# Retirement Planning Toolkit

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## EXECUTIVE SUMMARY

Retirement planning is not an event but a long-term financial process that requires deliberate and informed decision-making throughout a member's working life

All pension scheme members are supposed to take retirement planning seriously, given its impact on the members' well-being at old age.

Once you join employment, you will not forever remain employed. It is definite that a day will come, when one will leave employment either through retirement, retrenchment, resignation, dismissal or even due to death.

In Zimbabwe, occupational pension schemes represent a significant source of income security for retirees, which augments the mandatory social security scheme (NSSA).

This toolkit equips you, a pension scheme member, with knowledge, tools, and practical guidance to make informed decisions about your future income. It helps you to be able to:

- Understand how your pension scheme works and the benefits you are entitled to.
- Learn how contributions grow into retirement income and how to optimize them.
- Understand investment options, risks, and how to make suitable choices.
- Learn about the retirement options available (lump sum, annuities, drawdowns).
- Keep your beneficiaries updated and understand your rights under the law.
- Prepare financially, socially, and emotionally for retirement.

This toolkit is designed to improve financial literacy, support informed participation, and strengthen long-term retirement security.

## INTRODUCTION

Globally, pension supervision has evolved beyond solvency and compliance oversight towards a more member-centred supervisory model, recognising that retirement outcomes depend on both fund soundness and informed member decision-making.

International practice indicates that retirement planning toolkits are increasingly used as supervisory instruments to improve retirement preparedness as well as member awareness.

The proposed Retirement Planning Toolkit aligns with guidance from the International Organisation of Pension Supervisors (IOPS), including Working Papers No. 12 (Risk-Based Supervision of Pension Funds), No. 18 (Supervisory Issues in Defined Contribution Systems), No. 29 (Supervisory Role in DC Systems), and Good Practices on Communication with Members (2018). These publications emphasise outcome-focused supervision, lifecycle communication, transparent disclosure, and decumulation risk awareness — all of which are incorporated into the proposed Toolkit.

The paper also borrows some insights from other jurisdictions which have already issued Retirement planning toolkists. These jurisdictions include United Kingdom. Australia, Singapore, South Africa, Kenya and Nigeria.

## PURPOSE OF THIS TOOLKIT

The toolkit is aimed at:

- **Members of occupational pension schemes** who want to better understand and optimize their retirement outcomes.
- **Employers and board o0f fund members** seeking to provide members with clear, practical guidance.
- **Financial advice for anyone** looking for a better appreciation of how voluntary occupational schemes work.

It provides guidance, practical tools to help members make informed decisions.

## SECTION 1: WHY RETIREMENT PLANNING MATTERS

Retirement is a predictable stage in the employment lifecycle marked by the cessation of regular employment income while living expenses continue.

In Zimbabwe, where formal social security outside occupational pensions is limited, occupational pension schemes constitute a major source of structured retirement income.

One of the central risks in retirement planning is longevity risk, which refers to the possibility of outliving retirement savings. Many retirees may end up spending between 20 and 30 years in retirement.

Retirement planning is essential because it allows you to:

a) **Maintain your lifestyle after work**

Your pension should replace a significant portion of your pre-retirement income. Without planning, your replacement income may be insufficient, making it difficult for you to adjust to retirement realities, when income earned from retirement will be just a small percentage of the final salary you earned before retirement.

For example, if one was earning a salary of ZWG30,000 and the capital accumulation from the pension has purchased a monthly pension of ZWG3,000. The replacement ration will just be 10%. With this low investment ratio, the member will find it difficult to transit from working life to retirement.

b) **Protect yourself from old-age poverty**

Life expectancy is increasing, with post-retirement life lasting for years. Data from Zimstats and World indicate an increase in life expectancy for Zimbabwe. Therefore, retirement planning ensures long-term financial security, so that the longer life will not be a burden.

c) **Avoid financial dependence**

Planning helps you remain financially independent. Without proper planning, you will be vulnerable in the absence of your own reliable income source. Many who find themselves in such a situation tend to rely on family members and Government for support, which may lead to constrained relationship if support does not come as expected, given that family members will also have their own pressing financial commitment.

d) **Prepare for medical needs**

Healthcare costs typically rise with age. Adequate planning ensures you can meet these expenses.

Inflation may present a significant threat to retirement security by eroding purchasing power over time, particularly where retirement income is fixed.

Failure to plan adequately may result in premature depletion of savings, reliance on family support, and reduced quality of life.

## SECTION 2: SETTING RETIREMENT OBJECTIVES

Retirement objectives provide direction to the retirement planning process and guide decisions on contributions, investments, and benefit choices.

**Determine Your Retirement Age** - Whilst a number of pension fund schemes have a normal retirement age of 65 years, there is an option of early retirement (say at 55 years) and that of late retirement (mostly at 70 years.

**Estimate Your Retirement Needs** - Retirement needs are mainly determined by your monthly expenses

Retirement Need = Monthly Expenses × 12 × Years in Retirement

Retirement objectives must reflect the desired standard of living after retirement, including housing, healthcare, transport, and social activities.

A commonly used benchmark for income adequacy is the replacement ratio, which expresses retirement income as a percentage of final salary.

International experience suggests that a replacement ratio of 60 to 80 percent is required to maintain a reasonable standard of living for most retirees.

Objectives should be expressed in real terms to account for the impact of inflation over time.

Retirement objectives should be reviewed periodically to reflect changes in income, family circumstances, and economic conditions.

## SECTION 3: KNOWING YOUR PENSION SCHEME

It is crucial that as a pension scheme member, you should understand the type of your pension scheme. Pension schemes can either be Defined Contribution (DC) or Defined Benefit.

### a) Defined Contribution (DC) Schemes

- **Benefits depend on:** Contributions, expenses and investment returns.
- **Advantages:** Transparent, portable.
- **Risks:** The member bears the risk which include market risk and inflation risk. Benefits not predictable

### b) Defined Benefit (DB) Schemes

- **Benefits are guaranteed** based on formula which takes into account the following:
    - I. Final Salary
    - II. Pension Factor
    - III. Years of Service
- **Advantages:** Predictable income, lower individual risk.
- **Risks:** Sponsoring employer bears the risk. Performance depends on the employer's financial health can lead to underfunding.

It is the right of every member to get benefit statements every year, as stipulated under Section 14 of the Pension and Provident Funds Act [Chapter 24:32] and are encouraged to check these statements to see their capital accumulation.

## SECTION 4: YOUR CONTRIBUTIONS

Contributions made during employment form the foundation of retirement income, particularly in Defined Contribution pension schemes.

Both employee and employer contributions must be adequate, consistent, and remitted on time to support sustainable retirement outcomes.

It is your duty as a member to check from the benefit statement if contributions are being remitted to the fund.

Contribution adequacy should be assessed in relation to the member's retirement objectives, particularly the target replacement ratio discussed in Section 2.

In Defined Contribution schemes, low contribution rates are the primary cause of inadequate retirement outcomes, even where investment performance is reasonable.

As a general planning guide, total contribution rates of 10% or less of pensionable salary are often insufficient, while rates in the range of 12%–15% or higher materially improve retirement outcomes when applied consistently over time.

**Illustration:**

Assumptions (real terms): Pensionable monthly salary ZWL200,000; career length 30 years; retirement age 60; long-term real return 5% per annum; retirement income drawn over 25 years.

At a total contribution rate of 10% (ZWL 20,000 per month), the indicative replacement ratio is approximately 40%–45%, resulting in a significant income shortfall.

At a total contribution rate of 12.5% (ZWL 25,000 per month), the indicative replacement ratio improves to approximately 55%–60%, representing marginal adequacy.

At a total contribution rate of 15% (ZWL 30,000 per month), the indicative replacement ratio improves further to approximately 65%–75%, providing reasonable income security.

This illustration demonstrates the power of compound growth: relatively small increases in contribution rates, applied early and consistently, can materially improve retirement outcomes.

Members should use such illustrations as planning tools rather than precise forecasts and adjust contribution rates proactively where projected outcomes fall below retirement objectives.

Interrupted contribution histories, including employer arrears, materially reduce retirement benefits if not corrected.

**Voluntary Contributions** – Over and above the contributions by the employer and employee stipulated in the fund rules, as a member you can make voluntary additional contributions to your fund. This provides an important mechanism for improving retirement adequacy.

## SECTION 5: INVESTMENT BASICS

Pension fund investments exist to grow members' contributions over time and provide sustainable retirement income.

Investment decisions involve a balance between risk and return, and risk cannot be avoided entirely.

Key asset classes include quoted equities, investment property, fixed income instruments, private equity investments and money market assets; each with distinct characteristics.

Diversification is used to reduce exposure to individual asset risks and improve stability of long-term returns.

Investment strategy should reflect the member's time horizon, with higher growth exposure for younger members and greater capital preservation closer to retirement.

In Zimbabwe's economic environment, focus should be placed on real returns rather than nominal fund growth.

Board of Fund members are responsible for investment governance and must act in the best interests of members. Whilst the board of fund might select professional investment managers to manage the investment portfolio, they remain accountable to members regarding the investment performance of the fund.

Members are encouraged to analyse the audited financials of the fund, which are presented during Annual General Meetings, and ask questions relating to the performance of each asset class.

Members should assess performance over long periods and avoid reacting to short-term market volatility.

## SECTION 6: INFLATION & ECONOMIC RISK

Inflation erodes the purchasing power of money and represents a major risk to retirement income sustainability.

Nominal returns may appear adequate while real returns are negative in high-inflation environments.

Currency movements affect the real value of pension assets and retirement income.

Economic shocks can cause short-term volatility but do not necessarily undermine long-term retirement outcomes.

Diversification and long-term planning are key tools for managing economic risk. Hence the importance of checking the performance of the fund's assets classes and benefit statements.

## SECTION 7: MANAGING TRANSITION - LIFE AFTER WORK

Retirement is not only a financial event but also a major life transition that affects daily routines, social identity, health, and personal well-being. Many individuals underestimate the non-financial changes that accompany retirement and focus solely on income planning.

Successful retirement preparation therefore requires attention to how life will be lived after work, not only how it will be financed. Members who prepare holistically are more likely to experience a stable and fulfilling retirement.

A holistic retirement planning includes the following: -

I. **Psychological and Social Adjustment** - for many people, employment provides structure, purpose, social interaction, and identity. Retirement may result in a sudden loss of routine and social networks if not managed deliberately.

   Members should therefore consider the following

   - How daily time will be structured
   - How social connections will be maintained
   - Opportunities for community, religious, or voluntary involvement

   Active social engagement reduces isolation, supports mental health, and contributes to overall wellbeing in retirement.

II. **Health and Wellness Planning -** Health status is one of the most significant determinants of retirement quality. As individuals age, healthcare needs tend to increase, often unpredictably.

   For working members on medical aid funded by the employer, adjusting to a life without medical aid might be such a difficult transition.

   Retirement preparation should include:

- Maintaining appropriate medical aid cover, where possible, members should negotiate with their employers to continue funding their medical aid post-retirement.
- Budgeting for out-of-pocket medical expenses
- Adopting healthy lifestyle practices before retirement
- Planning for potential long-term care needs

Proactive health planning can significantly reduce financial and emotional strain later in retirement.

**III. Housing and Living Arrangements**

Housing stability plays a critical role in retirement security. Housing costs can consume a significant portion of retirement income if not managed carefully.

Members should assess the following: -

- Whether current housing is suitable for retirement
- Maintenance and utility costs
- Proximity to healthcare and family support
- Potential benefits of downsizing or relocating

Decisions about housing should be made well in advance of retirement, where possible.

**IV. Managing Expenses and Debt**

Entering retirement with high levels of debt can place significant pressure on fixed retirement income. Members are encouraged to reduce or eliminate non-essential debt before retirement.

Effective preparation includes:

- Clearing high-interest consumer debt
- Reviewing recurring expenses
- Aligning spending patterns with expected retirement income

Lower fixed expenses provide greater flexibility and resilience in retirement.

## V. Purposeful Activity and Productive Engagement

Many retirees find greater satisfaction when retirement includes purposeful activity. This may include:

- Voluntary or community service
- Part-time work or consulting
- Mentoring or skills transfer
- Religious or cultural involvement

Purposeful engagement supports mental wellbeing and may also generate supplementary income.

## VI. Family and Social Responsibilities

Family expectations and responsibilities often continue into retirement and may include:

- Supporting adult children or grandchildren (In certain cases, members may still retire whilst children are still young and will be requiring support – where possible, this should be avoided)
- Caring for elderly relatives
- Participating in extended family obligations

Members should consider how these responsibilities affect retirement income, time, and energy, and plan accordingly.

## VII. Lifestyle Changes and Adaptation

Retirement may require adjustments to lifestyle expectations. Members should anticipate:

- Changes in spending patterns
- Shifts in leisure activities
- Reduced ability to adapt to major financial shocks

Flexibility and realistic expectations are key to long-term satisfaction.

## VIII. Preparing Before Retirement

Effective preparation for life after work should begin several years before retirement. Members are encouraged to : -

- Gradually test retirement routines
- Develop hobbies and interests
- Strengthen social networks
- Review non-financial plans alongside financial plans

Early preparation reduces uncertainty and anxiety at retirement.

## SECTION 8: OPTIONS AT RETIREMENT

At retirement, accumulated pension savings are converted into retirement income through various benefit options.

Members may take a portion of benefits as a lump sum, subject to scheme rules and tax legislation.

Annuities provide regular income and protect against longevity risk, while income drawdown offers flexibility but greater risk.

Joint-life and guaranteed-period annuities support survivor protection.

Inflation-linked annuities offer long-term purchasing power protection but lower initial income.

Benefit decisions at retirement are often irreversible and require careful consideration.

Professional financial advice is strongly recommended before finalising retirement benefit choices.

## SECTION 9: ALTERNATIVE SOURCES OF RETIREMENT INCOME

### Purpose of Alternative Retirement Income

Occupational pension benefits are designed to provide a stable foundation for retirement income.

However, in many cases, pension income alone may not be sufficient to sustain an acceptable standard of living throughout retirement, particularly in environments characterised by inflation, economic volatility, and long retirement durations.

In Zimbabwe, it is common for retirees to supplement pension income with alternative sources of income. This is not a sign of failure of the pension system, but a prudent risk-management strategy that enhances income sustainability and financial resilience.

The purpose of alternative income sources is therefore to complement pension income, not to replace it or expose pension capital to excessive risk.

### Why Alternative Income Is Important in Zimbabwe

Several factors make supplementary income particularly important for retirees in Zimbabwe:

- Inflation can erode the purchasing power of fixed pension income over time
- Retirement periods may extend for 20–30 years
- Healthcare and living costs tend to rise with age
- Economic conditions may affect the reliability of a single income stream

Alternative income sources help retirees manage these risks by diversifying income and reducing reliance on one source.

## Principles for Selecting Alternative Income Sources

Before committing resources to any alternative income activity, retirees should assess it against the following principles:

a. **Sustainability -** The income source should generate returns over an extended period without requiring continual reinvestment of capital.
b. **Risk Appropriateness -** Activities should avoid exposing retirees to high risk of capital loss, particularly where pension lump sums are involved.
c. **Manageability -** The activity should align with the retiree's age, health, energy levels, and skills.
d. **Liquidity -** Retirees should be able to access funds when required, particularly for healthcare or emergencies.
e. **Preservation of Pension Capital -** Pension benefits should primarily provide predictable baseline income. Alternative income should not compromise this foundation.

## Alternative Income Sources

### I. Property-Based Income

Property remains one of the most common alternative income sources for retirees in Zimbabwe.

Urban rental properties may provide relatively stable monthly income. Retirees should, however, consider:

- Maintenance and repair costs
- Vacancy risk
- Rates and service charges
- Compliance with local authority requirements

Net rental income, not gross rent, should be used when assessing affordability.

Constructing additional rental units on existing residential property is a common strategy. While capital outlay may be lower than acquiring new property, retirees must still consider construction quality, regulatory compliance, and ongoing maintenance.

### II. Small-Scale Business and Enterprise

Some retirees engage in small-scale business activities to supplement pension income.

Businesses that can supplement retirement income include: -

a. **Agricultural Activities -** Examples include horticulture, poultry, and small livestock projects. These activities can generate income but are exposed to:

- Climate risk
- Input cost fluctuations
- Market price volatility

b. **Retail and Service Businesses -** Retail trading, transport services, and basic service provision are common retirement enterprises. Retirees should carefully assess competition, operating costs, and physical demands.

**Key Caution -** Using pension lump sums to fund high-risk businesses can permanently undermine retirement security. Business failure late in life is often difficult to recover from.

### III. Professional Consulting and Part-Time Work

For retirees with specialised skills or professional experience, consulting and part-time work offer low-capital, flexible income opportunities.

Examples include:

- Professional advisory services
- Training and mentoring
- Project-based consulting
- Part-time teaching or facilitation

These activities preserve pension capital and allow retirees to remain economically active while controlling workload.

### Common Mistakes Retirees Should Avoid

Retirees should avoid:

- Investing pension lump sums in unfamiliar or speculative ventures
- Overestimating business profitability
- Underestimating health-related limitations
- Failing to diversify income sources
- Ignoring liquidity needs

These mistakes can permanently compromise retirement security.

**End of Toolkit**