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Ranking Botswana Pensions Against the Rest of the World

Minet Botswana Retirement Solutions co-authored with OLDMUTUAL CORPORATE CONSULTANTS

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Introduction

This is the first of a series of articles on pensions in Botswana. October 2023 saw the 15th edition of the Mercer CFA Institute Global Pension Index being issued. This report ranks 47 countries in terms of their pensions model, following detailed analyses of those countries. Although this analysis still represents only a minority of the total number of countries, it covers roughly 64% of the world's total population as it includes countries with the biggest populations such as India, China, the United States of America and Indonesia.

South Africa has been included in the analysis for many years and has until 2023 been the only African country included. However, 2023 saw Botswana being included for the first time, only the second African country to be added, ahead of African countries with much large populations such as Nigeria and Ethiopia. Although South Africa may have won the 2023 Rugby World Cup, Botswana's ranking at 37 beat South Africa's position at 38 out of 47 countries assessed.

For Botswana, this should be celebrated as a feat given the size of our population and that as a country, we continue with the knack of always being rated well.

Composition of the Index
The overall index is comprised of three sub-indices. Each country is assessed based on their pension system's Adequacy (How much do people get?), Sustainability (Can the system keep delivering?) and Integrity (Can the system be trusted?). The overall index is derived by applying a 40% weighting to the Adequacy sub-index, 35% to the Sustainability sub-index and 25% to the Integrity sub-index.

Botswana scored 39.8 out of 100 for Adequacy (rank 46 out of 47), 52.8 out of 100 for Sustainability (rank 46 out of 47) and 80.6 out of 100 for Integrity (rank 11 out of 47). This meant that Botswana beat South Africa in both the Sustainability and Integrity sub-indices, although South Africa achieved a higher ranking in the Adequacy sub-index. The high score for Integrity demonstrates the strength of pension legislation and the financial regulator in Botswana.

Where Botswana does well, is through taking a leaf out of what occurs globally, in terms of benchmarking. As a country, and in so many fronts we avoid being in any precarious positions. By observing mishaps elsewhere, we will use the lessons from there to strengthen our own financial organs and systems. Our country being grey-listed by the European Union was alien, unheard of and more than we could take as a nation.

The Botswana retirement funds' industry is heavily regulated, with compliance coming through very expensive for pension funds. Although this is attributable to our industry scoring high on the integrity matrix, it comes with a heavy price in terms of eroding retirement savings for the members. Our governance structures around retirement funds administration and management are quite robust, even more than is necessary.

In the same breath it is to be noted that during the time of the Pension and Provident Funds Act 1987, the environment was virtually self-regulatory, but well within the set confines of the Law at the time. Even then there was never any occurrence that called for stiff regulation. We can then safely deduce that the shift to the current environment has been too drastic. Whilst at first there was too much to digest, in terms of compliance requirements, the environment has now become extremely expensive.

Scoring less on adequacy and sustainability, which hold bigger weightings simply means as the local industry, we have our work cut out. The retirement funds' industry accounts for close to 47% of the country's annual Real GDP. The objective for the expensive compliance, is with this size in mind. It then calls for a delicate balancing act, where the Regulator is having to be called to strike the balance between regulation and the commercial aspect of the industry.

As a country, Botswana has a vested interest in the sustainability of this industry given the above captioned contribution to its real GDP. However, though with its noble intent, the regulatory environment is working against this sustainability. It is up to the Regulator to avert a situation where they might be regulating an industry that will dwindle over time, and worse in no time.

The ongoing repatriation of offshore money, although in a phased-out manner to 2027, is going to give temporary pain to industry, we would need to position ourselves that in the long term, the adequacy matrix is not allowed to widen any further.

Report Recommendations
The report provides recommendations for each country on how their overall score could be improved; for Botswana these were as follows:

- Increasing the minimum level of support for the poorest aged individuals
- Expanding coverage of employees in occupational pension schemes, thereby increasing the level of contributions and assets
- Increasing the level of home ownership

For sake of comparison, the recommendations for South Africa were as follows:

- Increasing the minimum level of support for the poorest aged individuals
- Increasing the coverage of employees in occupational pension schemes, thereby increasing the level of contributions and assets
- Introducing a minimum level of mandatory contributions into a retirement savings fund
- Introducing preservation requirements restricting members withdrawing funds from occupational pension funds prior to retirement

One interesting point to note is that previously the recommendations for South Africa included a recommendation to introduce compulsory annuitisation for all retirements. This recommendation was removed from the 2021 report after South Africa started phasing out provident funds from 1 March 2021. Unlike pension funds, provident funds pay full retirement benefits as a lump sum when a member retires. Provident funds represented roughly two-thirds of retirement fund members in South Africa. Although provident funds are still active in Botswana, the report does not include such a recommendation for Botswana.

Recommendation 1 – increasing minimum level of support for poorest aged individuals

The report seems to score the Botswanan pensions system poorly in the Adequacy sub-index largely due to the relatively low value of the Old Age Pension. This non-contributory pension was introduced in 1996 and is payable to all Botswanan citizens aged 65 or older. Unlike the equivalent Old Age Grant in South Africa (payable from age 60), there has never been a means-test in Botswana whereby people must prove that they are poor enough to need the pension. There are a variety of separate social protection programmes in Botswana, some of which overlap and this has led to calls for a more properly targeted social security strategy.

In 2023 the monthly pension in Botswana was increased by 18.9% from P530 to P630, compared to the equivalent monthly pension of R2 080 (roughly P1 500) in South Africa. In Namibia the pension payable from age 60 is N$1 400 (roughly P1 000) per month, but the pension in Botswana is higher than that of the equivalent in most countries in the region e.g. Lesotho, Eswatini, Zambia, Tanzania and Kenya.

Non-contributory pensions are a form of social protection, which introduce a “floor” to people’s income from a certain age. This has a significant benefit to people who have never been able to meaningfully save towards their own retirement e.g. informal sector workers and women who care for their families.

There has been much political debate in Botswana about the need to increase the Old Age Pension to assist pensioners with coping with the cost of living. However, Botswana is a developing country and there is an affordability limit to what can be provided as such non-contributory pensions. Similar to the rest of the world, people in Botswana are living longer meaning that the provision of pensions to the aged will become increasingly expensive. There is therefore a need to be careful when granting increases to such pensions.

Recommendation 2 – expanding coverage of employees in occupational pension schemes

Botswana does not have compulsory retirement savings requirements, it is left up to the employer to decide whether or not employees should belong to a retirement fund. Pension coverage in the formal sector in Botswana is roughly 60%, which is very similar to both South Africa and Namibia. Nigeria and Ghana provide interesting comparisons, as both countries introduced mandatory retirement savings for all formal sector employees but compliance is only at roughly 50%.

Most countries in Africa have national social security funds to which formally employed workers are required to contribute, Botswana is one of the exceptions. There is strong debate currently raging in both South Africa and Namibia about whether or not such a national scheme should be introduced there and (if this is done) what the structure should be.

In South Africa there is also consideration being given to the idea of introducing auto-enrolment, which would effectively require all formally employed employees to contribute a minimum amount to an approved retirement fund. Kenya has introduced a similar system from 1 July 2023, whereby all formal sector employees must contribute a total of 12% (6% by employee, 6% by employer) either to the national social security fund or to an approved retirement fund. The Nigerian pensions model is that a total contribution of 18% is required for all formal sector employees, split 8% by employee and 10% by employer.

Consideration should be given to introducing compulsory minimum retirement savings contributions in Botswana for formal sector workers, in order to improve retirement benefit outcomes for workers. Voluntary schemes for informal sector workers can also be introduced in order to encourage them to save towards their retirement.

Recommendation 3 – increasing the level of home ownership

The Index considers non-pension factors, such as home ownership, non-pension savings and household debt, which can have a significant influence on financial security during retirement. This acknowledges the fact that an individual’s financial wellness in retirement does not depend solely on government and employment-related pensions. Botswana is seen as needing to improve home ownership amongst its citizens, on the back of several initiatives by government to achieve this. This also added to the relatively poor score on the Adequacy sub-index.

The guiding legislation has historically never had any provision to address the aspect of home ownership, whilst a mong the members of the retirement funds this was an anomaly, in their minds. Members of the retirement funds have always found it reasonable to use their retirement savings towards their quest to achieve home ownership.

Subsequent and revised legislations have sought to address this gap. It is evident that even with advent of the current and revised Acts, this aspect remains inadequately addressed and would certainly call for more work around this.

It is no wonder that the index report has identified this as an area that needs focus and improvement.

Please look out for further articles on pensions in Botswana.

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