IOPS COUNTRY PROFILE: MALAWI

Source map: Central Intelligence Agency, The World Factbook, the United States

DEMOGRAPHICS AND MACROECONOMICS

GDP per capita (USD)	628.7
Total Population (000s)	17.5
Life Expectancy at Birth (years) for Men	62.4
Life Expectancy at Birth (years) for Women	67.9
Labour Force (000s)	6,614,
Percentage 65 or older	3.74
Dependency Ratio[1]	NA
Statutory Pensionable Age - Men	50
Statutory Pensionable Age - Women	50

Data from 2018 or latest available.
[1]Population aged 14 or younger plus population aged over 65 or older, divided by population aged 15-64.
Sources: National population census report; Reserve Bank of Malawi National Statistical Office of Malawi
NA: not available

MALAWI COUNTRY PENSION DESIGN

STRUCTURE OF THE PENSION SYSTEM

Public pensions: mandatory

- The Civil Service Pension Scheme (CSPS), a non-contributory DB PAYg scheme
- From June 2017 oly civil servants who were above 35 years old were maintained in the CSPS
- Civil servants who were 35 years old and below as of June 2017 and any other new government employees automatically migrated into mandatory private pension regime

Occupational pensions: Occupational (mandatory)

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

Private pensions: Occupational (voluntary)

- Voluntary private pension plans

MALAWI: THE PENSION SYSTEM'S KEY CHARACTERISTICS

PUBLIC PENSION

PUBLIC SERVICE 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. However, from 1 June 2017, only employees that were 35 years of age and older were maintained on the pay as you go defined benefit scheme. All employees that were 35 years old and below as at 1 June 2017 were migrated onto the mandatory private pensions regime under a registered private pension fund. All new employees after this date are enrolled onto this fund.

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 to 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, at their choice. 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; or
- Any other pension fund registered 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 K120,000. This provision was due for amendment due to gradual depreciation of the Malawi Kwacha.

Contributions

The required contribution is a minimum of 5 percent of pensionable salary for employees and 10 percent for employers. 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 be 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, including proceeds from the mandatory life insurance policy, 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 unemployed status. Members can only access the member 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

Taxation of member contributions

Employee contributions are taxed in line with PAYE tax rates.

Taxation of employer contributions

The employer's contribution is treated as an allowable expense for tax purposes, as long as the contribution is not more than 15 percent of the employee's pensionable emoluments.

Taxation of investment income

Investment income accruing to pension investments is taxed at a reduced rate of 15%.

Taxation of benefits

Pension benefits paid out of a pension fund are not subject to tax.

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' were deemed to be licensed in line with requirements of the Pension Act and will then continue their operation. Licensing and registration requirements were set by the Registrar of Financial Institutions. Following issuance of the requirements, all pension entities were required to meet the new licensing and registration requirements.

The 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/)