

# Foreword



## New Annuity Education Brochures: Empowering Retirement Confidence

Dear Clients,

Retirement is one of life's most important milestones, whether it feels very near or still years away. No matter your age or stage, it represents a shift from earning a salary to a time when your savings will need to sustain you. At Botswana Life, we know that this journey raises important questions:

- Am I preparing well enough?
- Will my income last?
- Have I made the right choices?
- Who can guide me?

This brochure was created to support you in answering those questions long before retirement arrives. It provides clear, easy-to-understand information about annuities, what they are, how they work, and how they can provide guaranteed income for life. Whether you are 35 and planning ahead or approaching retirement soon, this guide empowers you with the knowledge to make confident, informed decisions about your financial future.

For over five decades, Botswana Life has walked alongside Batswana through every life stage. Today, we remain committed to ensuring financial peace of mind in retirement, backed by the strength of the BIHL Group and the trust of over 15,000 pensioners who receive their income through us.

We hope this guide helps you take the next step, wherever you are on your journey, with clarity and confidence. Because at Botswana Life, your income should never stop.

**Thomas Masifhi**

**Group Executive:  
Corporate Distribution & Stakeholder Management  
Botswana Life Insurance Limited**





# Pension Fund Members Educational Brochure.



Botswana Life

Botswana Life is a member of the BIHL Group

INSURANCE | FINANCIAL PLANNING | RETIREMENT | INVESTMENT

# Introduction to retirement and annuities



## “From Paychecks to Peace of Mind: Your Retirement Journey”

You have spent years working hard, building your career, taking care of your family, and making sure your needs are met. Every month, your salary has given you stability and helped you pay for food, bills, transport, your health, school fees, and more. But one day, that salary will stop. You will retire. And you might ask yourself:

## “Where will my income come from when I am no longer working?”

That is why retirement planning is so important and why annuities matter.

During your working years, you have been saving for retirement by contributing to a defined contribution pension fund (where you have been taking investment risk for the entire duration). That money has been growing over time through investment, preparing for the day you retire.

When you reach retirement age, and your employer confirms that you are retiring, you will be contacted and guided through the next steps. You will be allowed to **take up a portion of your pension as a cash lump sum**. This is called “commuting” your pension. You can use that money however you choose. The rest of your pension must be used to **buy an annuity**, which is a product that gives you a monthly income during retirement.

One of the most trusted options is a **life annuity**. This type of annuity guarantees that you will receive a monthly income for the rest of your life.

This is your reward for all the years of hard work:

**A steady income. A peaceful retirement. Financial security.**

Retirement is not the end. It is a new beginning. And with the right plan, you can enjoy your golden years without worrying.

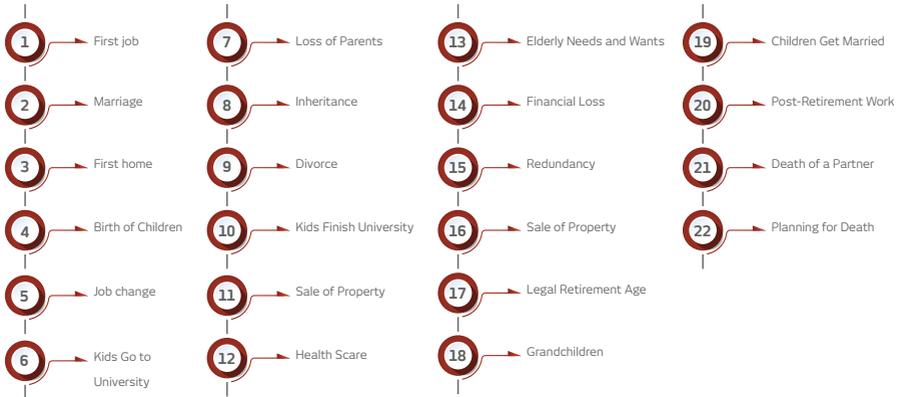
**Let us help you choose the right annuity, so your income never stops.**



## Possible Life Events That trigger financial decisions

### Exhibit 1:

#### Typical Life events that trigger life insurance needs



This timeline illustrates the typical financial life journey of an employee.

#### • First Job

You enter the workforce and start earning a steady salary. This stage is about building your skills, gaining experience, and laying the foundation for financial independence. The focus is on learning, saving, and starting to grow your wealth.

#### • Marriage

A single income may be available or two incomes may combine, but responsibilities grow. Budgeting and saving become more structured, often with shared goals such as buying a home, raising children, or building an emergency fund.

#### • First Home

A major milestone, and often the biggest purchase yet. Mortgage repayments, maintenance, and family planning become central financial priorities.

#### • Birth of Children

Expenses rise quickly: childcare, education, healthcare, and daily needs. Income may be stretched, making financial planning and prioritisation more important than ever.

#### • Job Change

New opportunities may bring higher earnings or better benefits. This is a good time to review your pension contributions, insurance coverage, and long-term savings strategy.

#### • Kids Go to University

Education costs can be significant. Planning ahead through savings or education funds helps reduce the need for debt.

#### • Loss of Parent

A deeply emotional period that can also bring unexpected financial responsibilities, such as funeral expenses. It often sparks reflection on wills, estate planning, and protecting loved ones.

- **Inheritance**

Receiving a lump sum creates opportunities to reduce debt, invest, or strengthen your retirement fund. Wise decisions here can shape your financial future.

- **Divorce**

A challenging period that may require dividing assets, adjusting budgets, and reassessing financial goals. Protecting yourself with proper insurance and estate planning becomes important.

- **Kids Finish University**

With education expenses ending, you may have more flexibility to focus on retirement savings, investments, and lifestyle upgrades.

- **Sale of Property**

A large cash injection. This might fund a new home, support children, or be invested for future income.

- **Health Scare**

Unexpected medical costs can disrupt savings. Having adequate insurance and an emergency fund provides essential financial protection during such times.

- **Elderly Needs and Wants**

Your income should cover medical care, assisted living, and leisure. A life annuity helps ensure income never stops making it easier to meet these needs.

- **Financial Loss**

Market downturns, business failures, or personal setbacks can reduce wealth. A diversified investment strategy and adequate insurance help cushion the impact.

- **Redundancy**

Losing a job can be stressful both emotionally and financially. Severance pay, savings, and temporary work can bridge the gap while adjusting your long-term plans.

- **Sale of Property**

A significant cash injection that can be used to buy a new home, invest, or support other family goals. Planning is key to making the most of this opportunity.

- **Legal Retirement Age**

Your salary ends, and you begin drawing from your pension. You can take part as a lump sum, with the remainder often placed into an annuity that provides a guaranteed monthly income for life.

- **Grandchildren**

A joyful stage that may bring new expenses, gifts, education support, or even helping with childcare, alongside continued financial planning.

- **Children Get Married**

Weddings can be costly, and many parents choose to contribute. Careful budgeting ensures these gifts do not compromise your long-term goals.



- **Post-Retirement Work**

Some choose to keep working part-time for additional income, social engagement, or personal fulfilment. This can ease the drawdown on retirement savings.

- **Death of a Partner**

An emotionally and financially challenging period. Adequate life insurance and estate planning ensure stability for the surviving partner.

- **Planning for Death**

Estate planning, updating wills, and ensuring beneficiaries are in place help pass wealth smoothly to the next generation and minimise stress for loved ones.

## 1.1 What is an annuity?

An annuity is a retirement product that provides you with a regular income in exchange for a lump sum payment from your pension fund, savings, or investments usually made at retirement. This helps ensure that you do not run out of money in retirement, as annuities can pay for a set period or even for the rest of your life. **Life annuities are designed to give retirees lifelong financial security without the stress of managing investments or market risk.**

## 1.2 Types of annuity products

There are three main types:

- **Life Annuity (Recommended):** Provides a guaranteed monthly income for life. You carry none of the investment risk, this is handled entirely by the annuity provider.
- **Living Annuity:** Lets you invest your retirement savings and draw income from the returns, but your income is not guaranteed and can run out. Requires a high degree of skill as the client must regularly manage investments.
- **Hybrid Annuity:** Combines features of guaranteed income with some optional flexibility. However, it may still require **some decision-making and limited risk exposure.**

## 1.3 Why an annuity product?

An annuity gives you peace of mind by ensuring a steady stream of income after retirement. Unlike other investment options, it reduces the risk of outliving your savings and shields you from market uncertainty. Conventional life annuities are particularly effective at achieving this, as they provide consistent income for life, no matter what happens in the market or how long you live.

## 1.4 What to expect at retirement

When you retire, your monthly salary stops. Your income will now come from your retirement savings or pension. You will need to choose how to receive that money, either as a lump sum (up to the maximum allowed by regulation) and buy an annuity with the balance or buy an annuity with the entire pension amount.

**Choosing to allocate more of your pension toward a life annuity ensures a more reliable monthly income for the rest of your life.**

## 1.5 What is the objective of a pension fund?

The main goal is to grow your retirement savings while you work so that you have enough to live on when you retire. It pools your and your employer's contributions and invests them over time. In Botswana, the most common pension plan is the Defined Contribution (DC) scheme.

- **Defined Contribution:** Your final retirement amount depends on contributions and investment returns. You carry investment risk before retirement.
- **Defined Benefit:** Your retirement income is pre-defined, and the employer assumes investment risk.

**Regardless of pension type, using your balance to buy a life annuity helps eliminate uncertainty at the most crucial time, retirement.**

## 1.6 Difference between a pension fund and an annuity provider

- **Pension Fund:** Accumulates savings during your working life. In Botswana, some pension funds provide annuities themselves, unlike other markets where these are exclusively offered by insurance companies. Regulation requires your pension fund to provide you with quotations from at least three (3) annuity providers in the market.
- **Annuity Provider (e.g., Botswana Life):** Converts your pension savings into income for life.

# 2. Preparing for Retirement

## 2.1 How do you prepare for retirement?

Start saving early, contribute regularly to a pension fund, avoid withdrawing before retirement, and review your financial plan at least yearly.

Work with a financial advisor to estimate how much income you will need and how to achieve that.

**To ensure peace of mind and stability in retirement, prepare to use the bulk of your retirement savings to purchase a life annuity.**

## 2.2 Recommendations by Age Group

### Age 25–35

- Consider increasing your pension contribution
- Check if your projected final fund balance will cover your desired level of income replacement

### Age 35–45

- Consult your financial advisor to refine your financial plan
- Check if your projected final fund balance will cover your desired level of income replacement

### Age 45–55

- Educate yourself more about the retirement landscape in Botswana
- Start making a stronger effort to pay off long-term debts
- Check if your projected final fund balance will cover your desired level of income replacement
- Consider setting up a separate savings or investment plan that can supplement your annuity income

### 2.3 What is your income replacement target at retirement?

You should target to replace about 70–100% of your final salary as a monthly annuity to maintain your lifestyle. For example, if you earned BWP 20,000 per month before retirement, you would want about BWP 14,000–20,000 in monthly retirement income.

### 2.4 Impact of the 50% commutable portion at retirement

When you retire, you may withdraw up to 50% of your pension as a lump sum. While this gives you immediate cash, it reduces the amount left to generate monthly income (i.e., to purchase your annuity). This means your future income may be significantly lower, and you must spend the lump sum wisely.

You may also commute 25% of your existing pension fund when you change employers before retirement, and this will further hamper your ability to replace your income adequately to maintain your lifestyle.

#### Example: Thabo

Thabo is a 50-year-old man currently considering retirement. He consults with his financial advisor and confirms that he will have P6,000,000 at retirement. He is very close to paying off his mortgage, which is his only long-term debt.

#### Option 1: Thabo commutes 50% of his pension

- Pension fund value: P6,000,000
- Commutation level: 50%
- Remaining balance to purchase an annuity: P3,000,000

#### Option 2: Thabo commutes none of his pension

- Pension fund value: P6,000,000
- Commutation level: 0%
- Remaining balance to purchase an annuity: P6,000,000

Choosing not to commute results in double the income and complete peace of mind.

### 2.5 What to consider when determining the lump sum package

Consider your current debts, housing needs, medical expenses, and future emergencies.

The more you take out as a lump sum, the less is left to secure regular income.

Balance short-term needs with long-term income security.

### 2.6 Can I include other savings/investments to buy an annuity?

Yes. You can use personal savings, investments, gratuity severance benefits or proceeds from other retirement products to buy an annuity and increase your income. Some providers, like Botswana Life, allow top-ups once an annuity has already been purchased, further allowing you to increase your income. Please note the following tax implications:

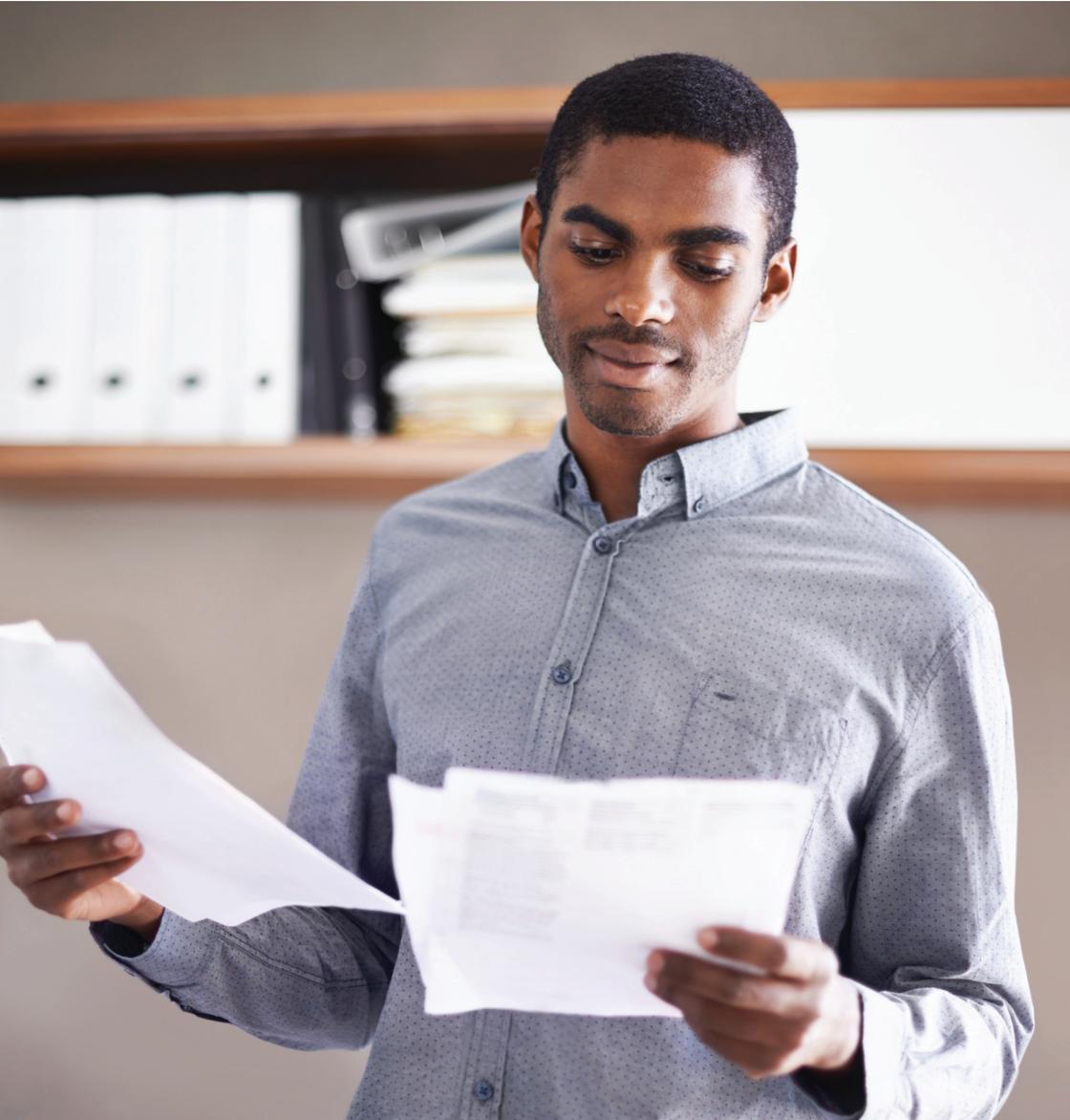
- If the funds come from a registered retirement product such as a pension or retirement annuity fund, they are usually transferred tax-free into the annuity.
- If you use personal savings, investments, or other non-retirement funds, these are generally contributed after tax, meaning no tax is charged on the contribution itself but the annuity income you receive will be taxed as part of your normal income.

- Any lump-sum withdrawals before purchasing the annuity may trigger tax, depending on their source and size. Careful tax planning can help you maximise the amount available for your annuity purchase.

## 2.7 How to manage your portfolio for decent retirement income

As you approach retirement, reduce exposure to high-risk investments and focus on income-generating assets. Shift your strategy from growth to security.

A life annuity offers this by removing investment decisions and volatility from your retirement income plan.



# 3. Choosing the Right Annuity Product

## Client Needs vs. Annuity Products

Client Need / Risk	Life Annuity	Living Annuity	Hybrid Annuity
<b>1. Stable Monthly Income</b>	✓ Guaranteed for life	✗ Income depends on investment performance and drawdown choices made by you	▲ Partially guaranteed; portion from life annuity provides fixed income
<b>2. Longevity Protection (Income for Life)</b>	✓ Fully protected, pays as long as you live	✗ No guarantee; income may run out if savings are depleted	▲ A portion of your annuity ensures income for life, even if the other portion runs out
<b>3. Protection from Market Risk</b>	✓ No exposure to markets	✗ Fully exposed; poor market returns can reduce future income	▲ A portion of income is protected; and the other portion is exposed
<b>4. Peace of Mind / No Active Management</b>	✓ No management needed; handled by insurer	✗ Pensioner manages investments and income levels are managed by you the client	✗ Some management needed for living portion; life portion is hands-off
<b>5. Budgeting Certainty</b>	✓ Fixed, predictable income	✗ Variable income that may fluctuate as you change drawdowns	▲ Predictable on life side, variable on living side
<b>6. Spouse Protection (Joint Annuity Option)</b>	✓ Can include joint-life feature to pay income to spouse after death	✗ Must be managed through account balance; no automatic continuation	✓ Joint-life option available for life portion
<b>7. Inflation Protection</b>	▲ Optional; may be costly or limited	▲ Flexible drawdown allows adjusting for inflation, but not sustainable forever	▲ Life portion may offer limited increases; living side flexible but exposed to inflation
<b>8. Access to Capital</b>	▲ No access once annuity starts	✓ Full access and control over investment and withdrawals as the client manages the fund	▲ Partial access via living portion
<b>9. Estate Planning / Inheritance</b>	▲ No residual capital left; ends with death unless guaranteed term is added. There will be a death benefit if death occurs within the guaranteed term	▲ Remaining balance paid to beneficiaries if it has not run out	▲ Living portion can pass to estate; life portion generally does not unless guarantee term is added

**Recommendation:** For retirees seeking long-term financial security and peace of mind, **the life annuity is the preferred product** due to its guaranteed, lifelong income and absence of investment risk. It is best suited to annuitants with a singular stream of income.

### 3.1 Who are the providers of annuities?

Annuities are offered by licensed life insurance companies and in special cases some pension funds. In Botswana, **Botswana Life** is a leading provider for over 50 years, well-known for its strong financial backing and expertise in retirement solutions.

### 3.2 Features of Botswana Life annuities

- Regular income payments (monthly, quarterly, or annually)
- Lifetime payments for life annuities
- Optional spouse or dependent coverage
- Increasing annuities/ Escalating annuities
- Guaranteed periods (e.g., 5 or 10 years)
- Unlimited number of top-ups allowed

### 3.3 Do you want to continue taking investment risk after retirement?

Many retirees prefer to reduce risk in retirement to protect their income. You have carried investment risk throughout your working life, it is advisable to shift to a guaranteed annuity option like a **'life annuity'** to avoid stress and market volatility.

## 4. Responsibilities

### 4.1 Pensioner/Retiree responsibilities (what is expected of you)

- Conduct thorough research on service providers and different products available
- Assess the financial strength of your annuity provider, their claims-paying history, and obtain testimonials if possible
- Confirm that the annuity provider has a strong balance sheet
- Confirm that the annuity provider's shareholders have a strong balance sheet
- Choose a suitable annuity product based on your needs and wants
- Ask questions and seek professional financial advice
- Review your income and financial needs regularly
- Provide accurate and complete information during consultations

**Choosing an annuity is a very critical decision that will permanently impact the rest of your life. Make sure to take time to understand what your choice means for your financial security, quality of life and your beneficiaries.**

#### 4.2 What you should expect from a broker at consultation (Broker responsibilities)

- Clear and honest product information and quotations from at least 3 service providers
- Information about history of the financial track record of the various providers

#### 4.3 Broker Responsibilities

The Broker needs to:

- Understand your retirement income needs, lifestyle, and risk tolerance.
- Help you understand the types of annuities, how they work, and what to expect.
- Explain your right to take up to 50% as a lump sum and how to use the rest for income.
- Offer at least three annuity quotations from different insurers, as required by law.
- Ensure the annuity suits your specific needs, not the broker's personal gain.
- Clearly state all fees, commissions, and expected income from the annuity.
- Allow you space to review, ask questions, and make an informed decision.
- Assist with paperwork and make sure your application is submitted correctly.
- Stay in touch and assist with any questions or follow-up once your annuity is in place.

#### 4.4 Service Provider responsibilities

The Annuity Provider needs to:

- Protect your personal and financial data
- Comply with all regulations and maintain financial strength
- Develop and maintain robust investment strategies
- Maintain a strong balance sheet to back all obligations
- Pay your income on time, every time
- Provide clear and honest product information

## 5. Botswana Life's Positioning

### 5.1 Why Recommend Botswana Life?

- **Over 50 Years of Experience** - Botswana Life has been securing retirements for over half a century, combining local expertise with deep market understanding.
- **Strong Financial Backing** - As part of the BIHL Group, we offer unmatched financial stability and the assurance that clients' income is secure for life. Our balance sheet strength, prudent investment management, and long-term stability ensure we can meet our commitments to pensioners for life.
- **Market Leader** - With about 70% of the insurance market, Botswana Life is the trusted choice for both clients and intermediaries nationwide.

- **Trusted by Over 300,000 Clients** - Over 300,000 Batswana, including thousands of retirees, rely on Botswana Life for timely, consistent income. More than P5 billion has been paid to pensioners in the past five years, underscoring our reliability and commitment to our clients' long-term well-being.
- **Broad, Competitive Annuity Range** - We provide a full suite of annuity options with competitive terms, ensuring every client finds a product that fits their needs.

## 5.2 Botswana Life Pensioners/Annuitant Support Group

This is a community of over 15,000 retirees/pensioners/annuitants who receive their pension/annuity from Botswana Life. It offers peer networking, financial education, and ongoing connection to services and benefits.

# 6. Common Pitfalls

## 6.1 Pitfalls to avoid

- **Taking too large a lump sum at retirement**

While regulations allow you to withdraw up to 50% of your pension fund as a lump sum, this is not compulsory. Any money you take out immediately reduces the amount left to generate your monthly annuity or pension income, and that reduction is permanent. Consider whether immediate spending is worth a smaller lifetime income.

- **Choosing an annuity without fully understanding it**

Every annuity type has specific features, benefits, and risks. Selecting the wrong one can lock you into an income pattern that doesn't match your needs. Always take the time to compare options and consult a qualified financial advisor before making a decision. You can only change your decision within the first 21 days.

- **Overlooking the risk of a "pension haircut"**

A pension haircut is a reduction in your pension income, which can happen due to poor investment performance or regulatory changes in certain products. Life annuities shield you from this risk by providing guaranteed income for life, regardless of market conditions.

- **Ignoring inflation risk**

Fixed-income annuities may lose purchasing power over time as the cost of living rises. Consider options such as escalating annuities that increase payments annually to help keep pace with inflation.

- **Forgetting about tax on pension income**

Retirement income is generally taxable in Botswana. If you don't factor in tax deductions, your actual take-home income may be lower than expected. Tax planning before and after retirement helps avoid unpleasant surprises.

- **Failing to plan for medical costs**

Healthcare expenses often increase significantly in later years. If you don't budget for medical aid, long-term care, or emergency health costs, you may be forced to draw more from your pension than planned.

- **Not accounting for your partner's needs**

If your spouse or dependents rely on your pension, make sure your annuity choice includes survivor benefits or joint-life coverage so they remain protected after you pass away.

# 7. Frequently Asked Questions

- **Can my spouse continue getting my income after I die?**

Yes, with joint-life or spousal benefit options.

- **Is my annuity income taxed?**

Yes, according to local tax laws and the amount of income.

- **Can I change my annuity later?**

Most annuities cannot be changed after purchase. Certain providers like Botswana Life, however, allow for top-ups, letting clients increase their monthly annuity/ pension for a fee.

- **What if I die early?**

This depends on the type of policy (single-life or joint-life) and whether you have a guarantee period.

- **What is joint-life?**

If you have a joint-life annuity and die before your spouse, they continue to receive income until their death.

- **What is a guarantee period?**

If you die during the guaranteed period, your beneficiaries will receive the remaining payments for that period.

- **No joint life or guarantee period?**

Income payments stop on your death.

## Where to get more information on annuities?

- Visit Botswana Life branches or email us at [annuity@blil.co.bw](mailto:annuity@blil.co.bw)
- Call us on **362 3700**
- Speak to a certified financial advisor
- Attend retirement planning workshops
- Contact your pension fund administrator



# 8. Glossary of Terms

**Annuity** : A financial product purchased at retirement that guarantees a steady income stream, typically monthly, for a specified period or for life.

**Hybrid Annuity**: A product that combines features of life annuities and investment-linked options, offering some guaranteed income with limited investment risk.

**Life (Conventional) Annuity**: An annuity product that provides guaranteed income payments for the rest of your life, regardless of how long you live. The annuity provider assumes all investment and longevity risks.

**Pension Fund**: A fund that accumulates savings during your working years through contributions from you and your employer. The fund invests these savings to grow your retirement assets.

**Defined Contribution (DC) Pension Plan**: A pension plan where contributions are fixed, but the final retirement benefit depends on investment returns. The member carries the investment risk.

**Defined Benefit (DB) Pension Plan**: A pension plan that guarantees a specific retirement benefit, usually based on salary and years of service. The employer carries the investment risk.

**Commutation**: The process of withdrawing a lump sum amount (up to 50% in Botswana) from your pension savings at retirement, reducing the amount available to purchase an annuity.

## **Income Replacement Ratio (IRR)**

The percentage of your pre-retirement income that you aim to receive during retirement, typically targeted at 70–100%.

**Guarantee Period**: The minimum number of years during which annuity payments will be made, even if the annuitant dies early. Payments continue to beneficiaries for the remainder of the period.

**Joint-Life Annuity**: An annuity that continues to pay income to your spouse or nominated beneficiary after your death.

**Top-Up**: Additional payments made after purchasing an annuity to increase the guaranteed income.

**Market Risk**: The risk that investment returns will be lower than expected, affecting your income if you bear the investment risk.

**Longevity Risk**: The risk of outliving your retirement savings or income.

**Annuity Provider**: A licensed life insurance company that sells annuity products and guarantees income payments to retirees.

- **Pension Haircut**: A reduction in the value of retirement benefits. This usually as part of a financial restructuring, policy change, or an insolvency issue within a pension fund or scheme.
- **Insolvency**: Being unable to pay debts or financial obligations when they are due. In the context of pensions or retirement benefits, insolvency usually refers to a situation where a pension fund or the sponsoring employer doesn't have enough money to meet its promised payments to retirees.



Botswana Life