

NAMIBIA



DEMOGRAPHICS AND MACROECONOMICS

Nominal GDP (EUR bn)	72.9
GDP per capita (USD)	2 130
Population (000s)	2 074
Labour force (000s)	
Employment rate	
Population over 65 (%)	
Dependency ratio ¹	

Data from 2008 or latest available year.
 1. Ratio of over 65-year-olds the labour force.
 Source: OECD, various sources.

COUNTRY PENSION DESIGN

STRUCTURE OF THE PENSION SYSTEM

Public pensions

- Universal social pension
- Government Institutions Pension Fund, covering civil servants and is a DB plan

Private pensions: occupational (voluntary)

- Pension fund, established on a trust basis
- Provident fund, established on a trust basis
- Can be DB or DC

Private pensions: personal (voluntary)

- Open pension plans: retirement annuity funds

Source: OECD Global Pension Statistic.

NAMIBIA: THE PENSION SYSTEM'S KEY CHARACTERISTICS

PUBLIC PENSION

The National Pension Scheme (NPS), known as the Universal Pension Scheme, is a social pension, which provides a flat-rate benefit, is non-contributory and non-taxable and payable regardless of other income. As of 2005, N\$450 in monthly benefits were provided to around 100,000 pensioners. The pension is payable to all resident Namibian citizens (who are not outside the country for more than 6 months) above the age of 60. The pension is funded from government taxation. Most pensioners (85%) receive their money at a designated cash pay point, with the rest via a post office or bank. The overhead costs of the NPS are said to be relatively high.

The Government Institutions Pension Fund (GIPF) covers civil servants. This is a fully funded, DB scheme and is the largest pension fund in the country with assets of N\$33.8bn (2007) – or 75% of total pension assets in the country.

OCCUPATIONAL VOLUNTARY

Coverage

Around 15,000 workers are covered by taxable, contributory schemes.

Employers, singly or as a group of related employers (i.e. subsidiary and associated), may on a voluntary basis establish complementary occupational pension plans for their employees. Registered trade unions, or a group of such trade unions, that have been recognized by an employer or employers' organization may also establish pension plans for their members.

Occupational pension plans may be based on a collective bargaining agreement. Once an occupational pension plan has been established, membership is compulsory for employees of the sponsoring employer(s). Employers may also decide to offer their senior employees the possibility of subscribing to an open plan, which would generally be a retirement annuity fund. Age limits for joining are common and must, if applied, be defined in the fund rules. Pension plans usually cover only permanently employed persons. Minimum and maximum age limits for membership are usually 18 and 65, although the maximum age may go up to 70. Generally, persons employed on a fixed-term contract are excluded from coverage, as they are not deemed employees but rather contractors in terms of the Labour Act. In such a case the conditions of employment may stipulate that the person should be a member of the retirement annuity plan of his or her choice or the employer makes provision for a gratuity (lump sum) payment in lieu of a pension. Self-employed persons and covered employees who wish to provide for additional retirement income may participate in retirement annuity funds.

As an alternative to pension plans, provident funds may be established by employers. Pension and provident funds are organised on a trust basis with at least 50% of the board being elected by fund members.

Contributions

Employee and employer contributions are established in the fund rules and to some extent in the employer contract. Employer contributions are compulsory and established in plan rules – usually 16% for DC plans (DB according to funding requirements).

Benefits

DB or DC plans may be established (most are DC). Provident funds are DC in nature and provide a choice between a lump sum and an annuity. Accrual rates for DB Provident funds are not statutory but the average plan provides benefits of 2.4% x final gross pensionable salary x number of years service. One-third of the pension may be paid as a lump sum. DC plans may pay out 100% as a lump sum or the capital can be used to purchase a annuity from a life insurance company. The retirement age is between 50-70 and set by the plan rules (which also establish whether early retirement is allowed).

Taxation

Employee contributions are tax deductible up to NAD 40,000 a year. Employer contributions are tax deductible up to 10% of the approved remuneration for the year (in practice 20%). Investment income is tax exempt. One-third of the pension benefit can be paid as a lump sum tax free, with the two-thirds remainder is only taxable if the aggregate value of the annuity exceeds NAD 36,000 (at marginal tax rates between 18-35%).

PERSONAL VOLUNTARY

Insurers and fund administrators may establish open pension plans and offer them to employers (umbrella funds). Employers who affiliate their employees to such a plan are referred to as participating, rather than sponsoring employers. These plans are nearly always non-occupational plans and are retirement annuity funds where the assets of the plan comprise insurance policies that must be underwritten by a registered insurer. It is not yet a requirement that fund administrators must be approved by the Namibia Financial Institutions Supervisory Authority (NAMFISA).

MARKET INFORMATION

Occupational voluntary

Around 500 private pension funds currently operate in Namibia. Total assets in 2007 amounted to N\$45.08 bn, or 85% of GDP. Most funds are small and are administered by external fund administrators that provide basic recordkeeping as well as more specialized legal and actuarial services. Alexander Forbes is the largest pension fund administrator with about a 60 percent market share. There is also a small number of pension funds that are administered and insured by life insurance companies. These funds have total assets of N\$2.4 billion that are included with insurance company assets in published statistics. The remaining N\$11.28 billion was held by various smaller funds, the bulk of which are based on defined contribution plans. The average size of private pension funds is less than N\$12 million, implying that pension fund operations may be suffering from small scale diseconomies. However, several plans belong to umbrella funds in an attempt to lower operating costs and enhance investment performance.

Plan assets may be invested up to 65 per cent in the Common Monetary Area, which includes South Africa, Lesotho and Swaziland and up to 20 per cent outside the Common Monetary Area with the authorization of the Central Bank. 35 per cent of plan assets must be invested in Namibia (though this rule is implemented flexibly to include the dual listed equities on the Namibia Stock Exchange (NSX) as local assets which has allowed diversification). Pension funds invest heavily abroad give a lack of domestic investment opportunities and due to strong links with South African financial institutions. While equity allocation appears high in comparison to other emerging market countries, it is similar to allocations in

developed countries. IMF reports suggest that about 60-70 percent of assets are invested in equities and unit trusts, whilst holdings of government bills and bonds have fluctuated between 10-20 percent.

There are no legal limits on management fees or administrative costs, but the regulator may intervene if the costs are out of the ordinary.

POTENTIAL REFORM

Currently only around 6% of Namibia's population is over 60. This is expected to rise to 21% in the coming decades (with the old age dependency ratio likewise rising from 11% to 36%)¹. The government recognises that existing pension arrangements are not well suited to an ageing population. Reforms to make the system more redistributive are therefore being considered.

The National Pensions scheme has been proposed. The social security organisation is currently investigating the structure and form of the scheme. It is envisaged that the scheme will be redistributive by replacing a larger % of lower income workers' wages.

REFERENCE INFORMATION

KEY LEGISLATION

1992: National Pensions Act

2000: Basic State Grants Act

2001: Namibia Financial Institutions Supervisory Authority Act

1981: The Income Tax Act

1956: The Pension Funds Act

KEY REGULATORY AND SUPERVISORY AUTHORITIES

Namibian Financial Institutions Authority (NAMFISA) – a public body under the auspices of the Ministry of Finance, tasked with the responsibility of registering and regulating non-banking financial institutions. It is a non-profit making body and its operational budget is financed through levies charged on supervised institutions.

Namibia Financial Institutions Supervisory Authority

<http://www.namfisa.com.na>

¹ World Bank estimates