

## **BOTSWANA PUBLIC OFFICERS PENSION FUND 2002 TRUSTEE REPORT**

### **CHAIRPERSON'S OPENING REMARKS**

On behalf of the Trustees of the Botswana Public Officers Pension Fund we are pleased to submit this 2002 Trustee Report to members.

The sole purpose of the Botswana Public Officers Pension Fund is to provide you and your family with financial security if you leave the public service, if you retire, if you become disabled, or even worse if you die. The Trustees believe therefore that it is important to keep you informed of the Fund's developments so that you can be assured of that continued security.

The Trustees wish to point out to members that it is only through re-reading their Member Booklet, Trustee Reports and Briefing Notices that members will be able to understand their Pension Fund.

The main purpose of this Report is to give you more detailed information about the Fund's financial progress and to highlight some of the more important aspects of your membership of the Fund. The Report also includes information regarding the Fund's investments and performance, as well as extracts from the Fund's Financial Statements for the year ended 31 March 2002.

Should you have any suggestions or comments regarding the content of this Report, or you simply require more information regarding the Fund, please do not hesitate to contact your Head of Department, Supervisor, Employing Authority or one of the Trustees who will be able to assist you.

*(Chairman's signature to be scanned in)*

**Mr D N Mokgethi**  
Chairman

## **YOUR TRUSTEES**

The current composition of the Board of Trustees managing the affairs of the Fund is as follows:

### **EMPLOYER TRUSTEES**

Mr D N Mokgethi  
Ms M Pelaelo  
Mrs K D Rathedi

Mr J D Duha  
Mr T J Pheto  
Ms E M Masire  
Brigadier O Tiroyomodimo  
Mr K S Mogami

### **ALTERNATES**

Mr P E Namogang & Mr E D M Letebele - (MFDP)  
Miss Y K Galeage - (DPSM)  
Mr P M Motlhagodi - (Tribal Administration)

Mrs S G Jankie - (Botswana Police)  
Ms L B Bantsi - (TSM)  
Ms G D Seitiketso - (Prisons)  
Colonel B Mosugelo - (BDF)  
Mr B L B Reetsang - (DLGSM)

### **EMPLOYEE TRUSTEES**

Mr G T Ramokapane  
Mr L U Mutheto  
Mr G Lebitsa (BULGASA)

### **ALTERNATES**

Mr M Magola - (BCSA)  
Mr B Tlale - (Teacher Associations)

### **PENSIONER TRUSTEE**

Mr B O Gaobakwe

### **ALTERNATES**

Mrs E M Mathe - (BCSPA)

Mr Mokgethi is the Chairman of the Trustees and Ms Mukani Pelaelo is the Fund's Principal Officer.

## **PRINCIPAL ADVISORS**

The Trustees have appointed the following professional organisations to assist in the management of the Fund:

### ***Consultants & Administrators***

Alexander Forbes Financial Services (Pty) Ltd

### ***Actuaries***

Actuarial Solutions (

### ***Auditors***

PricewaterhouseCoopers

### ***Bankers***

Standard Chartered Bank Botswana Limited

### ***Investment Managers***

African Alliance  
Botswana Insurance Fund Management Limited  
Fleming Asset Management Botswana (Pty) Ltd

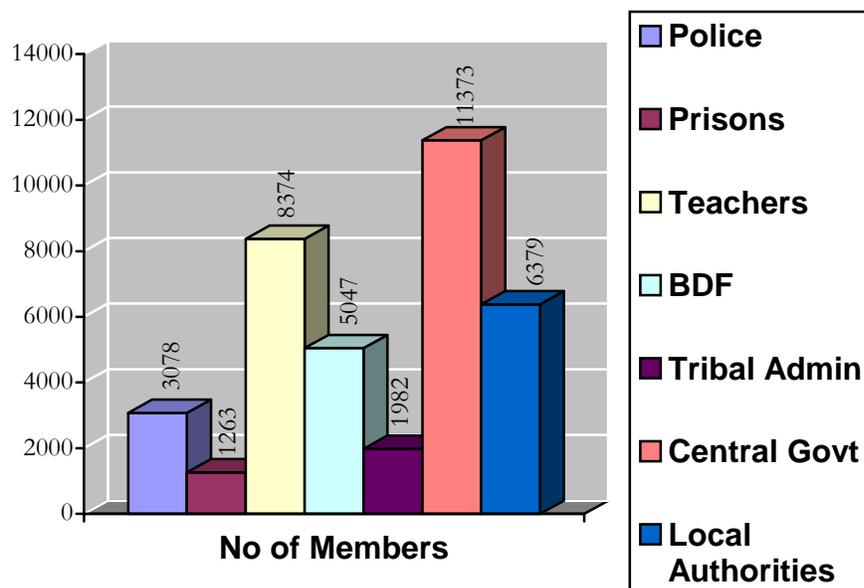
The Trustees made the above appointments following careful review and consideration of the options available. They may, however, replace any one of the above service providers if at any time they are not performing to the Trustees' satisfaction.

## MEMBERSHIP

The Total number of members as at 30 October 2002 was xxxxx, which is approximately xx% of the potential membership. The Trustees expect this number to grow during the remainder of the option period (to 31 March 2003)

As at 30 September 2002 the membership of the Fund per was as follows:

### Membership as at September 2002



The Trustees wish to remind those employees that have still not joined the Fund that the option period ends on 31 March 2003. As was highlighted in an earlier Briefing notice, the transfer process is quite a lengthy one. The process is further extended because of the large membership of the Fund. As was noted, it can take up to four months between the time that you opt to join the Fund to the time that you receive your Final Transfer Statement.

Therefore, if you have been planning on joining the Fund soon, please do so as quickly as possible in order, to avoid any possible disappointment.

## THE FUND'S FINANCES

### INCOME & PAYMENTS

#### *Income*

31 March 2002

Employers Contributions (17.5%)

P 42 876 170

Members Contributions (2.5%)	P	14 292 062
Additional Voluntary contributions	P	11 037
Investment Growth	P	20 129 719
Transfers in from Government		<u>P 2 201 341 502</u>
<b>Total Income</b>		<b>P 2 278 656 490</b>

<b><i>Expenses</i></b>		<b>31 March 2002</b>
Admin and Consulting Fees	P	1 202 337
Audit Fees	P	25 400
Investment Management Fees	P	9 781 331
Fidelity Cover	P	3 500
Trustee Expenses	P	15 336
Other Expenses		<u>P 321 277</u>
<b>Total Expenses</b>		<b>P 11 348 281</b>

### **BENEFITS AWARDED**

During the year under review the following benefits were paid to members:

		<b>31 March 2002</b>
Lump sums on resignation/dismissal	P	3 520 728
Lump sums on death	P	2 682 083
Lump sums on retirement		<u>P 30 521 736</u>
<b>Total benefits awarded</b>		<b>P 36 724 547</b>

### **INVESTMENTS**

Following a careful review of the options available, the Trustees appointed African Alliance, Botswana Insurance Fund Management and Fleming Asset Management to manage the Fund's assets (your money) in equal shares. These professional Investment Managers invest the assets of the Fund in a range of different types of investments, including shares, property, fixed interest instruments and cash both locally and offshore.

The split between the assets invested locally and off-shore (foreign investments) as at 30 September 2002 was as follows:

<b>LOCAL INVESTMENTS</b>	<b>PULA</b>	<b>PERCENTAGE</b>
Equities	P 378 872 020	19.86%%
Bonds & Fixed Interest	P 583 709 084	30.59%
Property	P 0	0.00%
<b>TOTAL LOCAL INVESTMENTS</b>	<b>P 962 581 104</b>	<b>50.45%</b>

<b>OFFSHORE INVESTMENTS</b>	<b>PULA</b>	<b>PERCENTAGE</b>
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Please note that this is a draft of the wording only. You are expected to make changes to the wording and return it to the Communication Practice. This is **not** an indication of what the design and layout will look like.

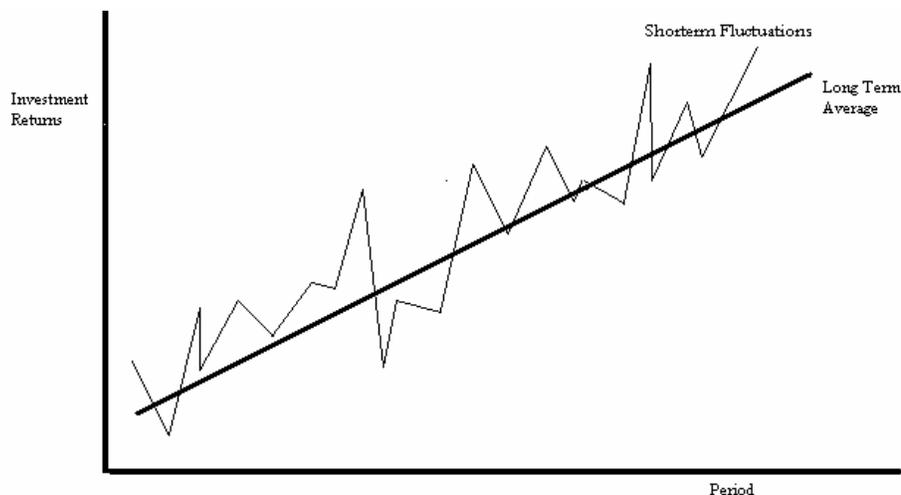
<b>Equities</b>	P 651 741 207	34.15%
<b>Bonds &amp; Fixed Interest</b>	P 293 751 134	15.40%
<b>Property</b>	P 0	0.00%
<b>TOTAL OFFSHORE INVESTMENTS</b>	<b>P 945 492 341</b>	<b>49.55%</b>
<b>TOTAL INVESTMENTS</b>	<b>P 1 908 073 445</b>	<b>100.00%</b>

From the above you will see that a portion of the Fund's assets (50%) is invested offshore. The reason for investing offshore is to diversify the Fund's investments to ensure that your retirement benefits can derive the resultant benefits; this is in line with legislation, which permits offshore investments of up to 70% of a pension fund's assets.

The Fund's assets are held in market value portfolios. This means that the values of these portfolios increase and decrease on a daily basis as the underlying value of the investments change.

It is, therefore, very important that you understand that the value of the Fund's assets has a direct bearing on the value of the benefits that will eventually be paid to you by the Fund. An increase in the value of the Fund's assets will result in the value of your benefits increasing. Please also remember though that the opposite can apply, i.e. a reduction in the value of the Fund's assets will result in a reduction in the value of your benefits.

Put simply, investment returns will fluctuate over short-term periods; however, the returns will generally show an increase in value over the long term. The chart below illustrates this:



The Trustees review the Fund's investment performance regularly to make sure that the Fund's objectives continue to be met. The Trustees may, therefore, change investment managers at any time if they believe another manager's investment style is more suited to the aims of the Fund.

## **INTEREST RATE DECLARATIONS**

### **Declared Interest Rate**

The tragic events in America on 11 September 2001 had a devastating effect on global investment markets, which produced negative returns in most markets of around 30%. However, despite this, the Fund's investment returns were extremely good, primarily because of the local investment market, which performed extremely well over the same period and largely offset the poor performance of the offshore markets. The Trustees have therefore been able to declare an interest rate of 7.5% for the period ended 31 March 2002. This is a good return when compared to inflation of approximately 6% over the same period. This is a "real" return (the amount your money has grown in excess of inflation) of 1.5%.

The Trustees are pleased with this return, especially in view of the difficult offshore investment markets and as the Fund is still relatively young and.

### **Interim Interest Rate**

As the Fund's investment returns cannot be accurately determined until after the Fund's next financial year, the Trustees have to set an "interim" interest rate to be applied to the benefit calculation of all members who leave the Fund during the period commencing 1 April 2002. The interim interest rate is only applicable to members who leave the Fund as the Trustees with the help of the Fund's Actuary will accurately determine the Fund's actual investment returns after the next financial year end (31 March 2003) and will then decide on a "final", or "declared" interest rate for the previous year. This declared rate would then be applied retrospectively to all active members' benefits at that time.

When setting the interim interest rate the Trustees naturally have to be conservative in their estimate to ensure that the Fund does not pay out more than it actually earns in investment returns over the same period. The interim interest rate for the period commencing 1 April 2002 has therefore been set at 2.5% per annum.

### **BENEFIT STATEMENTS**

By now you will have received your individual member benefit statement as at 1 April 2002. This statement tells you how much you transferred to the fund on joining (if applicable), how much you and your Employer have contributed to the Fund as well as the value of your leaving service or retirement benefits at the date of the statement.

Please check the personal details on your statement and refer any queries or errors to your Head of Department, Supervisor, and Employing Authority or to one of the Trustees.

### **PLANNING FOR RETIREMENT - VOLUNTARY CONTRIBUTIONS**

Changes in legislation and practice are constantly happening which may affect your retirement planning. It is therefore very important that you regularly re-evaluate your retirement income needs in light of these changes, as well as any changes in your personal or family circumstances.

It is generally accepted that at retirement you will require a lump sum of approximately 10 times your annual salary when you retire to produce an income in your retirement years of approximately 70% of the income you were receiving while you were working. This means that if you are earning P2 000 per month when you retire, you will need a lump sum of approximately P240 000 to be able to maintain your lifestyle after you retire.

You are currently required to contribute to the Fund at the rate of 2.5% of your salary and your employer at the rate of 17.5%. This means that 20% of your salary is being invested for your retirement. Although you contribute 2.5% of your salary to the Fund, the more money you save

now, the more you will get out of the Fund when you leave. Please also remember that with effect from 1 April 2003 your contributions will increase from 2.5% to 5% of your pensionable salary and the Employer's contribution will reduce from 17.5% to 15%. The total will therefore still be 20%.

It is important that you are aware that you can contribute more than 2.5% of your salary to the Fund. Any contributions you make to the Fund are known as Additional Voluntary Contributions (AVCs) and will be held in the Fund in your name, exclusively for your benefit. These contributions and your 2.5% normal contribution are tax-deductible up to 15% of salary, and there is no charge for making them. This is an extremely tax efficient and cost-effective method of providing additional benefits for your retirement.

Should you wish to pay AVCs please speak to your Head of Department, Supervisor or Employing Authority.

When you retire or leave the Fund you should also speak to a financial advisor who will be able to advise you about the most tax efficient ways of re-investing your money. One option to obtain this advice is to contact the Fund's independent Consultants, Alexander Forbes Financial Services.

## **MONTHLY PENSION PAYMENTS**

At retirement, members are entitled to take one third of their benefit as tax-free cash lump sum. The remaining two-thirds is required by law to provide a pension payable for the remainder of their lifetime. The Trustees are of the opinion that it is important for members to be aware of the options available to them at retirement.

Retiring members have the option to leave the two-thirds of their Fund Credit in the Fund and the Fund will pay the monthly pension for the rest of their life. Alternatively, the retiring member may use the two-thirds of their Fund Credit to purchase a pension from a registered Botswana Insurance Company. Purchasing a pension from the Insurance Company has the following advantages for members:

- (a) The Insurance Company will guarantee that they will always have enough money to pay the pension no matter how long the retired member lives.
- (b) Retiring members can choose what type of pension would best suit their personal circumstance when they retire. For example:
  - i) A pension that continues to be paid to the retired member's spouse in the event of early death of the member or;
  - ii) a pension that is guaranteed to be paid for a specified period, for example five or ten years, even if the retired member dies earlier than that or;
  - iii) a pension that is guaranteed to increase each year by a specified percentage or;
  - iv) any combination of the above.

If a member is considering retiring you should speak to a professional financial advisor who will be able to advise you on the best options available. The Fund's Consultants, Alexander Forbes Financial Services, can be contacted on 3909-603 for advice in this regard if required.

## **BEING PAID A BENEFIT BY THE FUND**

The Fund's Administrators have strict time frames within which they must process the Fund's benefit payments. Typically settlement can be made within five working days of receiving correct and complete documentation, and after receiving a tax directive from the Department of Taxes.

However, delays are often experienced as a result of the following:

### **Department of Taxes**

Normally the Department of Taxes takes about two weeks to issue a tax directive and the Administrators cannot make the benefit payment until the tax directive has been received.

### **Bank Account Details**

As part of the Fund's security measures all benefit payment cheques must include details of a member's Omang and their bank account. This prevents the cheque from being fraudulently encashed in the event that it falls into the wrong hands.

However, when a member leaves the civil service they sometimes do not advise these details, or they close their bank account, which leads to delays in settlement.

It is therefore important that members take note of the above points and take the necessary action where required. If members ignore these issues this will lead to delays before benefit payments can be made.

## **DEFERRED MEMBERS**

As explained in the Member Booklet, depending on the amount of a member's benefit on leaving the Fund an amount specified by law may be required to be preserved for a member's retirement, thus making that person a deferred member. As these amounts are often retained in the Fund for many years, the member's contacts details often change, i.e. they move home or change their postal address. This leaves the Trustees with the onerous task of having to try and trace these members in order to pay them their benefits when they become due.

If you leave the Fund and you have a deferred benefit, please ensure that the Fund's Administrators are provided with your permanent address for future correspondence.

## **TRUSTS FOR MINOR BENEFICIARIES**

Members often elect on their Nomination of Beneficiaries Form that their children should receive a portion of their benefit in the Fund in the event of their death.

As these children are often young and cannot manage the money themselves, the children's benefits are handed over to their guardian with the request that the guardian open a bank account in the name of the child. However, after the payment has been made the Trustees have no way of ensuring that the money is used for the benefit of the child, and there could be instances where this money is spent by the Guardian or some other person claiming to represent the child.

The Trustees have acknowledged this problem and have agreed to use a legal Trust (the Alexander Forbes Trust) to protect minor beneficiaries' benefits when the need arises. The Trust is managed by Alexander Forbes and is administered by Ernst & Young, who are a local professional auditing firm. The money placed in the Trust is also managed professional and reputable investment managers to ensure that it grows.

## **REMINDER**

If a member dies, the Trustees are required by law to identify the deceased member's financial dependants prior to paying the benefit. After taking into account all relevant circumstances and the deceased member's wishes, the Trustees divide the benefit payable amongst the dependants in a fair and equitable way.

This may seem easy to do, but when a Nomination of Beneficiaries Form has not been completed and family members cannot be contacted, the procedure becomes difficult. As a result there can be delays before the benefits can be paid.

Normally the people you would include on your Form would be your husband or wife and your children. You do not have to be legally married to your husband or wife to include them in your Form and you may also include adopted or children born out of wedlock. You can also include your parents and your brothers and sisters, or any other member of your family on the Form if they are financially dependent on you. That means that anyone who you are assisting by either giving money to, or buying clothes or groceries for, or assisting with schooling expenses, etc, either on a regular basis or just now and again, you must list on your Form.

It is also important to give the Trustees an idea of the extent of dependency of the people listed on your Form. You do this by allocating a share (a percentage) of the benefit payable. For example, if you live with your wife and two children and they are fully dependent on you for all their needs, but you also buy your parents groceries say once a month to assist them, you would allocate most of the benefit to your wife and children and perhaps a smaller amount to your parents as they are not as dependent on you as your wife and children.

Equally important is that you update your Nomination of Beneficiaries Form each time your circumstances change. These changes include if you marry, divorce, have a child, or any other thing affecting the people who are financially dependent on you.

Should you need to complete a Nomination of Beneficiaries Form, please contact your Head of Department, Supervisor, Employing Authority or one of the Trustees who will be able to assist you.

## **SOME FREQUENTLY ASKED QUESTIONS AND ANSWERS**

### **Pension Fund Loans**

- Q: Is it possible to take part of my benefits in the Fund out while I am still employed in the public Service?
- A: Unfortunately the Fund and the Trustees are bound in terms of the Pension and Provident Funds Act, which states that members cannot use their money in the Fund unless they borrow it specifically for housing purposes. There are also further limitations in that the maximum loan can only be 25% of the value of a member's benefits. Another restriction is that the Fund has to charge interest and physically lend the member the money and would therefore have to set up controls to ensure that the money was repaid and recorded as such. This would lead to significant additional administration expenses and is, therefore, in the Trustees' opinion not a viable option.

### **Deferred Members**

Q: Why can I not take all my benefits when I leave the Fund before I retire?

A: In terms of the laws governing pension funds in Botswana the maximum you may take as a cash lump sum on leaving the Fund prior to retirement is 25% of the value of your benefit, less tax, unless your total benefit is less than P10,000 in which case you can take the whole amount as cash, less tax. The balance of your benefit (75%), if any, must be either left in the Fund, or transferred to another approved retirement arrangement until you wish to retire. Your deferred benefit will continue to grow in value until you retire, and should you die before you retire, the value of your deferred benefit at the date of your death will immediately be paid to your dependants.

It is extremely important that if you choose to transfer to another approved retirement fund on leaving the Botswana Public Officers Pension Fund that the charges, both initial and on going in your new fund are fully disclosed to you, as well as the expected growth of your benefit going forward. Although you are no longer a civil servant you may leave your benefit in the Botswana Public Officers Pension Fund. This will continue to be invested on your behalf by the Fund's Trustees and you will receive the same growth and services as contributing members do.

### **Bank Accounts**

Q: When I leave why can I not have a cash cheque?

A: As part of the Fund's security measures all benefit cheques have to include the member's Omang number and bank account details under the "payee" section of the cheque to ensure that it cannot be cashed by anyone other than the member who left.

It is therefore very important that leaving members maintain an active bank account, at least until they receive their benefit payment cheque, or payment will be delayed.

## **CONTACT DETAILS**

Members are entitled to view the Fund's Rules, Financial Statements and Financial Reviews. If you have any questions regarding the benefits payable by the Fund, or its other activities, please contact your Head of Department, Supervisor, Employing Authority or one of the Trustees.

**Trustees of the Botswana Public Officers Pension Fund  
September 2002**