

IOPS COUNTRY PROFILE: BOTSWANA



Source of map: <https://www.cia.gov/library/publications/the-world-factbook/geos/bc.html>

DEMOGRAPHICS AND MACROECONOMICS

GDP per capita (USD)	7 597
Population (000s)	2 290
Labour force (000s)	900.3
Employment rate	80.1
Population over 65 (%)	4.5
Dependency ratio ¹	8.3

Data from or latest available year.

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

Source: Statistics Botswana, 2017, World Bank Indicators, 2016.

BOTSWANA: COUNTRY PENSION DESIGN

STRUCTURE OF THE PENSION SYSTEM

Public pensions

- Universal (non-means tested) old age pensions for all citizens above 65 years old

Private pensions: occupational (voluntary)

- Mostly defined contribution pension plans established by both public and private sectors
- Two small defined benefit funds (with total assets of around BWP 108 mln)
- Hybrid funds

Private pensions: others (voluntary)

- Provident Funds
- Preservation Funds
- Retirement Annuity Funds
- Beneficiary Funds
- Individual Retirement Funds

Source: OECD Global Pension Statistic

BOTSWANA: THE PENSION SYSTEM'S KEY CHARACTERISTICS

PUBLIC PENSION

The old age pension, established in 1996, is non-means tested and fully funded by the government. It provides a flat-rate non-taxable benefit of BWP 430 per month to all citizens over 65 years of age residing in Botswana. The benefit is adjusted periodically according to changes in the cost of living.

OCCUPATIONAL VOLUNTARY

Coverage

An employer may, on a voluntary basis, establish an occupational pension fund for their employees in terms of the Retirement Fund Act. Employees (excluding fix term contract employees) are usually automatically enrolled in a plan as part of their employment contract. Provident funds are also allowed, however, they are very few in number.

Plan rules often specify the maximum age of eligibility for membership to be no greater than the retirement age. In 2017, the occupational pension system covered 58% of the formal working population.

Contributions

Pension plans are financed by both employers and employees contributions. However, contribution levels are not legislated. The Income Tax Act limits, for tax purposes, limits the contributions to a maximum of 35 per cent of contributory salary. The average employee and employer contribution rate are 5% and 10% respectively.

Individuals may make additional voluntary contributions to the fund but the tax deductibility of the contributions is subject to the allowable tax limits prescribed in terms of the Income Tax Act.

Benefits

Retirement age is determined by the trustees and indicated in the fund rules. On average, the retirement age is 60 under a typical plan. Early retirement is allowed from age 45 or before if the member is totally or partially disabled.

Registered pension plans may be either DB or DC. Benefit structure and formula are defined in the plan rules. For pension funds, pension benefits in a form of lump sum are allowed where the annual pension amounts to less than BWP 5,000. If the annual pension exceeds BWP 5,000, at least two thirds of the benefit that becomes payable on retirement, is taken as an annuity, with the lump sum capped at one third. In the case of a provident fund, the whole benefit may be commuted as a lump sum on withdrawal and retirement. Many funds also offer death and disability benefits.

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

As at March 31, 2018, there were approximately 86 licensed retirement funds, of which only two were DB funds. The majority of funds were pension as opposed to provident funds. The licensed pension funds includes five umbrella funds, consisting of 285 multiple employers sponsored sub-funds.

As at December 31, 2017, the pension funds industry had assets of BWP 82 billion with approximately 259 000 members. Some double counting exists in terms of the number of members, as certain individuals are members of more than one fund (for example, one may belong to two retirement funds, as an active member in one and deferred member in another).

Pension funds may invest in bonds, equities, property, cash and alternative investments. Pension fund may invest up to 70% of their portfolio outside Botswana.

POTENTIAL REFORM

The Botswana retirement fund system is currently dealing with challenges such as low coverage, especially due to the non-coverage of the informal sector, inadequate retirement income, sustainability of retirement funds, demographic shifts and the consequent increase in the old age dependency ratio. NBFIRA and the policy makers recognize that existing pension arrangements are not well suited to deliver the expected pension results. Reforms to make the system more redistributive are therefore being considered.

KEY LEGISLATION

- 2016: NBFIRA Act
- 2014: Retirement Funds Act and Regulations
- 1995: Income Tax Act regulates the taxation of contributions, investment income and benefits.

KEY REGULATORY AND SUPERVISORY AUTHORITIES

- The Non- Bank Financial Institutions Regulatory Authority: <http://www.nbfira.org.bw>
- Commissioner of Taxes of Botswana