

IOPS COUNTRY PROFILE: BOTSWANA



DEMOGRAPHICS AND MACROECONOMICS

GDP per capita (USD)	13 100
Population (000s)	2 029
Labour force (000s)	685.3
Employment rate	92.5
Population over 65 (%)	3.9
Dependency ratio ¹	11.5

Data from 2010 or latest available year.

1. Ratio of over 65-year-olds / labour force.

Source: OECD, various sources.

BOTSWANA: COUNTRY PENSION DESIGN

STRUCTURE OF THE PENSION SYSTEM

Public pensions

- Universal old age pensions for all citizens above 65 years old
- Pension plans for government employees: - Botswana Public Officers' Pension Fund (BPOPF), operating on DC basis and unfunded pension plan financed from government revenues, for those civil servants who have not opted to join BPOPF

Private pensions: occupational voluntary

- Voluntary occupational pensions: normally established by medium and large size companies, defined benefit, defined contribution in design
- Provident funds, defined contribution in design

Source: OECD Global Pension Statistic

BOTSWANA: THE PENSION SYSTEM'S KEY CHARACTERISTICS

PUBLIC PENSION

A universal, Old Age Pension System, was initiated in Botswana in 1996. Coverage extends to all citizens over 65 years of age residing in Botswana. The costs are borne by the government, with 166 pula month provided in benefits (ISSA 2007), adjusted periodically according to changes in the cost of living.

The fund public sector employees scheme – the Botswana Public Officers Pensions Fund (BPOPF) - was reformed in 2001, moving from a DB to a DC arrangement. The fund has experienced strong growth as most public servants exercised their option to join the fund. Other government employees who did not opt to join the Botswana Public Officers' Pension Fund are covered by unfunded pension plan financed out of general government revenues.

OCCUPATIONAL VOLUNTARY

Coverage

Complementary occupational pension plans are usually established by medium-sized and large employers. If there is a trade union, the employer may involve it in the establishment of the plan. Provident funds are also allowed, however, they are very few in number. Pension plans and provident funds cover both public and private sector employees including the employees of parastatal institutions.

Plan rules often specify the maximum age of eligibility for membership to be no greater than the retirement age. Plan membership is usually for the benefit of permanent staff (in mid-level and senior positions). Discrimination with respect to sex (such as different retirement ages and/or retirement benefits based on gender) is becoming less common.

Contributions

Pension plans are financed both by employers and employees. Contributions depend on plan rules. For tax reasons, they are usually limited to a maximum of 35 per cent of contributory salary. The total employer and employee contribution rate under an average plan is between 10 per cent and 15 per cent of contributory salary (typically 5% employee contributions, 5-10% employer contributions) The contributory salary is defined in the plan rules, with no limits usually set on its amount. Contributions must be paid within 21 days of the end of the calendar month for which they are due.

Employees may make additional voluntary contributions to the same and/or another plan in accordance with the plan rules.

Benefits

Registered pension plans may be either DB or DC. Provident plans operate on DC basis.

Benefit qualifying conditions, benefit structure and formula are defined in the plan rules. Retirement payments start at age 60 under a typical plan. Early retirement is allowed from age 50 or before normal retirement age if the member is totally or partially disabled. Pay-out of pension benefits in a form of lump sum is allowed where the annual pension amounts to less than BWP 5000. If the annual pension exceeds BWP 5000, one third of pension amount could be paid as a

lump sum with the rest being disbursed in form of monthly payments in case of DB plans and in DC plans –funds could be used to purchase an annuity from insurance company. No legal rules apply with respect to benefit adjustment (pension are adjusted depending on plan rules).

Taxation

Employee contributions are tax deductible up to 15 per cent of salary and employer contributions are tax deductible up to 20 per cent of salary. There is no ceiling on salary. Investment income is tax exempt. Up to one-third of the pension may be paid as a tax-free lump sum if the pension exceeds BWP 5,000, with the total amount payable as a tax-free lump sum below this amount. Pension benefits are taxed in the same way as salary. Cash withdrawals upon termination of employment before retirement are fully taxable.

MARKET INFORMATION

Occupational voluntary

Occupational pensions are growing, with assets having reached the current market value of around P33 billion.¹ The pension coverage rate of the formal sector is around 37%, vs. 60% of the public sector and only 20% in the private sectors. Private sector coverage is also concentrated amongst the more senior, higher income workers.

Pension funds may invest in bonds, equities, property and cash, with up to 70% invested abroad.

POTENTIAL REFORM

The government in Botswana is looking to reform their system, to increase administrative efficiency and sustainability. The setting up a new integrated Non Bank Financial Institutions Regulatory Authority (NBFIRA) in charge of insurance, pension and security sectors was a major component in the reform process in Botswana. The NBFIRA is a governmental entity being currently financed out of the state budget. The new authority is responsible for licensing and supervision of pension and provident funds, trustees, fund administrators and investment managers. It has the authority to conduct investigation with respect to the administration of pension and provident funds, impose sanctions and disqualify service providers or plan managers when dealing with regulatory non-compliance. The NBFIRA works closely with the Botswana Pensions Society, which represent interests of different groups involved in complementary occupational pension plans in the areas of mutual interest.

REFERENCE INFORMATION

KEY LEGISLATION

- 1996: universal pension and orphan care
- 1995: Income Tax Act regulates the taxation of contributions, investment income and benefits.

¹ <http://allafrica.com/stories/200711081005.html>

- 1987: Pension and Provident Funds Act regulates the establishment, registration and operation of pension and provident funds.

KEY REGULATORY AND SUPERVISORY AUTHORITIES

The Non Bank Financial Institutions Regulatory Authority: <http://www.gov.bw/>

Commissioner of Taxes of Botswana