses that fund costs and expenses are leakages whose consequences of value erosion are obvious, both in the short term and in the long run.

The Nordic countries, as a collective, are very much ahead of the curve on pension fund costs containment. Benefiting from economies of scale, centralized management, or cooperative structures, their costs are the lowest. Sweden, for instance, has aggregate fees, both administration and investment management included, ranging from 0.1% to 0.5% of fund assets. The Netherlands and Israel come very close to that with average aggregate fees of about 0.5% of fund assets. Singapore, with its Central Provident Fund, has low costs too due to its government-managed structure.

COVERAGE AND PORTABILITY

Countries with mandatory or near-universal pension systems, such as Denmark, Israel, Chile, Sweden, Switzerland, Iceland, the Netherlands, Australia, and Singapore, have high coverage rates, typically exceeding 80% of the workforce. Here, pension fund membership is either mandated or is supported by strong collective agreements. Denmark, just like Sweden, has one of the highest pension coverage rates globally, with around 90% of the working population participating in occupational pension schemes. But then there is Iceland, at 100%. Occupational pension participation in Iceland is mandatory for all employees and self-employed individuals.

The UK, following the introduction of its auto-enrolment policy, has witnessed coverage surging to about 80%. Auto-enrolment requires employers to enrol eligible workers into a workplace pension scheme, with the option to opt out. As behavioural scientists would have predicted, while auto-enrolment is not the same as mandatory participation, human beings naturally are less keen to opt out of default states. Effectively, auto-enrolment, a politically more acceptable policy, is having results that are just near as good as what the less politically acceptable mandatory participation system would have produced.

Collective agreements are considered to have strong influence on scheme participation. In the Nordic countries, collective labour agreements have played a crucial role in ensuring broad pension coverage. Same applies with the Netherlands.

Countries, like South Africa, with an occupational coverage of only about 40%, and no national pension scheme, have only been pushed to the top of world rankings because of their very robust state old-age universal pension system. South Africa's low occupational scheme participation can be attributed to its large informal sector. Needless to say, just like here, there is a huge need for tailored strategies to include informal workers.

By design, countries with mandatory participation systems generally offer high pension portability. Employees can easily transfer or maintain their pension savings when changing jobs, as these systems are often tied to individual accounts rather than any particular employers. Singapore's centralized system, of course, requires no talk of portability at all as all employees simply participate on one platform, the Central Provident Fund.

Efficiency, Equity, and Effectiveness

Countries with strong regulatory oversight, broad and deep industry scale, collective fund management, and competitive markets that keep costs low and investment returns high, are inherently considered efficient. They tend to create better value for money outcomes than those that are less efficient. Each contribution a member makes in any one of these countries yield a much better retirement outcome than in the rest of the world.

Larger funds, often seen in countries with mandatory or industry-wide schemes, like the Netherlands and Switzerland, tend to be more efficient due to lower per capita costs. Similarly, strong regulatory frameworks, as seen in Denmark, Israel, and the UK, contribute significantly to efficiency by ensuring transparency, low costs, and prudent management.

Pension fund equity refers to the fairness and inclusiveness of a pension system, ensuring that all participants have equal access to benefits, contributions are fair relative to income, and outcomes do not disproportionately favour certain groups. Broad coverage through mandatory participation and progressive contributions are considered two valuable tools for ensuring pension fund equity.

On the other hand, the principle of pension fund effectiveness refers to how well a pension system achieves its intended goals, such as providing adequate retirement income, ensuring financial sustainability, promoting broad coverage, and maintaining public trust. Again, the Nordic countries, and the Netherlands, have highly effective pension systems. Their systems achieve high net replacement rates, ensure broad coverage, maintain financial sustainability, and enjoy strong public support.

Adequacy of Benefits

Ultimately, it’s all about the adequacy, certainty, and security of benefits, isn’t it? High pension fund adequacy countries have systems characterized by high replacement rates, real retirement income certainty, comprehensive coverage, and robust public pension systems. They ensure that retirees have sufficient income to maintain a reasonable standard of living.

Countries with mandatory pension contributions and broad coverage, like Denmark and the Netherlands, tend to provide more adequate retirement benefits. Similarly, strong public pension systems, as seen in Sweden and Switzerland, enhance the adequacy of benefits by providing a solid income floor, particularly for low-income retirees.

Furthermore, countries with high pension fund adequacy also tend to have pension systems that are closely integrated with national economic policies, supporting high savings rates, economic stability, and sustainable growth. These systems often emphasize sustainable investments, aligning with broader economic goals of long-term stability and development, thus creating a healthy economic environment in which workers can retire comfortably.

THE FUTURE OF PENSION ACCOUNTING REPORTING IN ZIMBABWE

Accountants dilemma

| By Godfrey Mupunga |

1.INTRODUCTION

Zimbabwe's pension sector faces significant changes in the way it accounts for and reports its financial health. This evolving landscape presents a unique challenge for accountants.

Here is a glimpse into what we might explore:

•Shifting regulatory landscape: Are there talks of adopting International Financial Reporting Standards (IFRS)? This could lead to increased transparency and comparability but also require significant adjustments in reporting practices.

•Data challenges: There are limitations in current data collection methods within pension funds.

•Actuarial expertise: new standards might place a greater emphasis on actuarial valuations. Is there a sufficient pool of qualified actuaries in Zimbabwe to meet these demands?

Zimbabwean accountants are faced with a complex task as they navigate the evolving landscape of pension accounting and reporting. New standards, data limitations and technological challenges converge to create a perfect storm of dilemmas. This writing explores the complexities accountants will encounter and potential strategies to overcome these hurdles. This will set the stage for a deeper discussion on the specific dilemmas accountants might face in navigating the future of pension accounting reporting in Zimbabwe. It highlights the need for adaptation, potential challenges, and opportunities for improvement.

2.WHAT FACTORS WILL SHAPE THE ZIMBABWE PENSION FUND ACCOUNTING REPORTING?

The future of pension industry accounting reporting in Zimbabwe is likely to be shaped by some factors, including:

•International accounting standards: The International Financial Reporting Standards (IFRS) are increasingly being adopted by countries around the world and Zimbabwe is likely to follow suit. This will lead to more standardized and

transparent reporting of pension liabilities and assets.
•Increased focus on risk management: Pension plans are facing some risks, such as increased longevity, volatile investment markets and economic uncertainty. Accountants will need to develop new reporting methods that consider these risks.
•Technological advancements: new technologies, such as cloud computing and big data, are being used to improve the efficiency and accuracy of accounting reporting. These technologies will play an increasingly important role in the future of accounting for the pension industry.

3.ACCOUNTANTS' DILEMMA

One of the key dilemmas for accountants in the future will be balancing the need for transparency and accountability with the need to avoid creating undue volatility in pension plan valuations. Pension plans are long-term investments and short-term fluctuations in asset values can have a significant impact on reported liabilities. Accountants will need to develop reporting methods that provide a clear picture of the long-term health of the pension plan while avoiding unnecessary alarm.

By adopting these approaches, accountants can help to ensure that future pension reporting in Zimbabwe is both informative and responsible.

International Accounting Standards (IFRS):
The convergence with IFRS will likely lead to:
•More comparable data:
Pension plans in Zimbabwe will be easier to compare with plans in other countries, allowing for better benchmarking and analysis.
•Increased investor confidence:
Standardized reporting fosters trust in the financial health of pension plans, potentially attracting more investment.

Increased focus on risk management:
New reporting methods should consider:
•Longevity risk:
As people live longer, pension plans need to account for the increased cost of benefits over a longer lifespan.
•Investment risk:
Volatile markets can significantly impact pension plan assets. Reporting should reflect the potential for fluctuations.
•Economic uncertainty:
Economic downturns can affect both contributions and investment returns. Reports should acknowledge this risk.

Technological advancements:
•Cloud computing can:
Improve data storage and access, allowing for more efficient analysis and reporting.
•Big data can be used to:
Identify trends and patterns in pension plan data, leading to better risk assessment and forecasting.

4.ACCOUNTANTS' DILEMMA: BALANCING TRANSPARENCY AND STABILITY

This is a crucial challenge. Here are some potential solutions:
•Multi-model approach:
Present both long-term and short-term valuations, providing a comprehensive picture while mitigating volatility concerns.
•Enhanced disclosures:
Provide detailed explanations of assumptions and methodologies used in valuations, fostering transparency and trust.
•Stress testing:
Simulate the impact of various economic scenarios on the pension plan, highlighting

potential risks and vulnerabilities.

By embracing these approaches, Zimbabwe's pension industry can achieve a future of informative and responsible accounting reporting, ensuring the long-term sustainability of these vital plans.

5.WHAT ARE ACCOUNTANTS' CHALLENGES IN THE PENSION INDUSTRY IN ZIMBABWE?

Accountants in Zimbabwe's pension industry face several challenges, here are some of the key dilemmas they grapple with:

Accounting Standards and Regulations:

•Hyperinflation Impact: Zimbabwe's past hyperinflation eroded the value of pension contributions. The current accounting framework might not adequately address how to reflect these historical losses or how to handle future inflationary periods.

Investment and Contribution Issues:

•Currency Fluctuations: Zimbabwe's multi-currency system can make it difficult to determine the appropriate exchange rate for converting contributions and benefits denominated in different currencies. This creates uncertainty in the valuation of pension fund assets and liabilities.

•Delinquent Contributions: Employers failing to make timely contributions reduces the overall value of the pension fund, impacting future pay-outs to members.

Governance and Management:

•Limited Investment Options: Regulatory restrictions might limit pension funds from investing in a wider range of assets, potentially hindering returns and hindering portfolio diversification to mitigate risk.

•Data Management: Ensuring the accuracy and integrity of member data across the fund's lifecycle is crucial. Weaknesses in Information and Communication Technology (ICT) systems can make this challenging.

6.WHY IS STRESS TESTING IMPORTANT FOR ACCOUNTANTS?

Stress testing is vital for accountants as it allows them to assess a pension fund's financial resilience under challenging circumstances. By simulating extreme scenarios, accountants can identify potential weaknesses and risk areas in the economic structure. This forward-looking approach offers several benefits:

•Proactive risk management: By anticipating potential issues, accountants can develop strategies to mitigate those risks before they become problems. This can involve anything from diversifying investments to securing additional lines of credit.

•Informed decision-making: Stress testing helps illuminate the potential impact of different decisions on the pension fund's financial health. This empowers accountants to provide more informed advice and guide management in making sound financial choices.

•Improved financial stability: By understanding how they might react to various economic shocks, accountants can help safeguard their financial stability. This can inspire confidence from investors and stakeholders.

In essence, stress testing equips accountants to be more than just scorekeepers of past financial performance. It positions them as initiative-taking guardians of a pension fund's financial well-being.

7.WHAT ARE THE POTENTIAL DIFFICULTIES ACCOUNTANTS MIGHT FACE IN OBTAINING AND PROCESSING THE NECESSARY DATA UNDER NEW STANDARDS?

Here are some potential difficulties accountants might face in obtaining and processing the necessary data under new pension accounting standards in Zimbabwe:

Data availability and quality

•Incomplete or inaccurate records: Pension funds might have historical data that is incomplete or inaccurate. This could be due to manual record-keeping practices, lack of standardized data collection methods, or simply human error. Cleaning and correcting this data can be a time-consuming and expensive process.

•Legacy systems: Existing pension fund management systems might not be equipped to capture the data required under new standards. Upgrading or replacing these systems can be a significant financial burden.

•Data consistency: Multiple data sources within the pension fund or across different employers contributing to the fund might lead to inconsistencies. Reconciling these discrepancies can be a challenge.

Actuarial data

•Limited actuarial expertise: new standards might require more complex actuarial valuations. However, there might be a limited pool of qualified actuaries in Zimbabwe to perform these valuations, leading to potential delays and increased costs.

•Data sharing: Obtaining necessary employee data (salaries, demographics) from employers contributing to the pension fund can be cumbersome. Employers might be hesitant to share this information due to privacy concerns or administrative burdens.

Process and workflow challenges:

•New data collection methods: Adapting to new data collection methods mandated by the standards can be a learning curve for accountants. This might require additional training and potentially disrupt existing workflows.

•Internal controls: Implementing new internal controls to ensure data accuracy and completeness under the new standards can be a complex task.

•Time constraints: Meeting strict reporting deadlines under new standards might be challenging, especially if data acquisition and processing is a slow or manual process

Technology limitations:

•Limited IT infrastructure: Pension funds might not have the necessary IT infrastructure to handle complex data analysis and reporting requirements under new standards. Investing in modern technology can be expensive.

•Data security concerns: New data collection methods might raise concerns about data security and privacy. Implementing robust data security measures is crucial.

These are just some of the potential difficulties accountants might face. By being aware of these challenges, pension funds and accounting firms can take proactive steps to address them. This could involve investing in data cleansing initiatives, upgrading IT infrastructure, collaborating with actuaries and implementing efficient data collection processes.

8.WHAT IS THE INDUSTRY'S ADAPTABILITY TO CHANGES IN THE PENSION INDUSTRY'S FINANCIAL REPORTING?

The pension industry's adaptability to changes in financial reporting varies. Here is a break-down of some key trends:

Challenges:

•Increased scrutiny and regulation: Regulatory bodies are implementing stricter reporting requirements, aligning with international standards like IFRS (International Financial Reporting Standards). This can be a burden for smaller pension funds with limited resources.

•Market volatility: Fluctuations in asset values and interest rates can significantly impact pension liabilities, making it difficult to provide accurate forecasts.

•Data management: Compiling and presenting the vast amount of data required by new standards can be a complex task for pension funds with outdated systems.

Signs of adaptation:

•Standardization efforts: Industry bodies and regulators have worked towards streamlining reporting formats and processes. This can make reporting easier and more efficient for pension funds.

•Technology adoption: Globally, many pension funds are investing in new technologies like data analytics and cloud computing to improve data management and reporting capabilities.

•Focus on risk management: Increased emphasis should be placed on stress testing and scenario planning to assess the impact of different economic conditions on pension liabilities.

OVERALL

The industry is slowly adapting to the changing landscape of financial reporting. While challenges exist, there is a growing awareness of the need for improved transparency and risk management. Resources like the Insurance and Pensions Commission (IPEC) financial reporting guideline for the pensions industry [August 2022] guide pension funds to comply with new regulations.

Additionally:
•Some larger pension funds are more adaptable due to their access to resources and expertise.
•Consolidation within the industry might occur as smaller funds struggle to keep pace with reporting demands.

The future of pension industry financial reporting will likely involve continued efforts towards standardization, technological advancements and a stronger focus on risk management.

9.WHAT ARE THE OPPORTUNITIES FOR IMPROVEMENT FOR PENSION ACCOUNTING REPORTING IN ZIMBABWE: AN ACCOUNTANT'S DILEMMA?

Here are some potential opportunities for improvement in pension accounting reporting in Zimbabwe, despite the challenges accountants might face:

Enhanced transparency and decision-making:
•Improved data quality: New standards emphasizing data accuracy can lead to a more transparent view of the pension fund's financial health. This benefits various stakeholders:
(i)Employers can make more informed decisions about contributions and future liabilities.
(ii)Employees gain better insight into the security of their retirement benefits.
(iii)Regulators can effectively monitor the stability of the pension sector.
•Benchmarking and comparability: Adopting international standards like IFRS can allow for better comparability between different pension funds. This can be valuable for employers looking to compare different pension plans and for regulators overseeing the entire sector.

Efficiency and cost savings
•Streamlined reporting: New standards might necessitate automation of data collection and reporting processes. This can lead to increased efficiency and potentially reduce administrative costs for pension funds.
•Improved risk management: More accurate data and actuarial valuations can help identify and manage risks associated with pension fund investments and liabilities. This proactive approach can lead to long-term cost savings.

Upskilling and career development
•Demand for skilled professionals: The need to comply with new standards can create a demand for accountants with expertise in pension accounting and data analysis. This presents opportunities for professional development and potentially higher earning potential.
•Leveraging technology: New standards might encourage the adoption of Financial technology solutions for data management and reporting. This can provide accountants with new skill sets and a deeper understanding of financial technology.

10.POTENTIAL STRATEGIES FOR ACCOUNTANTS NAVIGATING PENSION ACCOUNTING REPORTING IN ZIMBABWE

Given the challenges outlined, accountants can consider the following strategies:

Data management and quality

•Data cleansing and standardization: Implement robust data cleansing processes to ensure data accuracy and consistency.

•Data governance framework: Establish a data governance framework to define data ownership, stewardship, and quality standards.

•Data analytics: Leverage data analytics tools to identify data anomalies and trends, improving data quality and decision-making.

Technology adoption

•Technology investment: Invest in accounting software and systems that can handle complex pension calculations and reporting requirements.

•Cloud-based solutions: Explore cloud-based solutions to improve data accessibility, scalability, and security.

•Cybersecurity measures: Prioritize cyber security to protect sensitive pension data from breaches.

Capacity building and training

•Upskilling accountants: Invest in training and development programs to equip accountants with the necessary skills for pension accounting and reporting.

•Collaboration with actuaries: Strengthen collaboration with actuaries to enhance actuarial expertise within the accounting team.

•Professional development: Encourage continuous professional development to stay updated on accounting standards and best practices.

Regulatory and stakeholder engagement

•Regulatory dialogue: Engage with regulatory bodies to provide input on the practical implications of new standards and to seek clarifications.

•Stakeholder collaboration: Collaborate with pension fund trustees, employers, and beneficiaries to understand their needs and expectations.

•Transparency and communication: Enhance communication with stakeholders regarding the complexities of pension accounting and reporting.

Risk management

•Risk assessment: Conduct regular risk assessments to identify potential challenges and develop mitigation strategies.

•Contingency planning: Develop contingency plans to address unforeseen issues and disruptions.

•Compliance monitoring: Implement robust compliance monitoring systems to ensure adherence to accounting standards and regulations.

By adopting these strategies, accountants can better equip themselves to navigate the challenges of pension accounting reporting in Zimbabwe and contribute to the overall financial health of pension funds.

CONCLUSION

In conclusion, the future of pension industry accounting reporting in Zimbabwe is poised for significant change. International standards, a focus on risk management and technological advancements will all play a role in shaping a more transparent and informative system.

However, navigating the need for transparency while avoiding unnecessary volatility in valuations remains a key challenge. By adopting multi-model approaches, enhanced disclosures, and stress testing, accountants can ensure responsible reporting that fosters trust and safeguards the long-term health of Zimbabwe's pension plans.

Overall, the future of pension accounting reporting in Zimbabwe presents challenges, but also significant opportunities. By embracing these opportunities, accountants can play a vital role in ensuring the transparency, stability, and long-term sustainability of the pension sector. Accountants in Zimbabwe's pension industry must navigate a complex landscape with outdated regulations, a volatile economic environment and limitations on investment strategies. They play a critical role in ensuring the long-term viability of pension funds and the security of member benefits.

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Disclaimer: This information is intended for general informational purposes only and does not constitute professional accounting advice. The future of pension accounting reporting in Zimbabwe is subject to change based on various factors.


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A CASE FOR THE TWO-POT PENSION SYSTEM IN ZIMBABWE

| By Farai Gwaka |

1.IPEC Q1 PENSIONS REPORT
The Zimbabwean pension industry is worryingly declining due to increased currency volatility experienced by the country over the past two decades. The recently published Q1 Pensions Report by the Insurance and Pensions Commission of Zimbabwe (IPEC) confirms the dire situation in the industry. According to the Q1 report, out of the 966 registered funds, only 481 were active, constituting 49.79% of the industry's funds. The remaining 485 funds were inactive, with 372 of them earmarked for dissolution. The industry's total assets decreased by 21.06% in US dollar terms, from US$2.1 billion in March 2023 to US$1.66 billion in March 2024. This decline was primarily driven by exchange rate distortions, which affected the valuation of major asset classes like investment properties and listed equities.

Given this background, it is evident that there is an outcry from pension fund members, retirees, companies, pension associations, regulators, and the government regarding this undesirable trend in the industry. Action and innovation are necessary to reverse this situation.

2.TWO-POT PENSION SYSTEM INTRODUCED IN SOUTH AFRICA
The south african government introduced the Two-Pot pension system in 2024. This system has been praised by local analysts as innovative and a positive step in the right direction. The primary goal of the South African two-pot pension system is to give individuals more flexibility and control over their retirement savings, while still ensuring that enough funds are set aside for retirement.

Starting from September 1, 2024, all retirement contributions will be divided into two separate pots: a savings pot and a retirement pot. The Savings Pot allows individuals to access a portion of their retirement savings for emergencies or short-term needs. On the other hand, the Retirement Pot is preserved until retirement and is intended to provide a steady income stream during retirement.

For individuals who already have retirement savings, a "vested component" is created. This component is not subject to the two-pot rules, allowing individuals to transfer a portion of it to the savings pot if desired.

How the South African Two-Pot Pension System works:
Splitting Contributions:
From September 1, 2024, all retirement contributions will be divided:
i) One-third will go into the savings pot.
ii) Two-thirds will go into the retirement pot.

Accessing the Savings Pot:
i) You can access the savings pot once a tax year.
ii) The amount you can withdraw is not capped, but there may be tax implications.
iii) You can use this money for emergencies or other short-term needs.

Preserving the Retirement Pot:
i) The retirement pot is preserved until retirement.
ii) You cannot access this money before retirement.
iii) This pot is intended to

provide you with a steady income stream in retirement.

d.Vested Component:

i) If you already have retirement savings before September 1, 2024, those savings will be placed in a "vested component."
ii) This component is not subject to the two-pot rules.
iii) You can access a portion of the vested component (10% or R30,000, whichever is lower) to transfer to the savings pot.

ii)Retirement Pot Preservation:
The retirement pot can be invested in longer-term less liquid assets, such as government bonds, properties, infrastructure, and alternative investments to protect against inflation and currency fluctuations. This helps ensure that the accumulated savings can provide a sustainable income stream in retirement.

Improved Financial Security
i) Emergency Fund:

increasing their disposable incomes. This allows them to handle financial shocks without resorting to costly debt.

Portfolio Rebalancing:
The establishment of two distinct funds can stimulate demand for capital market assets that align with the investment strategy of each pot. In Zimbabwe, most pension fund portfolios have been heavily invested in long-term assets, resulting in a reduced demand for short-term assets, which play a crucial

3.BENEFITS OF IMPLEMENTING A TWO-POT PENSION SYSTEM IN ZIMBABWE

Protection of Members Against Inflation and Currency Fluctuations
i) Savings Pot Flexibility:
The savings pot can be used to address short-term financial needs, such as medical expenses or home repairs. This allows members to access funds when the currency is depreciating, preserving the purchasing power of their retirement savings.

The savings pot can act as an emergency fund, providing a safety net in case of unexpected financial challenges.

Retirement Income:
The retirement pot can provide a reliable source of income in retirement, helping members maintain their standard of living.

Stimulation of the Economy
Increased Member Disposable Incomes: The two-pot system provides members with access to pension assets, thereby

role in the development, growth, and liquidity of the local capital market.

4. CASE STUDY OF IMPLICATIONS OF TWO-POT PENSION SYSTEM IN OTHER COUNTRIES

Investec Asset Management of South Africa researched the impact of early pension withdrawal regulatory amendments implemented in Australia, Chile, and Peru, and below are the findings:

Withdrawal Policy:

Australia allowed retirement fund withdrawals in means-tested manner (i.e. The amount of benefit a pension member received, depended on how much money they earned or had) that were subject to taxes, unlike Chile and Peru. According to the research, the inadequate design of pension fund withdrawals in Chile and Peru led to notable asset withdrawals and hurt the liquidity and depth of domestic capital markets.

Withdrawal Spend in Australia:

In Australia, 1% of private retirement savings assets, or 2% of gross domestic product (GDP) was withdrawn in 2020. Nearly half of those eligible withdrew in the first 10 days and three-quarters who had funds remaining after the first round withdrew again. Australian households used part (50%) of pension fund withdrawals to repay loans. The spending response post the loan repayment was very sharp, with 90% spend occurring within the first four weeks. The majority (60%) of discernible spending was was on non-durable products, as blue-collar workers and those with slightly lower wages withdrew more. Early pension withdrawals in Australia generated roughly 0.8% of GDP in direct spending within four months.

Withdrawal Spend in Chile and Peru:

After Chile approved early pension withdrawal in 2020, consumers drew on 23% of the total assets held in 2020, which equates to roughly 20% of the country's GDP that year. Chilean households used part of the pension withdrawals to repay loans. Credit card past due loans decreased below pre-pandemic levels, while non-performing loan rates (NPLs) for banks in Chile reached historic lows. Consumers also replenished cash deposits, which increased significantly between Q1 2020 and Q3 2021. However, Chilean pension funds were negatively impacted after they were forced to liquidate assets to meet the withdrawal demands, which reduced their domestic exposure to long-term domestic government and corporate bonds, and bank stocks. While this increased financing cost for government and corporates, IMF data showed no clear evidence of negative performance among Chilean banking stocks relative to the local aggregate stock market index, largely due to the increased deposits. Similar to Chile, Peru also saw significant early withdrawals from pension funds as a percentage of total pension funds assets under management given the inadequate design of pension withdrawals.

Potential South Africa implications:

Investec believes that trends in South Africa will more closely mirror those seen in Australia. Pension entitlements among South African households expressed as a share of nominal GDP is one of the largest across emerging markets, averaging 120% between 2018 and 2022. Research suggests South African consumers will use capital from the two-pot system to reduce debt and fund living expenses. For instance, the Sanlam Benchmark survey found that South African retirement fund members who withdrew benefits recently used the amount to reduce short-term debt (51%) and fund living expenses (33%). While impacting retirement savings, Investec research indicates potential economic benefits. If consumers access R100 billion or more in early pension withdrawals, the resultant spending and savings could boost real GDP in the country by more than 0.5% in 2025 and add R20 billion in extra tax revenue. As awareness levels regarding the tax implications and consumers gain a better understanding of the importance of increasing their retirement contribution over time, Investec believes pension fund withdrawals may diminish in subsequent years.

5.AREAS TO REVIEW IN THE PENSIONS AND PROVIDENT FUNDS ACT [CHAPTER 24:32] WHEN CONSIDERING IMPLEMENTING THE TWO-POT PENSION SYSTEM IN ZIMBABWE

Implementing the South African-style two-pot pension system in Zimbabwe would require significant amendments to the Pensions and Provident Funds Act. Here are some potential areas of focus:

a. Separation of Retirement Funds

i) Creation of Two Funds: Introduce provisions to allow for the creation of two separate retirement funds within a single pension scheme.

ii) Allocation of Contributions:

Specify the percentage of contributions to be allocated to each fund, likely following the South African model of one-third to the savings pot and two-thirds to the retirement pot.

b. Access to Funds

i) Savings Pot Access: Clearly define the conditions under which members can access funds from the savings pot. Consider factors such as frequency of withdrawals, minimum withdrawal amounts, and tax implications.

ii)Retirement Pot Preservation: Establish strict rules for preserving the retirement pot until retirement, with limited exceptions for certain circumstances (e.g., terminal illness).

c. Tax Treatment

i) Tax Implications: Outline the tax implications of withdrawals from both pots, including potential tax exemptions or deductions.

ii) Contribution Deductions: Ensure that contributions to both pots continue to be tax-deductible.

d. Governance and Administration

i) Fund Trustee Duties: Clarify the duties of fund trustees in managing and administering the two separate pots.

ii) Investment Guidelines: Establish investment guidelines for each pot, ensuring that the savings pot is invested in more liquid assets while the retirement pot can take on higher-risk investments for long-term growth.

e. Transitional Arrangements

i) Existing Funds: Determine how existing pension funds should be transitioned to the two-pot system. This may involve creating new funds or splitting existing funds.

ii) Legacy Benefits: Address the treatment of legacy benefits that were accrued under the previous system.

f. Member Education

i) Information Requirements: Mandate pension funds to provide members with clear and concise information about the two-pot system, including its benefits, risks, and implications for their retirement planning.

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