



FSC Guidelines for 'Conversion' or 'Shift' of Defined Benefit Pension Schemes into Defined Contribution Pension Schemes

Introduction

The provision of pension by occupational pension schemes represents an important source of retirement income to employees in the private sector. However, over the years, Defined Benefit (DB) schemes have become more and more costly and not sustainable due to the fall in the yields on long term government bonds and improvements in life expectancy.

In recognition of the above and the need to safeguard the rights of DB pension scheme members, the Financial Services Commission (FSC) has issued on 23 April 2021 a set of guidelines for the conversion or shift of a DB pension scheme to a Defined Contribution (DC) scheme. These guidelines effectively provide a framework for sponsors of existing DB pension scheme to change the rules of their schemes and cease providing defined benefits to their members going forward.

FSC Guidelines for the 'Conversion' or 'Shift'

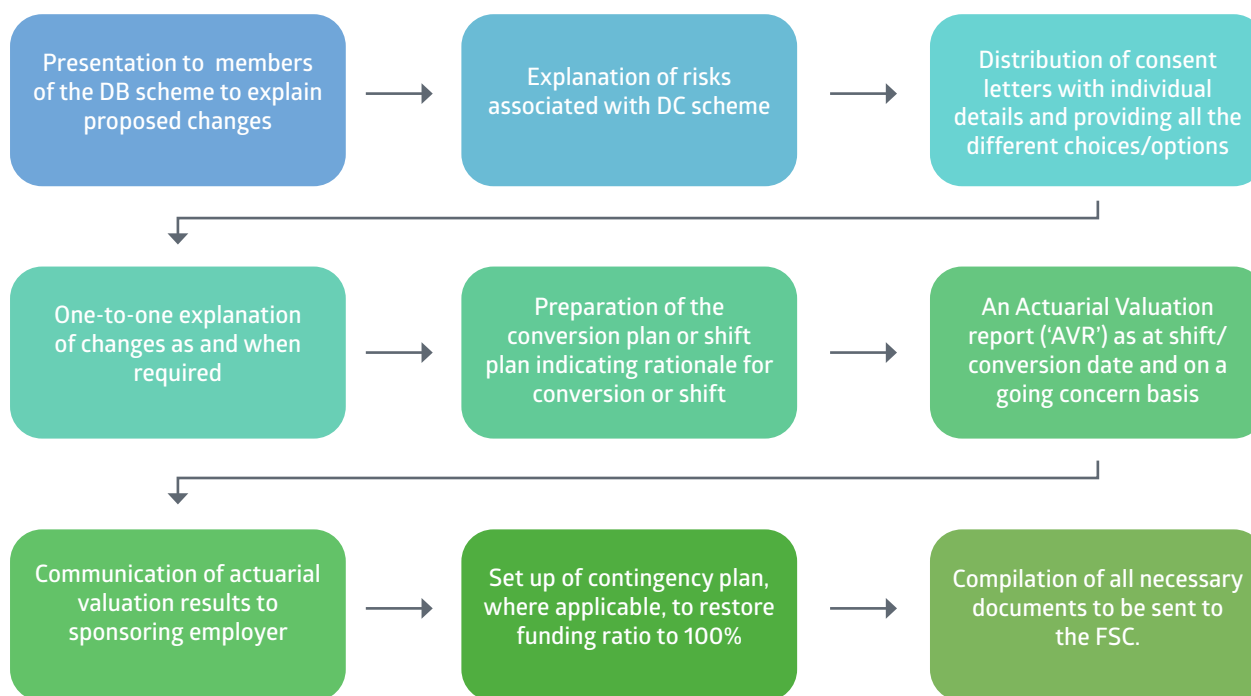
A conversion or a shift alters the fundamental pension agreement between the employer and the scheme members. A sponsoring employer may change the basic structure of a private pension scheme for future benefits, as may be provided for in the rules of a private pension scheme. The table below summarises the main steps involved in this change process, for more details please refer to the FSC Guidelines.

https://www.fscmauritius.org/media/99252/dc-guidelines_updated-23-04-21.pdf

	Conversion	Shift
Definition	The members' benefits, in a DB scheme that have accrued up to the date of conversion, are commuted and the commuted value is credited towards the members' individual accounts under the subsequent DC scheme.	The member of a DB scheme is shifted to a DC scheme, for future service accrual, on the date on which accrual to the DB scheme stops.
Conditions	<p>A DB scheme should be fully funded on a portability basis at the conversion date.</p> <p>If the DB scheme is not fully funded, the sponsoring employer is required to contribute the shortfall to the scheme in a lump sum.</p> <p>The following conditions need to be fulfilled:</p> <ul style="list-style-type: none"> (a) Communication exercise to members; (b) Full disclosure of information to members; (c) Consent of members is obtained. 	<p>A DB scheme should be fully funded at the shift date.</p> <p>If the funding ratio of a DB scheme is below 100%, the sponsoring employer is required to either contribute the shortfall to the scheme in a lump sum or submit a contingency plan, vetted by the actuary of the scheme, for approval.</p> <p>The following conditions need to be fulfilled:</p> <ul style="list-style-type: none"> (a) Communication exercise to members; (b) Full disclosure of information to members; (c) Consent of members is obtained; (d) Where the consents of all members have not been obtained, legal advice should be sought in respect of the non-consenting members.

Overview of the conversion/shift process

Below is a simplified summary of the critical steps involved in making these changes:



How can we help?

Swan Actuarial Services Ltd has the expertise to assist you on the following:

- Conversion or Shift of DB schemes to DC schemes;
- Expert advice on Portable Retirement Gratuity Fund;
- Advice to employers, trustees and government bodies on their pension requirements;
- Assist insurance and reinsurance companies on the technical aspect and regulatory compliance of their business;
- Scientific and customised approach to Risk Management depending on a business's requirements and objectives.

Get in touch with us for more information.

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