IOPS Member country or territory pension system profile:

MALAWI

Report[1] issued on October 2011, validated by the Reserve Bank of Malawi

[1] *This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.*

MALAWI

DEMOGRAPHICS AND MACROECONOMICS

GDP per capita (USD)	*369*
Total Population (000s)	*13,800*
Life Expectancy at Birth (years) for Men	*48.3*
Life Expectancy at Birth (years) for Women	*51.4*
Labour Force (000s)	*NA*
Percentage 65 or older	*0.5*
Dependency Ratio[1]	*NA*
Statutory Pensionable Age - Men	*50*
Statutory Pensionable Age - Women	*50*

Data from 2008 or latest available.
1. Population aged 14 or younger plus population aged over 65 or older, divided by population aged 15-64.
Source: Reserve Bank of Malawi
National Statistical Office of Malawi
NA: not available

COUNTRY PENSION DESIGN

STRUCTURE OF THE PENSION SYSTEM

Public pensions: (voluntary)

- The Civil Service Pension Scheme, a non-contributory, DB, pay-as you-go scheme
- The scheme will become mandatory from 1 June 2013

Private pensions: occupational (mandatory)

- The National Pension Fund, administrated by the National Pension administrator (DC scheme)
- Fully funded private pension funds (DC, DB or hybrid)

Private pensions: occupational (voluntary)

- Voluntary private pension plans

Source: OECD/IOPS Global Pension Statistic

MALAWI: THE PENSION SYSTEM'S KEY CHARACTERISTICS

PUBLIC PENSION

Public pension scheme:

The only public pension in Malawi existing prior to the enactment of the Pension Act, 2011 is the Civil Service Pension Scheme (CSPS) operated by the Government of Malawi, which is a pay as you go defined benefit scheme.

The Civil Service Pension Scheme is currently exempted from the Act which makes mandatory the provision of pension benefits to all employees. The two year exemption was granted to allow the civil service scheme to complete its overhaul to comply with the provisions of the new pension law. Currently, the Government, as an employer, provides pensions on a voluntary basis. All hired civil servants become members of the CSPS automatically.

OCCUPATIONAL MANDATORY

Overview

Prior to the Pension Act, 2011 pension in Malawi was offered voluntarily through privately managed occupational schemes. The pension schemes were registered with the Commissioner of Taxes of the Malawi Revenue Authority. However, no regulatory framework existed before.

The new pension law mandates the provision of pension by employers to all employees unless expressly exempted by the Minister of Finance or upon meeting some exemption criteria specified in the Act. It also empowers the Registrar of Financial Institutions of Malawi to register and license pension funds and all other supporting market players, as well as regulate their operations. The law permits establishment of three types of funds:

1. Restricted funds – where membership is restricted to employees of specific employer or group of related employers;
2. Unrestricted funds – where membership is open to any member of the public;
3. Umbrella funds – where membership is restricted to trustees of particular funds or operators of umbrella funds mainly for purposes of pooling resources for investment.

The new pension law also established a National Pension Fund to which employers and employees may make mandatory contributions. The National Pension Fund will offer limited administration, investment, and other auxiliary services to private pension funds administrators and investment managers.

Pension schemes can take form of defined contribution or defined benefit, or a hybrid of the two. Under the new law, all defined benefit schemes have to be fully funded. Most pension schemes are however defined contribution.

To be a member of the National Pension Scheme, an employee may choose to contribute to either of:
- A National Pension Fund established under the Pension Act, 2011.
- Any other pension fund licensed under the Pension Act, 2011.

Coverage

Every employer is required to ensure that all employees are members of either the National Pension Fund or any other licensed pension fund unless exempted by the Act or by the Minister of Finance through a government order or in writing.

The Act exempts all employers with less than 5 employees and with annual income of less than MK120,000 (USD790.00).

Contributions

The required contribution is a minimum of 5 percent of pensionable salary for employees and 10 percent for employers. Between 1st June, 2011 and 31st December, 2012 employers are however free to set their contribution at 7.5 percent. All contributions are to be remitted to the trustees within 14 days from the end of the month in which the liability to make contribution arises.

In addition to the minimum contribution, the law also mandates employers to provide a life cover policy for all employees with minimum benefits of one times' annual salary.

Benefits

Benefits are paid in form of pension or death benefits provided from life insurance coverage. Retirement benefits will be calculated based on the type of scheme offered by employers [defined contribution, defined benefit or a hybrid of the two].

Members are entitled to receive pension benefits under the following conditions:

- upon reaching retirement age which may be set between 50-70 years;
- on the basis of years of service; currently set at 20 years of continuous service with one employer;
- retired on medical grounds;
- upon leaving Malawi permanently.

On retirement, members may access 40 percent of their benefits as a lump sum while the rest should used to buy an annuity or arrange a programmed withdrawal with a pension fund. It is currently envisaged that those members who will not accumulate benefits enough to buy an annuity for annual income of less than a prescribed threshold, will receive all benefits as a lump sum.

There are no minimum benefits set by the Pension Act.

Death benefits are to be paid to the nominated beneficiaries of the deceased member.

Early withdrawals are authorised (under section 65 of the 2011 Pension Act) if a member is unemployed for a continued period of a least 6 months and facing hardship due to their predicament. Members can only access their contributions (not of employer) and approval of the Registrar of Financial Institutions should be received to authorise early withdrawals.

Transferability/portability is also allowed under the Pension Act (sections 14 and 44). Members are not required to state the reasons for opting out from the pension fund.

Fees

No legal limits on fees to be charged by pension fund managers or other service providers currently apply. There are no legal requirements for the supervisory authority to approve these fees.

However, the Pension Act provides for the Registrar of Financial Institutions to issue directives on the maximum cap and form of fees to be charged by market players in future.

Taxation

The Pension Act proposes that all contributions made, both by the employee and employer, up to the limits to be set by the Minister of Finance and any income accruing to the credit of such contributions after being invested, shall be deductible from relevant taxable income. Similarly any lump sum received at retirement shall be exempted from income tax. However, implementation of this provision was deferred awaiting amendments to the Taxation Act.

Currently the employee's pension contributions, investment income and benefits are taxed at an appropriate rate.

OCCUPATIONAL VOLUNTARY

Prior to enactment of the 2011 Pension Act, employers of state-run and private sector companies could offer on a voluntary basis tax favoured occupational pension plans to their employers (offering DC or DB benefits). These 'old schemes' are deemed to be licensed in line with requirements of the New Pension Act and will then continue their operation. New licensing and registration requirements are currently under development by the Registrar of Financial Institutions.

The New Pension Act also allows voluntary contributions by members of the private pension funds. There will be a maximum salary threshold to be determined by the Minister of Finance for purposes of recognising deductible pensionable amount for taxation purposes.

REFERENCE INFORMATION

KEY LEGISLATION

2011: Pension Act, mandates all employers to whom the Act applies to provide pension benefits to their employees, prescribes the general legal framework for operation of the National Pension Fund and private pension schemes;

2010: Financial Services Act, regulates the establishment, operation and supervision of the financial institutions

2010: Insurance Act, regulates the establishment, operation and supervision of insurance companies;

Taxation Act (CAP 55.01), regulates tax compliance.

KEY REGULATORY AND SUPERVISORY AUTHORITIES

The Reserve Bank of Malawi (http://www.rbm.mw/)

TABLES

Data to be provided for the past two years[1]

1. Private Pension plans

2. Pension funds data overview:

- *Total assets* (bn national currency)
- Total assets as % of GDP

By financing vehicle as of Total assets

- Pension funds:
- Book reserves:
- Pension insurance contracts:
- Other financial vehicles:

Occupational assets

- % of DB assets:
- %of DC assets:

Personal assets:

Structure of assets (as of total assets):

Contributions/benefits:

Total number of pension funds