



**FACULTY OF COMMERCE**

**DEPARTMENT OF INSURANCE**

**AND RISK MANAGEMENT**

The impact of dollarization on pensioners in Zimbabwe :A case study of  
Old Mutual (2009-2015)

BY

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This dissertation is submitted in partial fulfillment of the requirements of the  
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## APPROVAL FORM

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## **Dedication**

This work is dedicated to my dearest mother who is, has and will always be my rock.

## **ACKNOWLEDGEMENTS**

First and foremost I would like to thank the Lord Almighty who has taken me this far. It is not by might or by power but by the grace of God.

I would like to offer my most sincere gratitude to my mother who has been nothing but a pillar of strength and a source of inspiration, I love you very much mother. I would also like to thank my siblings, Nyasha, Victor, Gloria and Kuzivakwashe for their moral support throughout my life at this university. Also I want to thank Mr. S. Masiyiwa, my supervisor, for all the constructive criticism and direction he gave me. Without his guidance it would have been almost impossible to complete this dissertation. To my friends Ngonidzashe, Virginia, Rosemary and Shantel, thank you so much for the constant support and help throughout the difficult times. May God Bless You All!!!!

## **ABSTRACT**

This study examined the impact of dollarization on pensioners in Zimbabwe with Old Mutual as a case study. The objectives were to find out how dollarization affected retirees and ways to compensate the aggrieved pensioners. A review of literature on the subject of dollarization was done and the findings provided a good foundation in the understanding of the. Data was collected by way of questionnaires and interviews from a sample size of twenty people randomly selected from a population of fifty two employee benefits personnel. The study revealed that pensioners in Zimbabwe were adversely affected by dollarization in that their contributions were eroded which is evidenced by the very low pension benefits they received on retirement. Recommendations were made to try and rectify these issues. These include approving offshore investments and encouraging more use of hybrid schemes.

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# CHAPTER 1

## INTRODUCTION

### 1.0 Introduction

This chapter presents the background to the study, statement of the problem, main research questions, research objectives, and significance of the study, delimitation of the study, limitations to the study, assumptions, the definition of key terms and the summary.

### 1.1 Background of study

Old Mutual Life Assurance Company is a subsidiary of Old Mutual Zimbabwe Limited (OMZIL). OMZIL is a diversified, leading and international financial group which has been conducting business for more than 110 years in Zimbabwe. This company has a wide range of product portfolio which includes investment, long term and short term insurance, custodial services, banking, property and asset management. These products/ services are being offered through its SBUs (Strategic Business Units) which are Central African Building Society, Old Mutual Life Assurance Company, Old Mutual Investment Group, Old Mutual Insurance Company and Old Mutual Property. OMLAC offers life, retirement, savings, disability, funeral and investments products to groups and individuals. Under OMLAC is the employee benefits department which is tasked with providing policies and products aimed at corporates and their employees for example pension schemes administration. Products offered by the employee benefits department are diamond preservation, emerald preservation, emerald managed pensions, pensions plus, legacy book, comfort plan and comfort plus which all ensure availability of capital on retirement.

The Pension and Provident Act [Chapter 24:07] describes a pension fund as any scheme or arrangement the principal object of which is to provide benefits for people who are or have been members of the scheme arrangement upon retirement on account of age or ill-health. The scheme can also make provisions for dependents or nominees of deceased members. It is a given that everyone needs the basic necessities of life but there comes a time in life when old age prevents a person from earning some income but the need for food, clothing and shelter will always be there. For this reason, people seek to secure an income on retirement payable for life through contributing in pension schemes for the time you will be earning income. Pension schemes gives employees some form of security that they will be able to meet their needs when they retire. Pension funds are one of the vehicles set up as part of financial planning

for retirement. They provide a form of compulsory and disciplined savings which enable members to set aside funds for their retirement income provision when they reach the end of their working life. Pension funds also represent long- term patient capital, one of the only significant sources of stable capital in the world. However, in The Zimbabwe Independent of 21<sup>st</sup> of February 2013, Hoto argues that since the dollarization of the economy in February 2009, the pension funds have been facing many challenges as to fulfilling their arrangements with pensioners, that of providing them with a secure retirement. For many retirees it has been a continuous struggle to make ends meet and what should have been a secure, peaceful and hard- earned ending to their working life with sufficient funds to ensure a degree of financial independence from both family and state, has instead become one of either constant worry about where the next meal is going to come from or one of humiliation and loss of dignity in relying exclusively upon family support.

The Newsday of 15 December 2010 reported that, due to hyperinflation, pensioners' capital values were eroded leading to pre- dollarization retirees receiving very small amounts of pension pay outs. The loss of value could be credited to economic decline hence it is said that pensioners lost money due to loss of value and hyperinflation. In a bid to curb the effects of hyperinflation, the government of Zimbabwe adopted a multi-currency system whereby it introduced the US dollar to function as our currency. The problem came in existence on converting people's investments from Zimbabwe dollar to US dollar.

Pensioners cry foul as to the way the conversions were made and demand compensation for the monies they lost on conversion. Sithole (2015) reports that the pensioners have so many grievances that the President of Zimbabwe, His Excellency Robert Gabriel Mugabe recently set up a commission of inquiry whose sole purpose is to resolve the plight of pensioners and also to plan for the future such that the mistakes made in 2009 on conversion will not be repeated again when future conversions are done on re-introducing a new Zimbabwe currency.

Old Mutual as their conversion criteria made allocations on each pensioner based on a proportional Zimbabwe dollar holding meaning that a pensioner's percentage holding in a certain fund remained the same after allocating a \$US equivalent. The \$ZW percentage holding they maintained they would then apply it to the \$US assets that were allocated to the fund. To elaborate, say a pension fund with 6million Delta shares worth \$ZW6quintillion, ZSE now dollarized each share such that it is now going for 60cents each. This means that the assets for

that fund were now be worth \$US3,6 million. If a pensioner had \$ZW500billion worth of capital in that fund, then the \$US value for that person would be calculated as follows:

$$\text{ZWD500billion} / \text{ZWD6quintillion} * \text{USD3,6 million} = \text{USD0.03}$$

Taking a member's share of assets in ZW\$ at conversion date and determining the proportionate in \$US seems technically justified. However the problem is on how to deal with those policyholders and scheme members whose asset shares have been reduced to zero during the conversion process. Mtangadura (2011) said an option would be to award the affected individuals ex-gratia minimum level amounts without considering past service. That is what Old Mutual did. They had their shareholders pump in money such that every affected individual was paid \$50. Mtangadura (2011) goes on to say that long term service members receiving the same benefit to that of a short term service member to pensioners has not been an option that has been accepted by pensioners.

On one public hearing conducted by the commission, pensioners told stories of how pension funds promised them a good life after retiring only to be left to suffer at a time when they needed their money most. Pensioners said they had received ridiculously low pension lump sums while the monthly pay outs they were getting were nothing to write home about. In an article published by the Commercial Farmers Union in November 2015, Mr Henry Munjanja a former bank worker and a policyholder of Old Mutual described how he was told on retirement that he would get a lump sum of \$911 and \$1.19 worth of monthly pay-outs. He explains how officials throw too many technicalities that causes confusion to any layman. Another pensioner says how the lump sum he was given on retirement was only enough to buy him a four plate stove after over 20 years of contributing diligently to the pension fund.

Old Mutual policy holders have accused the insurance company of ripping them off by paying out paltry retirement annuities. Most pensioners are failing to survive on the amounts paid out by the multinational company to those whose policies have reached maturity. After contributing substantial amounts of their hard-earned money towards securing their future, the policy holders are living in extreme poverty and destitution. Some have already died without receiving anything (The National 29 September, 2009). Joshua Weller who is 72 years old is one of the policyholders who feels he has been short-changed by Old Mutual. The value of his policies, worth ZW\$26,831 and ZW\$53,970 plus profits, has now been pegged at US\$2.61 and US\$5.31 respectively. Weller said it was ironic that the company is spending large sums of

money on adverts celebrating its more than 165 years of wisdom in clients' investments when it has utterly failed fulfil the investors' needs. Weller had been in possession of two policies since 1994 and 1998 when the Zimbabwe dollar was still in existence. However he got the shock of his life in 2010 when he was told that his two policies were now worth only US\$7.92. He feels that it is not fair considering that Old Mutual invested his money over the years since 1994 (Newsday 28 October, 2015).

## **1.2 Statement of the problem**

Given the above background, what measures should be put in place to compensate the aggrieved pensioners and ensure fairness amongst everyone?

### **1.3.1 Research Objectives**

The study will achieve the following objectives:

- a) To find out the impact of dollarization on pensioners.
- b) To make recommendations on how best the aggrieved pensioners can be compensated.

### **1.3.2 Research questions**

The study will answer the following questions:

- a) What was the impact of dollarization on pensioners?
- b) How best can the aggrieved pensioners be compensated?

## **1.4 Significance of Study**

The research is intended to benefit the following stakeholders:

### **1.4.1 Midlands State University**

The study is being carried out in partial fulfillment of the requirements of the Bachelor of Commerce Honors Degree in Insurance and Risk Management. The research will provide literature for future use by other scholars.

### **1.4.2 The Life Insurance industry**

Recommendations from the study will alert the industry of the existence of solutions to the challenges being faced post- dollarization of the economy.

### **1.4.3 The Researcher**

The study is being carried out in partial fulfillment of the requirements of the Bachelor of Commerce Honors Degree in Insurance and Risk Management. The study will also equip and

empower the student with knowledge, experience and skills to carry out future business research programs on various topics in the industry.

### **1.5 Assumptions**

The researcher will make the following assumptions before undertaking the research:

- a) The sample selected will represent Old Mutual Life Assurance Company.
- b) Respondents will understand the questions in the self-administered questionnaire and will respond accurately.

### **1.6 Delimitation of study**

The study will cover the period from February 2009 to 2015 and will be conducted over a period of three months. The researcher will draw respondents from the Employee Benefits department of Old Mutual Head office in Harare since it is the only place where the information can be obtained.

### **1.7 Limitations of study**

The following limitations might have affected the depth of the research:

#### **a) Time constraints**

The time frame in which to carry out the research is limited and this may leave some grey areas. Limited time resources will constraint the researcher from conducting a census for the targeted population. However the researcher will use a random sample of the targeted population in conducting the research.

#### **b) Access to information**

Respondents may consider some information to be sensitive and confidential and the researcher will not be able to access that information. However the researcher will reassure the respondents that the information provided will be used for academic purposes only.

#### **c) Financial constraints**

The researcher has limited financial resources to enable her to conduct a detailed study. Financial resources are required for travelling to collect data, printing and other expenses. Despite financial constraints, the researcher will try as much as possible to conduct an in-depth research. The researcher will use less costly resources such as questionnaires and emails.



## **1.8 Definition of terms**

a) **Pension fund-** is a pool of assets forming an independent legal entity that is brought with the contributions to a pension plan for the exclusive purpose of financing post retirement living costs (Brown, 1993).

a) **Dollarization-** is shifting away from domestic currency to any foreign currency not only the United States Dollar, to fulfil the main functions of money which are store of value, unit of account and medium of exchange (McJames, 2011).

c) **Conversion-** The process of converting one form of currency into another country's usable currency (Turner, 2011).

## **1.9 Summary**

This chapter presented the background to the study, statement of the problem, main research questions, research objectives and significance of study, delimitation of the study, limitations to the study, assumptions of the study and definition of key terms.

## CHAPTER 2

### LITERATURE REVIEW

#### 2.0 Introduction

This chapter reviews literature on the subject matter of the study and will critically consider what has been researched and published which is relevant to the current study. The main thrust of this chapter is centered on identification, evaluation and interpretation of the existing recorded work produced by researchers, scholars and practitioners. It focuses on point's divergence and convergence among various authors, identifying the gaps and areas of further study. Embedded in this chapter in particular is an overview of economic crisis suffered in Zimbabwe, theoretical and empirical studies related to the impact of dollarization on pensioners' livelihood.

#### 2.1 Pension Funds

Wyatt (2003) describes a pension fund as an establishment by a company, governmental institution or labour union to pay for pension benefits of retired workers in the future. They are set up for retirement planning purposes as a savings and investment plan that provides income during retirement. It is often created by companies or the government for employees (Brown, 2007). According to Arunajatesan and Viswanathan (2009), a pension scheme is based on the deferred wage concept. A pension is considered as part of a wage packet which has been deferred and channelled into provision for retirement. The employer, instead of paying immediately as salary or wages, develops it as a fund and pays it to the employee as a retirement benefit.

Dorfman (2004) goes on to say that the retirement benefit is similar to a pure annuity that is, social security sends out regular monthly checks during the recipient's lifetime. A full retirement benefit is available workers who are fully insured at their normal working age. A pension plan is designed to provide employees with retirement income. Retirement occurs when the employee permanently ends active employment due to old age or sickness.

Organisation for Economic Co-operation and Development (2005) stated that pension schemes or retirement plans are designed to play a very important role in motivating employees financially, thereby ultimately improving performance outcomes that support the achievement of business goals. In general, a pension is an arrangement to provide people with an income

when they are no longer earning a regular income from employment. It is a tax deferred savings vehicle that allow for accumulation of a fund for later use as retirement income.

Pension funds are company sponsored funds meant to provide the employees of the company with income to keep them living on post retirement. This system differs from the pay as you go system for instance benefits under National Social Security Authority in that the contributions paid are invested on securities for very long periods of time. Therefore the provision made will depend not only on the level of contributions but also on the return of the investment portfolio (Wyatt, 2003).

Retirement plans may be set up by employers, insurance companies, the government or other institutions such as employee associations or trade unions (Vaughan, 2000). Retirement plans can also called pension schemes or superannuation plans. Emmet (2000) also cited that many pensions also contain additional insurance aspect, since they often pay benefits to survivors or disabled beneficiaries.

### **2.1.2 Role of pension funds**

OECD (2005) says that a pension fund is a legally separated pool of assets forming an independent legal entity that is bought with the contributions to a pension plan for the purpose of financing a pension plan benefit. Everyone wants security and not to rely on families for support and be a burden for the rest of their lives when they retire. Therefore, pension plans allow a person to invest today for financial security on retirement tomorrow (Gore, 2006). Thus retirement planning enhances individual security currently and in the future through pension funds. Social security can be viewed as a mechanism to give individuals greater freedom on their personal lives when they experience one of the major circumstances of life (Brown, 2007). Kingson and Berkowitz (1993) supported Brown when they wrote that “by preventing dependency syndrome and providing benefits as an earned right while simultaneously protecting individuals and families against economic insecurity, social security arguably helps underwrite human dignity, strengthen family life and stabilise economies.” Ward and Zurbrueg (2000) agreed with this line of thought when they noted that as we grow old we work, produce and earn less, and therefore need a secure source of income to see us through life.

The Internal Revenue Service report of 25 November 2015 points out pension funds serve as financial intermediaries between investors and economic agents that lack sufficient financing

thus serve the interest of developing countries by relieving the government of the burden of having to meet financial security needs of retired people. Not only that but also pension funds can also gather large amounts of money from the large pools of policyholders which are used for investments thereby supporting the national economy and improving economic growth. Harrington et.al (2003) observed that in the past little thought has been given in preparing what is potentially the most traumatic step of all- retirement. He further noted that a process of being built up and becoming an increasingly important member of the society, to many, unprepared for change, retirement seems like being cast upon the scrap heap and being left to fade away and die quickly and as quietly as possible.

According to Schultz (2012) the pension system is a financial service vehicle by which workers can help protect themselves and their older relatives when they retire in return for contributions overtime. Ganguly (2012) agreed with Schulz when he said that the issue is how to accommodate the ageing population, sustain and improve the wellbeing of elderly people, and strengthen their contribution to economic and social development. What is needed is to shift the idea that old age means dependency and to embrace the challenges of active ageing. Pension Schemes are designed to play an important role as an employee financial motivation tool, thereby ultimately improving performance outcomes that support the achievement of business goals. Standardized financial incentive schemes were therefore developed based on work measurement on assumption that, people being motivated primarily by rewards particularly money, would maximise their work output if they were offered the incentive of extra money for each increment at work (Gore, 2006).

According to Maslow's (1954) motivation theory, needs are arranged in a hierarchy in an ascending order and satisfied in that order starting from the lower level going up. Once one level of need is satisfied it is no longer a motivator, and the next level up the hierarchy motivates the person. Basic needs such as shelter, food and warmth are in the bottom level of Maslow's hierarchy, which then progresses to physical wellbeing, social acceptance, self - esteem up to self- actualization. (Huitt 2004). Following that theory, employee benefits (EB) examples would therefore include pensions which are post- retirement benefits, medical assistance and other financial assistance. Even though pension schemes are considered critical in terms of future needs, not many of them seem to achieve the desired purpose. Accordingly, a good pension scheme could emulate the desired financial benefit and demonstrate the

company's long-term interest in its employees. As a result that would help attract and retain high-quality staff.

### **2.1.3 Organisation of pension plans**

#### **a) Defined Benefit Schemes**

Will (2001) says in a defined benefit scheme, workers accrue a promise of a regular monthly payment from the date they retire until their death or in some cases until the death of their spouses. Participants in these benefit plans bear little financial market risk as benefits are based on tenure and salary. However, benefit accrual in DB plans is back-loaded meaning that pensioners accrue very little in as much as retirement wealth is concerned immediately before retirement. For this reason, workers who leave jobs in the early or even the middle stages of their working life earn few benefits and those who leave before vesting, usually at 5 years receive nothing. Therefore job changes are a big risk to retirement saving for workers on DB plans. Each year of credited service, the member earns a unit of pension usually expressed as a percentage of nominal earnings. Defined benefit plans may be either funded or unfunded, Will (2001). In an unfunded DB pension, no assets are set aside and the benefits are paid for by the employer. It was also noted that the pension arrangements provided by the state in most countries in the world are unfunded with benefits paid directly from workers current contributions and taxes. This method of financing is called Pay as you Go. In a funded plan contributions from the employee and sometimes from plan members are invested in a fund towards meeting the benefits. The contributions will be reviewed regularly in a valuation of the plan's assets and liabilities to ensure that the pension fund will meet future obligations. This means that in a defined benefit plan investment risk and investment rewards are typically assumed by the employer and not by the individual.

According to Arunajatesan and Viswanathan (2009), on a defined benefit scheme the amount of the pension is fixed by the employer in advance generally in relation to the last salary drawn by the employee. The retirement plan is structured and according to the scheme the contribution payable for funding of pension benefits is calculated. It provides a specific and guaranteed lifetime income retirement. Dorfman (2004) states that on the defined benefit plan the pension is predetermined, and the employer must provide adequate input to achieve the promised result. By relating pension directly to final salary, an employee who remains a member of their company pension scheme throughout their career obtains a pension in retirement at their normal retirement date which in effect reflects savings which have been hedged against salary up to

that time (Mason, 2000). On the other hand, the position is somewhat different for an employee who changes their job, perhaps several times, throughout their career and this is gradually becoming more popular for some lack of portability arises. From the employer's perspective, final salary pension schemes involve an open ended commitment and they are increasingly becoming subject to more and more regulations. Under a final salary scheme the benefit is known but not the cost.

#### **b) Defined Contribution Schemes**

Yermo (2003) describes participants in this plan as primarily responsible for saving for their own retirement. The employer usually offers a range of mutual funds in other words unit trusts that the worker can use as a retirement savings vehicle. In this scheme, the government allows workers to put money into mutual funds of their choice before salary is taxed, the employer also contributes partly to the fund. Employee's contributions are deducted directly from their pay with the contributions being a fixed percentage of the earnings. DC assets build at a fairly steady rate over time avoiding back loading of accrued benefits. Since under this plan assets are controlled by the worker, he/she may leave the plan assets under the administration of a previous employer, transfer the assets to a new employer or transfer the assets to an individual retirement savings account. Though benefits must be vested, if plan is terminated before vesting date, only employee contributions plus interest are returned (Sonnastine, Murphy & Zorn, 2007). The contributions are fixed as a percentage of salary. The accumulated value of such contributions is utilized to purchase pension, (Arunajatesan and Viswanathan, 2009). The benefit that can be received by the worker is not determined in advance. It depends on the performance of the funds in the plan and is becoming popular. Different types of pensions are available under the scheme such as pension payable for life, joint life last survivor pension, pension for life with return of purchase price on the death of the pensioner.

The simplest type of defined contribution plan is the money purchase plan (Dorfman, 2004). Under a money purchase scheme the cost is known but not the resulting benefits. The employee and employer contributions are defined and they accumulate in a specific account of each member (Axelrod, 1995). This scheme may be more attractive to young members but under such a scheme it is the member who takes the investment risk. From the employer's point of view the fixed cost of a money purchase scheme are regarded as easy to administer and less involving as far as legislation is concerned.

According to Sonnastine, Murphy and Zorn (2007), at retirement, the employee receives the sum of all the input amounts plus interest. Each employee has a separate account and the employee bears the investment risk if the employer has defined contribution plan. In general, DC plans have become portable because of the cost of administering the plan and how easy it is to determine the sponsor's liability.

### **c) Hybrid Schemes**

The Pensions Authority (n.d) describes hybrid schemes as those schemes that are neither full DB nor full DC schemes but have some characteristics of each. Risks can be shared between the employer and the employee in hybrid schemes. A Hybrid scheme can also be defined as a scheme that includes elements of the DC pension design (Sedgwick, 2000).

According to Sonnastine, Murphy and Zorn (2007), in order to meet the pension aspirations of different types of employees, some schemes have adopted benefit structures that combine both final salary and money purchase principles. This may take the form of a money purchase 'underpin' to a final salary benefit, whereby a member gets a pension based on a money purchase formula if this gives a higher pension than the final salary formula. An example of a country practicing this would be German where pension plans are overwhelmingly hybrid. Pure DC plans are legally not permitted; pure DB plans in the form of final salary plans are becoming increasingly rare. The dominating plan type is a 'contribution oriented' DB plan. It is basically an average salary plan, where the employer guarantees a pension benefit based on pre-defined contributions. The pension benefit is calculated according to actuarial rules. As the calculation of this pension benefit is based on very conservative estimates, the promised pension benefit is actually a minimum benefit, which usually gets topped up by surplus benefits from investment returns. The 'Pensionskasse' determines the level of the guaranteed interest rate up to a maximum level, which is, in most cases, fixed by the Ministry of Finance (2.25% since December 2006).

## **2.2 Factors to consider in a pension planning**

### **a) Liquidity requirements**

According to Marginn (1983), liquidity requirements for defined benefit plans tend to fall into three basic categories based on the current age distribution of future beneficiaries. In the first category, relatively young plans in growing companies tend to have very low liquidity

requirements. In fact, all contributions and a significant portion of income are reinvested, with only a small amount of income needed to cover present investment.

#### **b) Time horizon**

According to Tuttle (2000) selection of the time horizon largely depends on the average age distribution of employees in the plan and the liquidity requirements of each plan. If the company has many young employees, the portfolio manager can use risky investment strategies. Conversely if many employees in the company are moving towards the retirement age, the portfolio manager will be limited to a shorter horizon. Most benefits plans have a very long time horizon but short horizons are recommended because this makes it easier for the portfolio manager to periodically review and modify investment objectives based on the changes in the company and plan circumstances, for example addition of new benefits or advancing age of an employee base.

#### **c) Tax considerations**

Company contributions and capital gains are tax deductible. A member of staff can get tax relief on their pension contributions from relief at source or by net pay arrangements. Many pension schemes use one of the methods in order to understand the method used by that scheme as it will help to make sure they pay contributions into the pension scheme. The benefits paid upon retirement are taxable to the beneficiary, depending on the way in which they were received, are subject to varying levels of taxation, tax considerations are a major constraint to the management and to the beneficiaries. If the portfolio manager is using the active portfolio management strategies and the economic environment in which it is operating has high rates of income tax, the capital gains resulting from frequent trading can be useless (Mason, 2000).

#### **d) Regulation considerations**

Pension funds are subject to rules and regulations of a specific country. Several regulations can affect the investment policies of retirement plans.

### **2.3 Risks in pension planning**

#### **a) Investment/Market risk**

This is the risk of losses due to adverse movements in interest rates and other market prices. This risk might also arise due to investment in unregulated or unlisted products. Concentration risk is also possible in that the pension fund might not be adequately diversified and might be too exposed to one asset of issuer.



### **b) Liquidity Risk**

Liquidity risk is the risk that a pension fund might be exposed to the risk that it might not be able to meet its financial obligations as and when they fall due. It might also be explained as the risk that the fund does not have sufficient assets to meet its liabilities or the risk that fluctuations in the securities market may result in the reduction in the value of retirement savings.

### **c) Asset- liability mismatch risk**

This is the risk that arise as a result of there being insufficient assets to meet liabilities. This may be because of adverse market movements having a differential effect on assets and liabilities such that the available assets will be fewer than the liabilities at hand.

### **d) Legal and regulatory risk**

Compliance with regulatory requirement is critical for the long term survival of a company hence regulatory risk results from failure to comply with laws and regulations, industry codes and standards which might result in negative impact to business activities, earnings or capital, regulatory relationships and reputation.

### **e) Inflation**

Inflation is the chance of a decline in the purchasing power of a currency overtime. Inflation can have a big impact on people's lifestyle if their flooring is not made up entirely of Social Security income, which is automatically adjusted upward for inflation Kendrick (2004). Both the organization and the client will need to face it.

### **f) Operational and outsourcing risk**

Operational and outsourcing risk as the risk of losses due to inadequate or failed internal processes, people and systems also including risks related to outsourcing of business activities. Record keeping risks e.g. errors in investment holdings, benefits not paid or late contributions among other things are also included.

### **g) External and strategic risks**

It is the risk of an organisation following inappropriate strategic business plans and resource allocation or it might be that the organisation is failing to take advantage of opportunities in its operating environment.

**Source: OECD (2010)**

## **2.4. Risk management in pension funds**

Risk management frameworks can be defined as the process put in place by an organisation's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement in terms of effectiveness and efficiency of operations OECD (2010). She goes on to say that the financial and economic turmoil highlighted the importance of proper risk systems controlling investments and other risks. Some of the decline in asset values recently experienced by pension funds around the world should have been avoided by putting in place stronger risk management frameworks, as some funds look like they were exposed to risk profiles that they did not fully understand.

While market and credit risks remain the main focus of risk management, the importance of operational risk management in this volatile, high volume and high technology environment should also be enhanced. In pension funds risk management involves the measurement and assessment of pension fund risks and the design, monitoring and revision of the funds parameter (contributions, investments and benefits) in order to address these risks in line with the funds objectives. For this reason, pension funds should run continuity analysis once every 3 years to assess the indexation quality in the future in terms of expected value and risk (OECD, 2004).

Fortunately, there are some natural portfolio constructs that allow for reducing the uncertainty around lifestyle and lifestyle security is the major concern of most people planning for retirement (Zwecher, 2010). Financial planning for retirement is about creating outcomes while recognizing the importance of aspirations. The client can handle the planning around how to spend his or her retirement; after all it is harder to make concrete plans in the face of greater uncertainty.

According to Olapido (2003), as the pension promises are ultimately backed by the employer, insolvency of the plan sponsor forms the most basic risk to beneficiaries. A pension fund should maintain capital that provides a solvency buffer so as to prevent minimum funding level from dropping within 1 year and a 97.5 confidence level. Funds also always have assets that have a market value at least equivalent to the technical provision plus minimum solvency requirement of about 5% of the technical provision.

Pension funds in Zimbabwe are supervised by the Insurance and Pension Commission and the rules are consistent among pensions to protect the rights, benefits and interests of policyholders including pension scheme members. IPEC plays a great role in the development of a safe, stable and progressive financial system (Dorfman and Mark, 2003). The difficulties that people face include risks that the adviser can control and risks outside the adviser's control. The adviser

can help mitigate market risks, credit risks, longevity risks, inflation risks, some of the risks associated with changing tax laws, and certain health risks (OECD, 2004).

## **2.5. Dollarization experience in Zimbabwe**

Moyo (2010), noted that from 2004-2009 Zimbabwe suffered one of the most serious hyperinflations in world history, which forced the country to abandon its currency, the Z\$, and adopted US\$, South African rand, British pound and Botswana pula (multiple-currency system) as the official currencies used with the US\$ being used as reference. According to the Monetary Policy Statement issued in terms of the Reserve Bank of Zimbabwe Act chapter 22:15 section 46 by the then Governor of RBZ, G. Gono enabled the government of Zimbabwe to adopt and legalize any foreign currency. Zimbabwe dollarized in order to bring its ruined economy back on track.

Robertson (2013) argues that in 2009, following a decade of economic decline and hyperinflation during 2007-08, policies improved significantly. The MCS adopted in February 2009 helped restore price stability, restart financial intermediation, and impose fiscal discipline by precluding the option of budget deficit monetization. (Gono, 2013). Thus, when the Government of National Unity was formed in Zimbabwe in 2009, one of the first measures the GNU implemented was to dollarize the Zimbabwean economy, in order to bring some semblance of macro-economic stability and to correct hyperinflation. The Zimbabwean dollar was dropped from use because it had become worthless after years of economic decay and corruption.

As an alternative to phase out a floating currency, Zimbabwe decided to implement full dollarization. The main reason was to reduce the country risk, thereby providing a stable and secure economic and investment climate. Pension fund assets at conversion were held mainly in listed equities and properties (Moyo, 2010). The ZWD money market, cash and prescribed asset holding failed to realize any USD value on dollarization in February 2009 (Chitambara, 2009). It was difficult to determine open book values for equities and properties and this was because of the absence of guidelines since the ZSE had suspended its trading activities in 2008 only to commence on 19 February 2009 (Chowa et.al, 2013). Chowa et.al (2013) also points out that some asset managers used the 19 February prices as their opening balances whilst others assumed zero opening book values. This meant that the same counter in one pension fund assumed different opening balances in instances where a fund had 2 or more investment portfolios managed by different appointed asset managers.

ZSE then issued a guideline paper in which 2 March 2009 ZSE prices were recommended for entities where the Old Mutual Implied Rate was used. Some companies used OMIR to convert individual policy liabilities. Where the total of these converted values were less than the converted assets held in respect of the policy class, a contingency reserve was set aside. This conversion method may have been problematic if sought-after Old Mutual Zimbabwe reflected another “bubble”. Moreover, there was also a challenge with property valuations which were used in determining opening fund property values. Some property values undergone self-correction process on introduction of the multi-currency system. At the end of 2009, pension fund investments recorded a vast range of returns owing to the differing bases of valuing opening balances but the problem later corrected itself. Members who left the fund before annual returns were passed on to member accumulated values were prejudiced (Kararach and Otieno, 2016)

Life Offices Association of Zimbabwe report of 11 November 2015 reports that by 2 March 2009, the industrial index fell by some 40% since the market reopened. The industrial index only recorded a high in July 2013. Since then, a negative trend has been observed, with current market levels only 30% higher than the index at 19 February 2009. In contrast with the industrial index, the mining index was roughly 3% higher on 2 March, when compared with the opening position. Shortly thereafter, the mining index reached its peak. Since mid-2009, the trend has been downward. Currently, the index is about 25% of the opening value.

Recently, Zimbabwe has expanded the official multi-currencies basket to include the Chinese Yuan. Therefore, in general it is of paramount importance to note that Zimbabwe adopted the multicurrency monetary system, commonly referred to as dollarization. The move was in response to the chaotic hyperinflationary period that had defined the Zimbabwean economic environment for almost a decade prior to February 2009. Most Zimbabweans still are haunted by the memories of that era when Zimbabwe’s then legal tender, the Zimbabwe dollar effectively lost its usefulness as a medium of exchange, store of value, unit of account and means for deferred payments- all considered features which give any monetary currency its value.

### **2.5.1 Retirement planning in a dollarized economy**

According to Bogetic (2000), dollarization is a portfolio shift away from domestic currency to any foreign currency not only the United States Dollar, to fulfil the main functions of money which are store of value, unit of account and medium of exchange. He goes on to say that

dollarization is done as a result of volatile macroeconomic conditions and is a rational response of people seeking to diversify their assets in the face of heightened domestic currency risk. Generally, dollarization is often used in a number of countries. Specifically, on an informal basis, the US dollar has circulated alongside national currencies as a number of countries both developing and developed have partially dollarized. It is only formal dollarization, which is of interest, especially to previously highly inflated countries such as Zimbabwe.

Yang (2000) further notes that due to the differences in macroeconomic policies, dollarization may have negative impacts on the overall macro economy of the recipient country. Evidence from previous studies carried out suggests that holding a portfolio of foreign assets would minimize systematic risk arising from economic performance as compared to holding assets solely in a domestic market. This is because they would benefit from real appreciation of the domestic value of their foreign holdings thereby reducing the blow to consumption from a currency and financial crisis (Salvatore, Dean and Willet, 2003). Furthermore, it is argued that financial markets in developing countries may be poorly developed calling for the need of international investment to access a range of financial instruments; the existence of an active financial market in developing countries may be highly susceptible to policy changes and external economic shocks thereby leading to high inflation that depreciates the values of domestic assets, and if the local currency depreciates as a result of inflation, the real returns of foreign assets will temporarily be boosted (Davis, 2002).

## **2.6 The Conversion Process**

According to Kararach and Otieno (2015) asset values were determined by aggregating the values of shares and properties and to each pension fund an allocation was made of its proportion of assets based on ZWD fund value. A contingency reserve for outstanding data was also provided for. For DC schemes, a proportion of the fund value based on a member's accumulated credit was allocated to each member. LOA Report of 11 November 2015 also supports this statement when it narrates how DC member level accounts were treated the same as the unit linked policies. Minimum benefits for short service members were provided for in most cases as membership right. The reports also points out the fact that for the bulk of the instances, policy and pension values were converted based on the value of the assets used to back a specific policy portfolio or pension class. Member level values were then determined in proportion to the member liability values immediately before conversion. A significant loss of value was experienced for annuity policies as they were largely matched with cash and bonds.

Gratitude goes to some insurers who felt a moral obligation to provide minimum levels of USD annuity payments which were provided through the contingency provision or additional capital injections.

Conversion of DB schemes was based on actuarial valuations and a lot of judgement was used to convert liabilities into USD and since companies were paying allowances, each had to choose the salary to use in quantifying the liability. The values which the pension funds got on conversion were the results of the problems faced during hyperinflation. For each fund, assets were applied to the ZWD member proportional holdings. For assets that were managed in the names of registered funds such as the case of self-administered and stand-alone investments were identified with the respective funds for member allocation. Those pooled assets that were being managed on a utilization model were also allocated to funds with less subjectivity (Kararach and Otieno, 2016).

It is said that in 2008, the government of Zimbabwe suspended trading on the ZSE which meant that there were delays in the implementation of conversion which in turn increased risks of possible mismatch of assets and liabilities. When trading resumed in 2009, an analysis of the industrial index under the USD regime showed that it rose from about 55 on 19 February 2009 to 155 in June 2009. According to an increase in the industrial index shows that shares were undervalued and were correcting to fair values. For this reason, the conversion values became sensitive to the date of conversion because of the structure of the assets where most pension assets, most pension assets were invested in some deposit administration fund (guaranteed fund) which remained the balancing item after all other separate funds were removed.

### **2.6.1 Challenges experienced post conversion process**

#### **a) Inconsistencies**

Since there were guidelines as on the methodologies from regulators and industry association, this resulted in inconsistencies as far as process was concerned (Kararach and Otieno, 2016).

#### **b) Low conversion values**

According to Kararach and Otieno (2016), the assets that were backing the liabilities retained low market values resulting in DB pension funds being underfunded and DC conversion values being ridiculously low on conversion to US\$. Members close to retirement lack security as the balance of years left to reach retirement have a short period to accumulate make-up savings

enough to earn a decent pension income after retirement. A vast number of pensions in payment had close to zero values and a minimum pension value would be set in some cases. The dilemma now was on allowing full commutations for those members whose pensions were below minimum since the value of the assets were still emerging.

Full commutation would mean that such members will leave any potential upside on the assets in the fund yet still paying small commutations still needed enhancements to those amounts for them to make sense. The trustees were keen to pay a certain minimum amount as full commutation say \$500 which would call for great cross subsidy between various categories of members. So then the trustees did an experiment on which they waited for the results. They paid pensions ranging from \$20 per month on an interim basis while funding matters evolved. This however continued creating benefit expectations on pensioners. Some commuted small pensions for cash for which close to three quarters of these pensions in paying qualified for full commutation and these values were very little. Other funds used shareholder funds to increase the commutation amounts while others used the same shareholder funds to pay a minimum pension. Pensioners on comparing the largely visible property investments, heavy institutional pension fund investment holdings on the ZSE and other assets owned by large insurance companies and P/F with their desperate situations, they felt cheated and felt that they had been short changed. This resulted in severe reputational damage of the image of the P/F industry. The statutory minimum pension below which a member could exercise full commutation was set at \$10 a month and again pensioners compared occupational schemes which are based on accumulation or available assets and N SSA benefits which operates on a pay as you go basis and saw that N SSA had set up a minimum pension of \$25 in 2009 which was way above the \$10 offered by occupational schemes. This faced huge criticism and questions (OECD, 2010).

### **c) Outstanding benefit payments**

GLA death claims incurred in the ZWD period and submitted after conversion posed a challenge to life offices. If the claim was covered, most insurers were unwilling to assume liability. If they decided to pay, the payments were on an ex gratia basis as there was no strong basis to pay. Withdrawal claims for those who ceased fund membership on resigning from employment with sponsoring employer were settled in the form of bank cheques some of which could not bank in 2008 as their benefits were law and meaningless (Swanson, 2003).

## **2.7 Impact of dollarization on local pensioners**

As reported by Kararach and Otieno (2016), pension fund assets in Zimbabwe were eroded away resulting in the expectations of the retirees and the promises made to them being negatively affected. DB funds became technically insolvent with liabilities of promised benefits way higher than the market values of underlying assets. DC funds shrunk resulting in pension benefits that are way below expected income replacement ratios. Assets in Zimbabwe were reduced to zero by hyperinflation. No value was salvaged from the prescribed assets that is the government bonds and the treasury bills. Funds have to maintain assets in cash or cash equivalent in order to meet claims as they arise and these liquid assets were wiped out on conversion to multi-currency system. Some DB schemes which recorded financial soundness during the hyperinflationary period realised asset to liability matching of less than 20% after dollarization. One of the reasons being that the period of continuous service might be as long as 20years although most of those years constituted lost contribution period in USD terms. This is because the promised benefit is defined in a currency which does not match the purchasing power parity of that used the fund the promised benefit for the greater part of the continuous service. Members in DC schemes received low values in circumstances where the employer is under no obligation to pump in any additional funds to boost values of member accumulations. Members had to share whatever was salvaged from the pension fund assets at conversion.

### **2.7.1 Impact of dollarization on pensioners in other countries**

According to Swanson (2003), in hyperinflationary economies, determining the value of any particular wage is difficult, not talking about keeping the wage in step with inflation which is almost impossible. Due to this, additional benefits become an even more important element of the compensation package. These benefits if not indexed to mitigate inflation, they can rapidly lose their value. He goes on to say that the most serious benefit problem during hyperinflation is taking care of workers on reaching retirement age. Chowa et al (2006) points out that hyperinflation in Argentina, Bolivia and Brazil wiped out assets of a vast number of pension funds worse still of individual accounts. In Bolivia before the 1983 de-dollarization of the peso, retirements were often held in dollars. When the de-dollarization plan transferred all dollar-denominated accounts into peso accounts at one tenth the black market exchange rate, pensions became virtually worthless. Due to this erosion of pensions in all the 3 countries, adequate means for retirement do not exist for the majority of the people. Employees either have to set



in motion their own form of retirement plan or have large families to support them in their old age, or keep working until death (Ward and Zurbrueg, 2000).

The United Nations Publication of 2004 identified a clear difference between de-facto dollarization which is popular in most countries and official dollarization which is occurring in small number of countries. Besides Panama which had adopted the USD as its official currency in 1904 and a few territories of the US, it was discovered that only Ecuador, El Salvador and East Timer had recently and officially dollarized, The assessment confirmed that pensioners who live in Ecuador were being paid their pension benefits in full as required by the rules, regulations and pension adjustment systems of the fund. However, some retirees and beneficiaries were negatively affected by the dollarization policy and the impact could be compared to an experience by other retirees receiving a dollar based pension and living in countries with hyperinflation and fixed and stable exchange rates with respect to the dollar for extended periods. This reports further states that dollarization had adverse effects on the purchasing power of some retirees and beneficiaries living in Ecuador.

Frete-Cibils, Guigale and Lopez-Calix (2003) points out the decline in the amounts of benefits offered to pensioners in Ecuador. He says that in the mid 90's, the average benefit was close to \$100 per month but fell dismally to less than \$30 between 1998- 2000. In an effort to correct this situation, the Obligatory Insurance of the Ecuadoran Social Security Institute (IESS) managed to restore the benefit levels as of 2001 to an average of \$70 per month. This might seem as an achievement but considering what is promised under the law, this is still very much less. The Ecuadoran law requires workers who retire due to old age to receive benefits equal to approximately 75% of the average of their best 5 years of wages. An IESS associate's average salary in mid-2002 was US\$171 and average retirement an approximate of 30% of that amount. The reasons for this difference were the absence of automatic conversion mechanisms to adjust benefit payments as well as methods of calculating the initial benefit which fails to consider the current value of the wages on calculating the average of the best 5 years. Retirees eligible for the SSC as required by the law should receive a benefit payment equal to 75% of the basic minimum wage but the amount has not been adjusted since dollarization. In the mid 90's, the average pensions for people who qualified to benefit under this programme were greater than \$20 but the amount has since dropped rapidly to less than \$3 a month in 2000.

## **2.8 Summary**

The chapter reviewed literature by reputable authors and scholars and discussed their views on challenges facing pension funds in order to meet their post retirement obligations to member. The chapter then cited the pension funds sector especially in an unstable economy. The risks include regulatory risk, interest rate risk and political risk only to mention a few. The Literature discussion deals with the concept of pension benefits, gives a description of various pension types or schemes, and the problems being faced by pension funds. The literature further discussed the risk management techniques that can be used in pension fund and challenges faced by local pensioners and other pensioners globally. The next chapter outlines the research methodology

## CHAPTER 3

### RESEARCH METHODOLOGY

#### 3.0 Introduction

This chapter outlines the techniques employed by the researcher to collect the relevant data and its subsequent analysis. Creswell (2003) describe the research as an enquiry undertaken with the aid of standardized procedures in order to obtain information. The chapter discusses the research design, target population and respective sampling techniques, data collection methods and the research instruments.

#### 3.1 Research design

According to Hakim (2000), the function of a research design is to ensure that the evidence obtained enables us to answer the initial question as unambiguously as possible. It is a research structure, it brings out what exactly it is we are researching on, how it is going to be achieved and the type of evidence that is needed to answer the research questions. Research design functions like a road map which provides direction, to see where we are currently and where we desire to be at the end of the journey whilst determining the best route to take in order for us to reach our destination (Wrenn, Stevens and Laudon, 2007).

Research design is therefore an arrangement of conditions for collection and analysis of data in a way that combines relevance to the research purpose with economy in the procedure (Kumar, 2008). Research design can also be termed as the overall strategy that is chosen to bring together different components of the study in a coherent and logical way thus ensuring to address the research problem effectively. It is thus a blueprint for the collection, measuring and analysis of data (Creswell, 2013).

Interviews allowed the researcher to probe the respondents for more information. Kumar (2011), notes that research design deals with a logical problem and not a logistical problem. For the purposes of this study, a descriptive research design was used as it is suitable in collecting public opinion. The research was mostly a qualitative one however, conclusions were made quantitatively basing on the qualitative data collected.

### **3.2 Study Population**

According to Frankel and Wallen (1996) the study population includes all individuals whom the researcher is interested in getting information from and making conclusions. The study population consists of those subjects whose characteristics are similar to those of the subjects in the sample and one makes conclusions from the sample drawn from this study population (Frankel and Wallen 1996).

According to Yount (2006) a population consists of all the subjects you want to study. Hakim (2000) refer to the population as, “an aggregate or totality of all the objects, subjects or members that conform to a set of specifications.” For this research, all employee benefits personnel which according to Old Mutual Life Assurance Company report (2015) totalled 60 constitute the study population. However, a randomly selected sample was used since the researcher could not collect data from the whole population under study.

### **3.3 Sampling**

The main decision which the researcher has to make is to whether go for a census or sample research. According to Mackey and Gass (2005) census means the whole population that constitutes the research which is up for investigation and sample means a small number of items is used to make conclusions about the whole population. Practically it is not possible to conduct a census. Hair (2003) defines sampling as a process whereby by examining a part, inference is made to the whole. It provides reasonable means to researchers for gathering useful information that will be used for decision making, information that might otherwise be unattainable and unaffordable (Black et.al, 2009).

Yount (2006) defines a sample as a representative portion of a population, a fraction of the whole, selected to participate in the research project. The concept of sample arises from the inability of the researcher to test all the individuals in a given population (Castillo 2009). Sampling is therefore a process of selecting units which might be people or organisations from a population of interest so that results can be fairly generalised back to the population from which they were chosen from by studying the sample (Wrenn, Stevens and Laudon, 2007). A sample of 20 employee benefits personnel will be used.

### **3.3.1 Sampling Techniques**

#### **a) Random Sampling Method**

There are basically four methods of sampling under random sampling which simple random, systematic, stratified and cluster sampling (Kothari, 2004). Simple random sampling ensures that each element of the population has an equal and independent chance of being included in the sample (Singh and Nath, 2007). Systematic sampling is when elements are chosen from the population in a systematic way hence the population should be arranged in any systematic way. Systematic sampling has similarities with simple random sampling except that the only random selection involved relates to which subject is selected as the first one from the sampling frame (Allison *et al*; 2001). Stratified sampling involves dividing the population into strata, with each stratum having relatively homogeneous elements. Once the stratum has been identified, units are selected from each stratum which should be in proportion to the corresponding stratum of the population (Singh and Nath, 2007). Stratified sampling is used when the population is thought to consist of a number of smaller subgroups or sub populations such as male/female, different age/ethnic / interest groups, which are thought to have an effect on the data to be collected (Allison *et al*; 2001). Cluster sampling involves selecting the group as a whole without breaking it down. The sample elements are then chosen from the different clusters to come up with one sample.

#### **b) Non Random Sampling**

Non-random sampling can be done through four ways, which are incidental, quota, judgmental and purposive sampling. Incidental sampling is where samples are taken because they are readily available or because the researcher was unable to use more acceptable sampling methods (Singh and Nath, 2007). Quota sampling is where the respondent selection is in the same ratio as found in the general population. Judgmental sampling involves selection of a group from the population on the basis of available information thought to be representative of the total population or selection of a group by intuition on the basis of the criterion deemed to be self-evident (Kothari, 2004). In purposive sampling, a sample is selected by some arbitrary methods because it is known to be a representative of the total population or because it is known that the sample will produce well matched groups (Kumar, 2011).

The researcher will use random sampling as it ensures that each element of the population has an equal chance of being selected. The employee benefits management of OMLAC Head Office in Harare and other personnel were targeted as respondents. The researcher used Head Office for easy access and convenience with respect to information and statistics concerning

pension benefits paid prior dollarization. To collect data from the personnel, each sample was chosen randomly and entirely by chance such that every employee had an equal chance of being selected.

### **3.3.2 Sample Size**

According to Saunders et al (2007) the sample size is determined by a 95% confidence rate interval, level of precision and degree of variability. A general rule of thumb is to always use the largest sample possible. The larger the sample the more representative it is going to be, smaller samples produce less accurate results because they are likely to be less representative of the population (Wood and Haber 1998). A sample size should be at least 33% of the target population (Haralambos and Halbon, 1990). Using stratified random sampling, questionnaires were distributed to a total of 20 employee benefits personnel which included benefits administrators and fund managers.

## **3.4 Research instruments and Data collection**

For the purpose of this study, the researcher will collect data by way of questionnaires and interviews. This will be done so as to ensure more internal validity of the research. According to Stevens (2006), using 2 or more methods of collecting data is called triangulation. The data sources can be divided into primary and secondary data sources.

### **3.4.1 Primary Data Sources**

When primary data sources are used, data is acquired from the main source and is not derived from any pre-existing research. The primary data sources the researcher used in doing this research were

- (a) Questionnaires
- (b) Personal Interviews

#### **3.4.1.1 Questionnaires**

According to Leedy and Omrod (2015), a questionnaire is a technique of data collection in which each person is asked to respond to the same set of questions in a predetermined order. White (2000) says that a questionnaire is regarded as a series of questions; with each questionnaire providing a number of alternative answers from which the respondents can choose. A questionnaire comprising of a standard number of questions will be designed and distributed to the sample chosen from the employee benefits department. A standardized questionnaire will be used to all of the respondents.

### **Advantages**

- (a) Large amounts of information can be collected from a large number of people in a short space of time and in a relatively cost effective way.
- (b) Can be carried out by the researcher or by any number of people with limited effect to its validity and reliability.
- (c) Questionnaires are a relatively quick way of receiving a response. Questionnaires could be filled instantly or be collected within a day.
- (d) They avoid interview bias. Personal questions are often more willingly answered as the respondent is not face-to-face with the interviewer.
- (e) The results can usually be quantified easily and quickly by the researcher.

### **Disadvantages**

- (a) Questionnaires can be inadequate to understand some forms of information for instance changes in emotions, behavior and feelings.
- (b) There is no way to tell how truthful the respondent is being or how much thought a respondent has put on the questions asked.
- (c) Majority of people who receive these questionnaires may not return them whilst those who do respond might not be a representative of the originally selected sample.
- (d) The respondent may be forgetful or not thinking within the full context of the situation.
- (e) Quantitative research is an artificial creation by the researcher as it only is asking a limited amount of information without explanation.

#### **3.4.1.2 Personal Interviews**

The targeted interviewees are busy people due to the nature and demands of their roles in their organizations. Appointments to conduct interviews with some management personnel will be arranged at OMLAC. Since the interviewees may be busy with their companies' commitments, the researcher will have to save on time and use a structured interview where a set of prescribed questions for the interviewee will be set.

### **Advantages**

- (a) Researcher can adapt the questions as they feel necessary given the respondent's reaction.
- (b) The interviewer can easily detect discomfort, stress and other body languages face-to-face.
- (c) The interviewer can encourage the respondents to answer as fully as possible and can also know if the question has been correctly understood.
- (d) High response rates than for other methods of questionnaire administration.

- (e) Exhibits such as ads, packages or even pictures can be provided.
- (f) Speed can be achieved since multiple interviews can be completed in multiple locations.

### **Disadvantages**

- (a) They are time consuming especially when sample is large and re-calls of respondents are to be made.
- (b) Possibility of bias of the interviewer and respondent is maximum.
- (c) Can be quite costly especially when a large and widespread geographical sample is taken.
- (d) May introduce systematic errors.

### **3.4.2 Secondary Data**

This refers to information from sources other than the main source, whereby some intermediate agent has compiled data or information in their own research and has now presented it as some part of a bigger study. This proved to be the most helpful method and thus accounts for much of the data used, especially in the literature review and the analysis sections of this research project.

#### **3.4.2.1 The Internet**

The internet is the most reliable library ever. The researcher accessed e-journals, e-books and works by other scholars and organizations via the internet. The researcher could check advancements concerning the compensation of pensioners who were disadvantaged prior dollarization over the internet. Some of the questionnaires were sent to respondents via e-mail.

### **Advantages**

- (a) Provides the researcher with current updated information.
- (b) Covers a wide range of population.
- (c) Technology now allows for video calling to function as a face-to-face interview.
- (d) The internet is user friendly and provides the researcher with all referencing and cataloguing done electronically.

### **Disadvantages**

- (a) Internet speed and efficiency is dependent upon how congested the network server is and the higher the congestion, the slower it will be to retrieve information there from.
- (b) There is little or no control over who is completing the survey.
- (c) Fatigue which might result in failure by the respondent to complete the whole questionnaire.



(d) Low response rate.

#### **3.4.2.2 Textbooks and Journals**

The researcher made reference to numerous text books and journals in this investigation of how dollarization affected pensioners in Zimbabwe.

### **3.5 Summary**

This chapter discussed the research design, study population, sampling techniques, and finally research instruments and data collection techniques adopted to collect relevant data enough to substantiate the main objective of the research which is to investigate the impact of dollarization on pensioners in Zimbabwe. The data collection methods and techniques selected were justified. In the next chapter, the collected data and related findings will be presented and analyzed.

## CHAPTER 4

### DATA ANALYSIS AND PRESENTATION

#### 4.1 Introduction

This section gives a detailed analysis of the findings identifying the impact of dollarization on pensioner in Zimbabwe. Various measurable instruments which include diagrams, tables and percentages have been used to show the reactions of different pension administrators and fund managers to similar questions relating to dollarization. The main source of primary information is the questionnaire and interviews that the researcher conducted. As the information is being displayed, reference is made to secondary information sources for example journals and the web.

#### 4.1 Analysis of response rate

A total of twenty (20) questionnaires were distributed to pension administrators and fund managers and only sixteen (16) were returned representing an 80% response rate. Also the researcher managed to conduct all the ten interviews giving it a 100% response rate. Bryman and Bell (2003) proposes that when a reaction rate is more than half the sample, it means that the outcomes are a reliable presentation of the target population. The results are presented in table 4.1 below:

**Table 4.1 Response rate analysis**

Targeted Respondents	Number of questionnaires and interviews held		Response rate
	Sent	Returned	
Questionnaires	20	16	80%

**Source:** Primary Data

#### 4.2 Data analysis and presentation

This section focuses on the analysis of the data which was collected. The data is presented in the form of pie charts and tables.

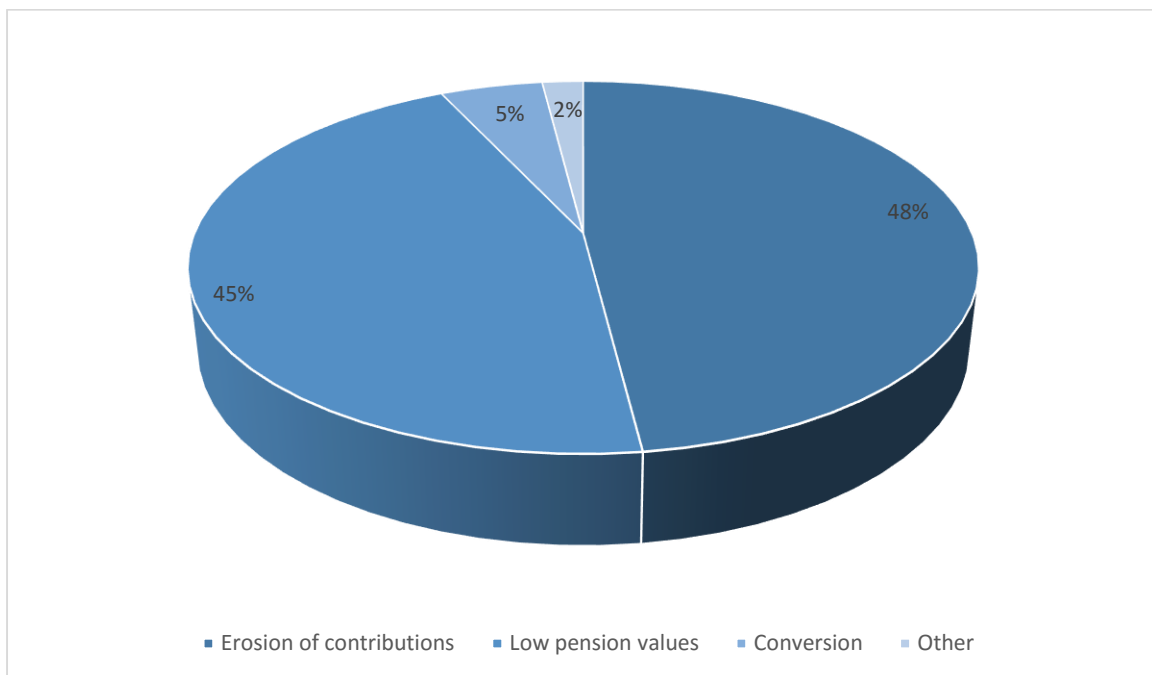
#### 4.2.1 Foreign currency's ability to retain confidence to use money as a store of value

The researcher intended to find out whether the use of foreign currency retained confidence to use money as a store of value. All the respondents clearly demonstrated that foreign currency failed to retain the confidence to use money as a store of value.

#### 4.2.2 Challenges faced by pension funds post dollarization

The researcher asked the question with the intention of finding out the major challenges that pension funds faced post- dollarization. From the data collected, 48% of the respondents indicated that pension funds were greatly affected by erosion of pensioners' contributions while 45% of the respondents suggested having to pay pensioners very low retirement benefits as the major challenge since the contributions had been eroded and this caused severe reputational damages. 5% of the respondents thought that it was conversion of the pension values to foreign currency and other reasons such as hyper-inflation that posed as a major challenge to pension funds, which is the reason why the economy was dollarized in the first place. The results are presented in figure 4.1 below:

**Figure 4.1 Challenges brought about by dollarization**



**Source:** Primary Data

#### 4.2.3 Effect of dollarization on pensioners

The researcher wanted to find out how dollarization affected pensioners. From the responses received, dollarization resulted in pensioners receiving decreased pension pay-outs. This was because of the reason that DB schemes became theoretically insolvent as their promised

benefits became way higher than the market values of underlying assets. DC funds were reduced leading to pension benefits that were very much below the expected income replacement ratios.

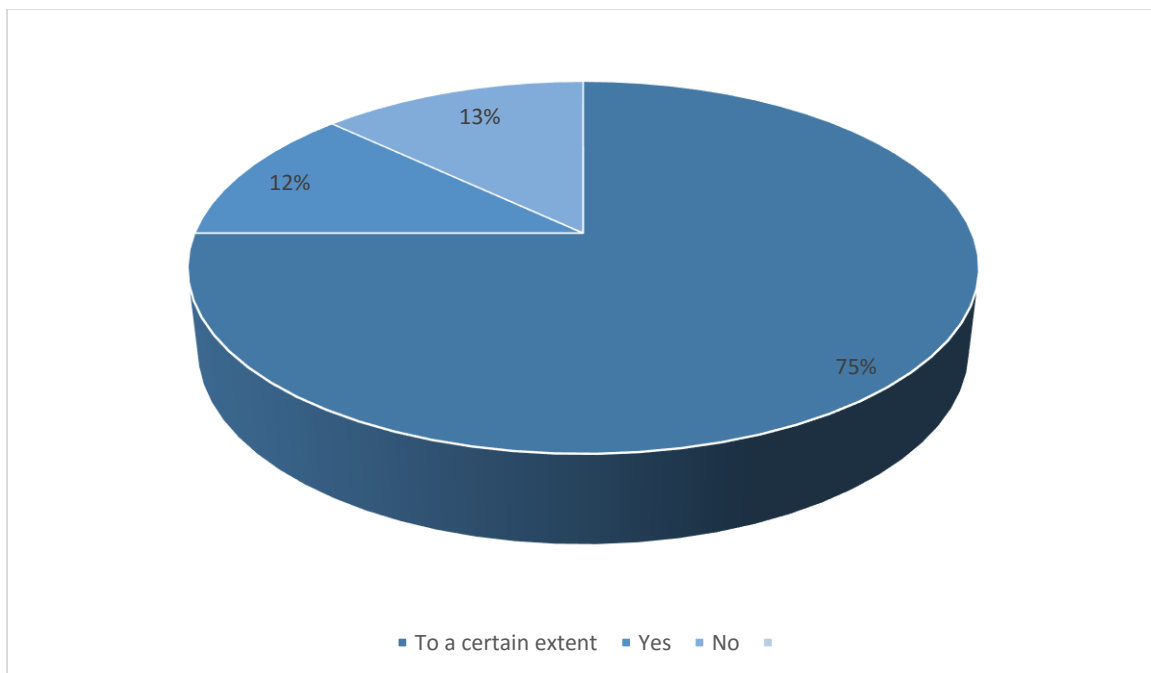
#### **4.2.4 Conversion criteria used on converting benefits from Zimbabwe dollar to foreign currency**

This question was intended on understanding the conversion criteria used and determining if this produced fair results for the pensioners. From the findings, they used the criteria on which values were taken from the assets of the different portfolios of the pension fund. Allocations were made based on each member's proportional Zimbabwe dollar holding such that the percentage holding in Zimbabwe dollar remained the same after allocating a \$US value equivalent.

#### **4.2.5 Equitability of the conversion process used**

The question intended on finding out if the conversion criteria used was fair to pensioners. 75% of the respondents indicated that this criterion was fair to a certain extent, 12% of the respondents strongly agree that this was the best conversion criteria to use. 13% of the respondents strongly thought that the conversion criterion was not fair to the pensioners the reason being that the ZSE had no exchange rate. The findings are presented in figure 4.2 below:

**Figure 4.2 Conversion criteria being equitable**

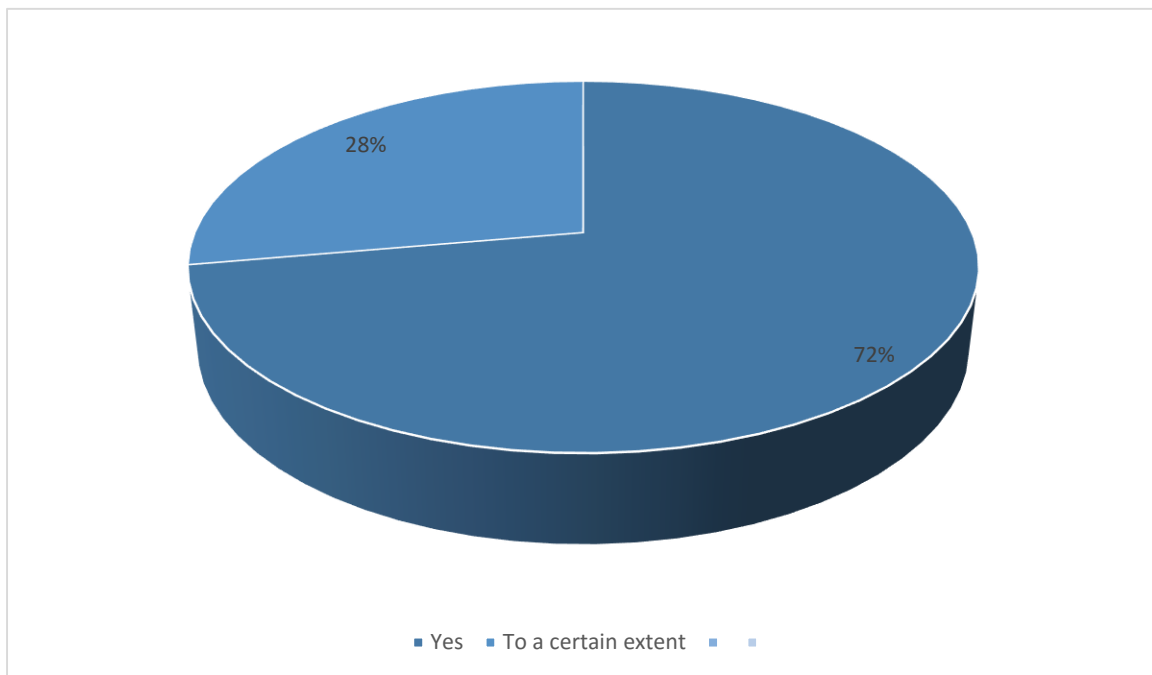


**Source:** Primary Data

#### 4.2.6 Whether value of money contributed was commensurate to the payouts

The researcher wanted to find out if what the pensioners were receiving as pay-outs was commensurate to the value of money they had contributed to the pension fund. From the findings, 65 % of the respondents indicated that the pay-outs were commensurate to the value of the contributions whereas 25% indicated that the pay-outs were commensurate to a certain extent. The responses are pictorially presented in figure 4.3 below:

**Figure 4.3 Commensurateness of pension benefits with the value of contributions**



**Source:** Primary Data

#### 4.2.6 The pension plan mostly affected by dollarization

This question was meant to find out the pension plan that the insurers felt was mostly affected by dollarization. All the respondents pointed out that the defined contribution plan was mostly affected by dollarization since DC funds shrunk resulting in pensions that were way below the expected income replacement ratios.

#### 4.2.7 Viability of pension schemes in volatile and depressed environments

The researcher wanted to find out if pensions can still be considered as a relevant and applicable mechanism for post-retirement saving in volatile and depressed economic environments. Responses given by pension funds administrators indicate that 30% of the respondents strongly agreed that pensions are still a relevant retirement saving mechanism, 22% were indifferent

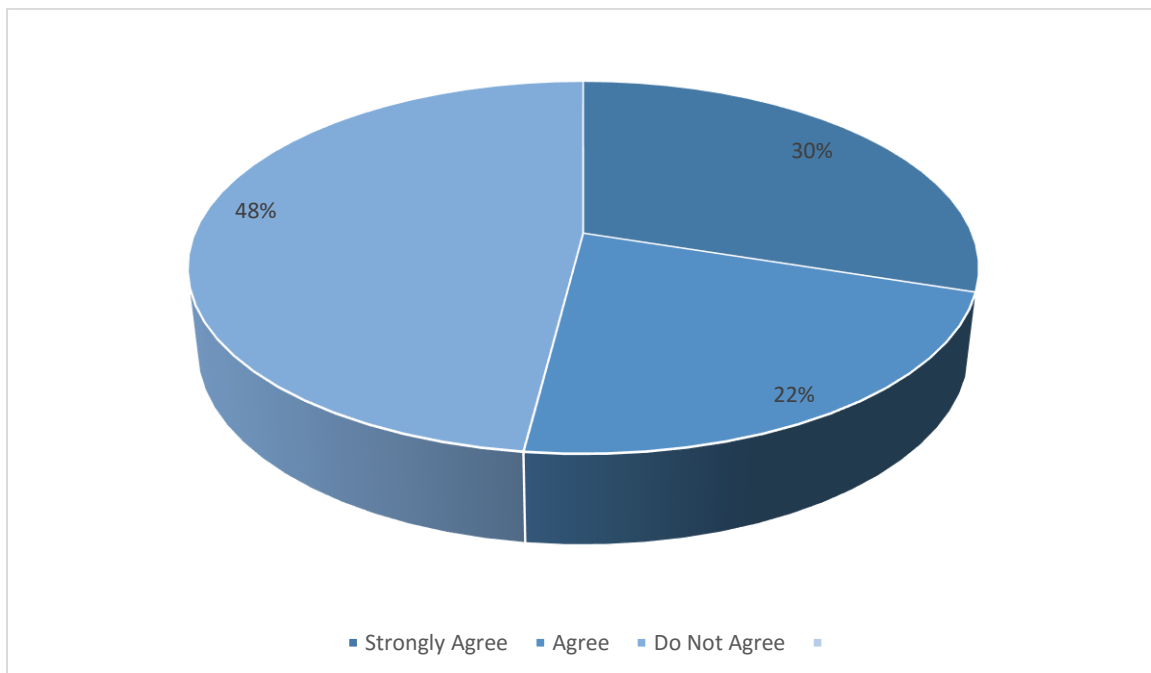
and only 48% of them were of the view that pensions are not relevant in depressed economies. The results are presented in table 4.2 and figure 4.5 below:

**Table 4.2 Relevance of pensions in depressed economies**

Degree of agreement(is retirement planning relevant in depressed economies)	responses	Percentage response
Strongly agree	7	30%
Indifferent	5	22%
Not agree	11	48%

Source: Primary data

**Figure 4.4 Relevance of pension schemes in depressed environments**



Source: Primary Data

30% of the pension funds administrators were in support of the fact that pensions are still relevant even in depressed economic environment because pension funds use the same investment vehicles like other forms of saving and provide an advantage as a post retirement savings mechanism over other methods such as provident funds, money market investment and

even property investments. This is so because they are a disciplined way of saving and issue of prescribed assets ensure financial security and they provide a regular flow of income.

### **4.3 Interview findings**

The researcher had interviews with ten members of the employee benefits department of Old Mutual which included pension administrators and fund managers. The majority of the responses were in line with the questions from the structured questionnaire.

#### **4.3.1 Opportunities that dollarization has brought to the company**

The question intended to find out if the company benefited from dollarization and the respondents clearly pointed out that members have started contributing more towards retirement despite the challenges they faced post dollarization.

#### **4.3.2 Compensation to retirees whose values were reduced to zero after dollarization.**

The analyst required to understand how the company compensated those retirees whose value had been reduced to nothing after many years of contribution. The respondents highlighted that the shareholder injected some funds which were used to pay \$US50 to each and every pensioner who had been disadvantaged due to dollarization.

#### **4.3.3 Issues that should have been addressed before adopting use of foreign currency**

The question sought to bring out ideas of what they think should have been done first before the economy had to dollarize. From the responses, the commission should have thought of investing offshore first such that when they changed to another currency, the pension fund industry would have benefited from the appreciation in the domestic value of their foreign investments when the local currency was depreciating. The respondents went on to say that had there been foreign investments, there would not have been loss of value of pensioners' contributions.

### **4.4 Summary**

This chapter has presented findings from the study, interpreted them, and presented them using relevant statistical data presentation tools. The following chapter focuses on the conclusions and recommendations.

## CHAPTER 5

### CONCLUSIONS AND RECOMMENDATIONS

#### 5.1 Introduction

In this chapter conclusions are drawn from the findings of the research from both primary and secondary data sources. Recommendations are made on how to prevent loss of pension values due to dollarization in the future.

#### 5.2 Conclusions

**The following conclusions can be drawn from the research findings:**

- a) Dollarization eroded the pension contributions of members of pension funds thus resulting in low pension benefits pay-outs resulting in pensioners living in extreme poverty and pensioners suspect foul play in converting the pension contributions to multi-currency system. However, it can be safely concluded that dollarization has brought good news to Old Mutual since people have started contributing more towards retirement despite the challenges they might have faced post dollarization.
- b) DC schemes were mostly affected by dollarization and this is because they shrunk resulting in pension benefits that were way below the expected income replacement ratios. Members had to share whatever was salvaged from the pension fund assets on conversion.
- c) Pensions are still viable tool for retirement planning in volatile and depressed economic environments although members should not depend on pensions alone but instead make other personal savings.

#### 5.3 Recommendations

The following recommendations can be made on the basis of the above conclusions:

##### a) Investing Offshore

There is need for the Commissioner of Insurance to allow foreign investments. Had pension funds in Zimbabwe held investments in international foreign currency claims, they would have profited from the real appreciation of the domestic value of their foreign holdings when the sharp devaluation of the domestic currency took place. This would have reduced the shock from a currency and financial crisis. To obtain the best consumption insurance, investors



should invest outside their own country and currency to an extent that is even greater than what is fitting for the average international investor.

**b) Introducing systematic currency changes**

Government should make sure that any change in currencies must be systematic to prevent panic switching of assets since this affects asset values.

**c) Encouraging use of hybrid schemes**

Pension funds should consider more use of hybrid schemes because they give a more secure pension. These schemes are structured so as to share the costs of providing pension and likewise the risks involved in providing pension between the employer and yourself. In order to mitigate the risks of poor pension pay-outs, a fund can choose a convenient minimum level of pension by using a DB Underpin whereby a member's pension is calculated using the calculation that produces the best result.

**d) Diversification**

Pension funds should not put all their eggs in one basket meaning they need to include a range of asset classes in their portfolio. A pension fund could include in its portfolio local and foreign asset classes, equities of different sectors and capitalisations or include bonds with different maturities. This is done so as to reduce the overall portfolio risk such that performance failure of a single investment will be balanced by other better performing investments.

**e) Reducing percentage holding in prescribed assets**

The Commissioner should consider reviewing the regulatory framework concerning the 35% holding pension funds should have in prescribed assets which include corporate bonds, money market instruments, cash and cash equivalent. These assets offer a lower level of return as compared to other assets. Instead funds should consider investing more in real assets the likes of equities and properties because non-asset backed investments often lose value in hyper-inflationary environments as experienced in Zimbabwe when these assets were reduced to zero and salvaged nothing in terms of value. Liquid assets such as cash were also wiped out on conversion to multi-currency hence it would be better if pension funds would invest more in real and other assets which tend to realise higher return and reduce holding in prescribed assets to reduce exposures in cash.

### **g) Member education**

Pension managers should educate the member who is contributing and also the employer sponsoring the pension fund on the developments that might arise so that should any shocks in the market occur, they would be prepared. An example might be that to maintain one's standard of living, a retirement pension of 75% of the final salary is needed. It is then the duty of pension managers to inform both the employer and the labourer of the options of increasing accumulations by way of additional voluntary contributions. AVCs are used to build up a pension fund that one can use to buy additional pension on retirement.

### **5.4 Suggestion for future research**

The research focused more on the impact of dollarization to pensioners with reference to Old Mutual Life Assurance Company. The results obtained do not provide a picture of what is going on in the whole industry hence there is need for additional study on the areas covering the whole sector.

### **5.5 Summary**

This chapter made conclusions on the research findings on the impact of dollarization on pensioners in Zimbabwe. Recommendations were also made and suggestions for future research given.

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## APPENDICES

### APPENDIX 1: QUESTIONNAIRE COVER LETTER



#### FACULTY OF COMMERCE DEPARTMENT OF INSURANCE AND RISK MANAGEMENT

Midlands State University  
P.O Box 9055  
Gweru  
Zimbabwe

08 March 2016

To whom it may concern

My name is Rufaro Sharon Mandimika (Registration Number – R125035A) and I am a student at the Midlands State University studying for a Bachelor of Insurance and Risk Management Honors Degree. I am currently undertaking a research project for my final year entitled “**An analysis of the impact of dollarization on pensioners**”. To this end, I intend to collect data by use of the attached questionnaire. I am therefore asking you to assist me by completing the attached questionnaire. I assure you that all information will be used for academic purposes only and confidentiality shall be maintained.

Should you require additional information concerning the researcher, please feel free to contact the Chairperson of our department, Mr. S. Masiyiwa on 0772 754 721 or masiyiwas@msu.ac.zw

Yours faithfully  
Rufaro S. Mandimika

## APPENDIX 2: QUESTIONNAIRE

Position of respondent.....

1. Does the use of foreign currency retain confidence to use money as a store of value?

Yes  No

2. What is the major challenge to your pension funds administration business post dollarization? (Rate each problem on a scale 1-5 by ticking the box of your rate)

Rating	1	2	3	4	5
Conversion					
Erosion of contributions					
Low pension values					
Other					

3. How did dollarization affect pensioners?

Increased pension pay outs  Decreased pension pay outs  No effect

4. What conversion criteria did you use on converting pensioners' benefits from Zimbabwe dollar to foreign currency?

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5. Do you think your conversion criteria produced fair results for pensioners post dollarization?

Yes  No

If No, why?

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.....

6. Is the value of money contributed commensurate to the payouts you are giving to clients?

Yes  No  To a certain Extent

If the answer is No, what do you think is the best thing to do in order to correct the problem?

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.....

7. Which type of pension plan was mostly affected by dollarization?

Defined benefit  Defined contribution

8. Do you think pensions are a viable post retirement planning tool in volatile and depressed economic environments?

Yes  No  Indifferent



### **APPENDIX 3: INTERVIEW QUESTIONS**

- 1) What are the opportunities that dollarization has brought to your company?
- 2) What are the challenges that dollarization has brought to your company?
- 3) Do you have any cases of pensioners whose values were reduced to zero post dollarization?
- 4) How then did you compensate those retirees whose values were reduced to zero after dollarization?
- 5) Pensioners are crying foul as to the way the conversions were made upon dollarization of the economy. Do you agree with them that the conversion criteria you used was a contributing factor to pensioners' loss of value in their investments?
- 6) Do you have any future plans to help those retirees who were disadvantaged due to dollarization?
- 7) What consideration do you think should have been addressed before adopting use of foreign currency?