



BOTSWANA PUBLIC OFFICERS
**PENSION
FUND**

Driving Member Value

BOTSWANA PUBLIC OFFICERS PENSION FUND

Valuation Report as at 31 March 2022 (Abridged Version)

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1. INTRODUCTION

- 1.1 Each financial year an Actuarial Valuation is performed by an actuary. This document is a summary of the report for 31 March 2022 Valuation period and aims to explain the valuation results in a simplified manner. The valuation examines the Fund over the period from 31 March 2021 to 31 March 2022.
- 1.2 The main purpose of the actuarial valuation is to determine the financial health of the Botswana Public Officers Pension Fund (the Fund) at the valuation date. This is determined by assessing whether the existing assets are sufficient to meet all the Fund's obligations (liabilities).
- 1.3 Some of the objectives of the valuation are, but not limited to;
 - Review the development of the Fund since the previous valuation date.
 - Compare allocations and deductions according to the administration records of members and pensioners with the corresponding items reflected in the financial statements.
 - Check the accuracy of active, deferred and pre-retirement switch members' Fund Credits build up.
 - Establish the pension liability obligations and present values in respect of with-profit and non-profit pensioners.
 - Recommend the reserves to be held at the valuation date.
 - Recommend the March 2022 investment return to be declared to active, deferred and pre-retirement switch members as well as a bonus rate to be declared to with-profit pensioners.
 - Determine the funding level of different membership categories, i.e., compare the value placed on the Fund's assets with the liability and reserves of the respective membership categories.
- 1.4 The report was prepared in terms of the Non-Bank Financial Institutions Regulatory Authority (NBFIRA) legislation and actuarial guidance contained in PFR6 issued by NBFIRA.

2. SIGNIFICANT DEVELOPMENTS

2.1 The Rules of the Fund were revised to ensure alignment and compliance with the Retirement Funds Act, 2014. The revised Rules were approved by the BPOPF Board of Trustees on 19 May 2017 and by NBFIRA on 1 April 2020.

2.2 Previous Valuation Report Recommendations

A bonus rate of 7.1%, 23.2% and 3.8% were declared to with-profit pensioners, active and deferred pensioners, and pre-retirement switch members respectively for the year ending March 2021.

2.3 Administration Outsourcing

As from June 2021, the Fund's administration services have been outsourced to NMG Administrators Botswana (Pty) Limited and the member data has been migrated.

3. VALUATION DATA

3.1 It is important that accurate data is used in the valuation. At the valuation date the Fund was administered by NMG Administrators Botswana (Pty) Limited. The data and financial statements covering the valuation period were supplied by the administrator.

3.2 The data provided by the Fund has been checked for reasonableness and is regarded as sufficiently accurate for the purposes of valuation.

4. MEMBERSHIP

The Fund's membership consists of Active members, Deferred Pensioners, Pre-retirement Switch members and Pensioners.

4.1 Membership summary

4.1.1 A summary of the Fund's active membership at the valuation date, compared to the previous date, is as follows:

Active, Deferred, Pre-Retirement Switch members	31 March 2022	31 March 2021	Change %
Active Members			
Number of members	146 229	144 942	1%
Total Fund credit (P'm)	74 668	71 331	5%
Deferred Pensioners			
Number of members	8 760	9 491	(8%)
Total Fund credit (P'm)	1 778	1 886	(6%)
Pre-Retirement Switch Members			
Number of members	440	47	836%
Total Fund credit (P'm)	1 107	118	839%

4.1.2 A summary of the membership in respect of with-profit and non-profit pensioners at the valuation date, compared to the previous valuation date, is as follows:

With-Profit and Non-Profit Pensioners	31 March 2022	31 March 2021	Change %
With-Profit Pensioners			
Number of Pensioners	5 261	5 333	(1%)
Total Annual pension (P'000)	412 184	399 111	3%
Suspended Pensioners	65	33	97%
Non-Profit Pensioners			
Number of Pensioners	4 446	3 886	14%
Total Annual Pension (P'000)	313 716	252 725	24%
Suspended Pensioners	48	31	55%

5. FUND'S ASSETS

- 5.1 As at 31 March 2022 the Fund's total value of assets was P90.1bn.
- 5.2 The assets under management in respect of the Fund's active and deferred pensioners, pre-retirement switch and pensioners are managed by different asset managers and are invested in different asset classes. The Fund's asset allocation is considered appropriate compared to the liabilities and the matching of the assets with liabilities is adequate.

6. LIABILITIES AND RESERVES

6.1 Active Members, Deferred Pensioners and Pre-retirement Switch Members

6.1.1 Data Reserve

The data reserve is a contingency reserve account to make provision for data errors to an extent which the actuary deems reasonable after assessing the quality of the data submitted for the valuation.

6.1.2 Valuation Results

The valuation results in respect of active and deferred members, before and after taking the proposed bonus rates are as follows:

	31 March 2022 Before bonus P'm	31 March 2022 After bonus* P'm	31 March 2021 After Bonus P'm
Fund credits- active members	70 654	74 668	71 331
Fund credit- deferred	1 665	1 778	1 886
Fund credits- pre-retirement switch	1 042	1 107	118
Data Reserve	734	776	1 371
Actuarial liability	74 095	78 329	74 706

**Includes a bonus of 5.76% p.a. to active and deferred pensioners and 6.28% to pre-retirement switch members effective f 1 April 2022.*

6.2 With-Profit Pensioners

6.2.1 Mismatch Reserve

The purpose of this reserve is to protect the Fund against the risk that the assets backing the with-profit pensioner liabilities produce cash flows that do not match the liabilities of the Fund.

The mismatch reserve for the with-profit pensioners is equal to P337m at the valuation date.

6.2.2 Expense Reserve

The actuary proposed that an expense reserve of P83m be held at the valuation date. This was calculated as the present value of the projected fund expenses from a current level of P102 per pensioner per month in respect of the with-profit pensioners. There is an increase of P18m in the expense reserve from the previous valuation date.

6.2.3 Suspended Pensioner Reserve

The suspended pensioner reserve balance at the valuation date is calculated as the present value of the expected liability in respect of future pensions payable to these pensioners, plus any arrears due. The suspended pensioner reserve amounted to P11m at the valuation date for the 65 suspended with-profit pensioners.

The valuation results in respect of with-profit pensioners before and after taking the declared bonus rate (pension increase) of 4.5% into account, are as follows:

	31 March 2022 Before bonus P'm	31 March 2021 After bonus P'm	31 March 2021 After Bonus P'm
Actuarial liability	4 012	4 188	4 301
Mismatch reserve	323	337	373
Expense reserve	83	83	65
Suspended pensioner reserve	11	11	5
Actuarial liability	4 429	4 619	4 745

6.3 Non-Profit Pensioners

6.3.1 Mismatch Reserve

The purpose of this reserve is to protect the Fund against the risk that the assets backing the non-profit pensioner liabilities produce cash flows that do not match the liabilities of the Fund.

The mismatch reserve for the non-profit pensioners is equal to P358m at the valuation date.

6.3.2 Expense Reserve

An expense reserve of P85m should be held at the valuation date. This was calculated as the present value of the projected fund expenses from a current level of P102 per pensioner per month in respect of the non-profit pensioners.

6.3.3 Suspended Pensioner Reserve

The suspended pensioner reserve balance at the valuation date is calculated as the present value of the expected liability in respect of future pensions payable to these pensioners, plus any arrears due. The suspended pensioner reserve amounted to P 8m at the valuation date.

	31 Mach 2022 After bonus P'm	31 March 2021 After Bonus P'm
Actuarial liability	2 981	2 847
Mismatch reserve	358	257
Expense reserve	85	56
Suspended pensioner reserve	8	4
Actuarial liability	3 432	3 164

7. FINANCIAL POSITION

7.1 Active Members, Deferred Pensioners and Pre-Retirement Switch Members

7.1.1 Scope for Bonus

The investment return that can be declared by the Board in respect of the active membership depends on the investment return of the corresponding assets over the valuation period, fund expenses, the Fund's experience and the balances of the reserve accounts and surplus at the valuation date.

The Fund's assets in respect of active and deferred members earned net investment return of 5.76% over the valuation period (before allowance for fund expenses), while the assets in respect of pre-retirement switch members earned net investment return of 6.28% over the valuation period.

7.1.2 Final financial position

The actuarial value of assets in respect of active members is P 79.190bn as at the valuation date.

The actuarial liability in respect of the active members is P 78.329bn as at the valuation date. The actuarial liability consists of the Fund Credits in respect of the active membership and the data reserve recommended by the actuary.

Comparing the actuarial value of assets with the actuarial liability we see a surplus of P 861m and a funding level of 101.1%.

The funding level increased from 100.5% during the previous valuation to 101.1% during the current valuation.

7.1.3 Approvals

A bonus rate of 5.76% was approved for the financial year ending 31 March 2022 in respect of the active and deferred members.

A bonus rate of 6.28% was approved for the financial year ending 31 March 2022 in respect of the pre-retirement switch members.

A data reserve of P776m was held in respect of active and deferred members to protect the Fund from general processing variations and the correction of data issues identified.

The active membership of the Fund has a funding level of 101.1%, which indicates a healthy financial position of the Fund in respect of the active membership.

The surplus of P861m was held until the surplus items relating to benefits payable, and the necessary data investigations, have been finalised.

7.2 With-Profit Pensioners

7.2.1 Scope for Bonus

With-profit pensioners annually receive a pension increase effective 1 April of the specific year. This is declared by the Board of the Fund based on the Fund's financial position.

The net investment return in respect of the with-profit pensioners is 4.5% over the valuation period.

7.2.2 Pension increases over the years

The following table reflects the historical pension increases declared:

* Year	Pension Increase
2011	4.75%
2012	4.20%
2013	6.10%
2014	3.50%
2015	3.25%
2016	2.50%
2017	1.50%
2018	1.00%
2019	2.00%
2020	0.00%
2021	7.10%
2022*	4.50%

**The with-profit pension increase effective 1 April 2022.*

7.2.3 Final financial position

The actuarial value of assets in respect of with-profit pensioners is P 4.619bn as at the valuation date.

The actuarial liability in respect of the with-profit pensioners is P 4.619bn as at the valuation date. The actuarial liability consists of the Fund Credits in respect of the with-profit pensioner liabilities and the different reserves mentioned in section 6.

Comparing the actuarial value of assets with the actuarial liability we see a 100% funding level.

7.2.4 Approvals

A bonus rate of 4.5% has been declared effective from 1 April 2022 in respect of the with-profit pensioner portfolio.

The funding level in respect of the with-profit pensioners is 100% which indicates a healthy financial position.

7.3 Non-profit pensioners

7.3.1 Final financial position

The actuarial value of assets in respect of non-profit pensioners is P 4.077bn as at the valuation date.

The actuarial liability in respect of the non-profit pensioners is P 3.432bn as at the valuation date. The actuarial liability consists of the Fund Credits in respect of the non-profit pensioner liabilities and the different reserves mentioned in Section 6.

Comparing the actuarial value of assets with the actuarial liability we see a surplus of P 645m and a 118.8% funding level.

The funding level increased from 110.0% in the previous valuation to 118.8% in the current valuation.

7.3.2 Approvals

The funding level in respect of the non-profit pensioners is 118.8% which indicates a healthy financial position.

There is a historical discrepancy between the pricing and valuation bases in respect of pensioners. The surplus of P 645m in respect of the non-profit pensioners was held until the bases are investigated and aligned.

8. ACTUARIAL VALUATION CONCLUSIONS

- 8.1 The Fund is in a financially sound condition at the valuation date, 31 March 2022, with a surplus of P1 505m and a funding level of 101.7% at the valuation date.
- 8.2 It is expected that the reserves held at the valuation date would be sufficient to cover processing variations and possible data corrections and therefore the proposed bonuses could be declared by the Board.

- 8.3 The Board declared a bonus rate of **5.76%** for the financial year ending 31 March 2022 in respect of the active and deferred members.
- 8.4 The Board declared a bonus rate of **6.28%** for the financial year ending 31 March 2022 in respect of the pre-retirement switch members.
- 8.5 The Board declared a bonus rate of **4.5%** effective from 1 April 2022 in respect of the with-profit pensioner portfolio.