

SWAN

Pension Reform



Budget 2020/2021

On the 4th of June 2020, the Minister of Finance, Economic Planning and Development presented his budget for the fiscal year 2020/2021. The Minister announced the following measures in respect of a proposed reform of the pension system:

- **Maintenance and guarantee of the Basic Retirement Pension (BRP)**

A BRP of Rs. 9,000 per month to all individuals at the age of 60 years and above. Henceforth, the BRP will remain fixed at Rs. 9,000 with no further increase.

- **The introduction of a contributory, participative and collective system, the Contribution Sociale Généralisée (CSG)**

Henceforth, all future increases in the BRP will be paid under this system. A CSG tax will be levied and used to pay increases to all individuals above the normal retirement age of 65 years and the first payment, earmarked at Rs. 4,500 per month, will be made in July 2023.

The future increase in BRP will be financed by taxing only employees of the private sector 1.5% of their monthly salary for those earning up to Rs. 50,000 per month, with their employers paying 3.0% of their monthly salary. The corresponding tax rates for those earning more than Rs. 50,000 per month are 3.0% for the employees and 6.0% for their employers.

- **The abolishment of the contribution to the National Pension Fund (NPF)**

By extension, any future accrual of NPF benefits for all employees of the private sector is also abolished. The NPF will continue to provide benefits to those who have previously contributed to the NPF. Employees who have previously contributed to the NPF and who have not yet retired will continue to be entitled to NPF benefits at retirement, albeit a reduced NPF benefit, based on the number of "pension points" accrued to date. From now on, employees of the private sector will lose their existing entitlement to any future accrual of NPF benefits.

The contributions of 3.0% of basic salary (up to a ceiling of Rs. 18,740) by employees and the corresponding contributions of 6.0% of basic salary (up to a ceiling of Rs. 18,740) by employers will cease.

Retirement System in Mauritius

The current pension system in Mauritius can be grouped under three pillars: Basic Retirement Pension (BRP), Occupational Compulsory Pensions and Voluntary Pensions.

Pillar 1	Pillar 2		Pillar 3
Mandatory & Non-Contributory	Mandatory & Contributory (Civil Service)	Mandatory & Contributory (Private Sector)	Voluntary
<p>Basic Retirement Pension (BRP)</p> <ul style="list-style-type: none"> Payable to every Mauritian from age 60, currently at Rs. 9,000 per month Pay-as-you-go (funded from government annual budget) 	<p>Civil Service Defined Benefit (CSDB)</p> <ul style="list-style-type: none"> Civil servants joining before end of December 2012 Civil servants contribute 6% of earnings Government is responsible for any deficit <p>Civil Service Defined Contribution (CSDC)</p> <ul style="list-style-type: none"> Civil servants joining as from January 2013 Civil servants contribute 6% of earnings Government contributes 12% of earnings 	<p>National Pension Fund (NPF)</p> <ul style="list-style-type: none"> Employees of private sector Funded Defined Benefit Scheme with employees contributing 3% of earnings and employer 6% of earnings (up to NPS Ceiling – Rs. 18,740 at 1st July 2019) Current benefit is Rs. 6,250 per month (around 1/3rd of NPS ceiling), after 40 years of contributions) <p>National Savings Fund (NSF)</p> <ul style="list-style-type: none"> All employees (private, public and para-statal) Funded Defined Contribution Scheme with employees contributing 1% of earnings and employers 2.5% of earnings (up to NPS Ceiling) Lump Sum paid at retirement, based on contributions plus interest. 	<p>Occupational Pension Schemes</p> <ul style="list-style-type: none"> Pension schemes can be Defined Benefit or Defined Contribution Requirement to be funded and regulated by the FSC Normally funded by both employer and employee contributions <p>Private Pension Plans (PPP)</p> <ul style="list-style-type: none"> Insurance products offered by life insurance companies Premiums are typically fixed amounts (not related to earnings) Target a level of benefit at retirement

Impact of budget measures on employees

	Current System	Post budget measures	Comments
Person choosing not to be part of the workforce	<p>Cost</p> <ul style="list-style-type: none"> Nil <p>Entitled benefits</p> <ul style="list-style-type: none"> BRP of Rs. 9,000. Any future increase in BRP. 	<p>Cost</p> <ul style="list-style-type: none"> Nil <p>Entitled benefits</p> <ul style="list-style-type: none"> BRP of Rs. 9,000. Increase in BRP of Rs. 4,500 per month at age 65 from July 2023. 	Benefits from the additional increase in BRP to the extent these are higher than any future increase to BRP.
Employee in private sector earning minimum wage of Rs. 10,200 per month	<p>Cost</p> <ul style="list-style-type: none"> NPF contributions of Rs. 306 per month (3% of earnings). Employer contributions of Rs. 612 per month (6% of earnings). <p>Entitled benefits</p> <ul style="list-style-type: none"> BRP of Rs. 9,000. Any future increase in BRP. After 40 years of contributions, NPF benefits of around 1/3rd of minimum wage (approx. Rs. 3,400 per month). 	<p>Cost</p> <ul style="list-style-type: none"> CSG tax of Rs. 153 per month (1.5% of earnings). Employer CSG tax of Rs. 306 per month (3% of earnings). <p>Entitled benefits</p> <ul style="list-style-type: none"> BRP of Rs. 9,000. Increase in BRP of Rs. 4,500 per month at age 65 from July 2023. 	Benefits from a cost reduction of Rs. 153 per month from the lower CSG tax compared to the NPF contributions. Loses entitlement to NPF benefits of approx. Rs. 3,400 per month.
Employee in private sector earning Rs. 1,000,000 per month	<p>Cost</p> <ul style="list-style-type: none"> NPF contributions of Rs. 562 per month (3% of NPS Ceiling of Rs. 18,740) Employer contributions of Rs. 1,124 per month (6% of NPS Ceiling) <p>Entitled benefits</p> <ul style="list-style-type: none"> BRP of Rs. 9,000 Any future increase in BRP After 40 years of contributions, NPF benefits of around 1/3rd of NPS Ceiling (approx. Rs. 6,250 per month). 	<p>Cost</p> <ul style="list-style-type: none"> CSG tax of Rs. 30,000 per month (3% of earnings). Employer CSG tax of Rs. 60,000 per month (6% of earnings). <p>Entitled benefits</p> <ul style="list-style-type: none"> BRP of Rs. 9,000. Increase in BRP of Rs. 4,500 per month at age 65 from July 2023. 	Suffers from a cost increase of Rs. 29,438 per month from the higher CSG tax compared to the NPF contributions. Loses entitlement to NPF of approx. Rs. 6,250 per month. Subsidises others for the cost of the CSG benefits.

	Current System	Post budget measures	Comments
Employee in public sector earning Rs. 25,000 per month	<p>Cost</p> <ul style="list-style-type: none"> · Nil <p>Entitled benefits</p> <ul style="list-style-type: none"> · BRP of Rs. 9,000. · Any future increase in BRP. 	<p>Cost</p> <ul style="list-style-type: none"> · Nil <p>Entitled benefits</p> <ul style="list-style-type: none"> · BRP of Rs. 9,000. · Increase in BRP of Rs. 4,500 per month at age 65 from July 2023. 	Benefits from the additional increase in BRP to the extent these are higher than any future increase to BRP.
Self-employed earning Rs. 100,000 per month	<p>Cost</p> <ul style="list-style-type: none"> · NPF contributions of Rs. 562 per month (3% of NPS Ceiling of Rs. 18,740), as employee · NPF contributions of Rs. 1,124 per month (6% of NPS Ceiling), as employer <p>Entitled benefits</p> <ul style="list-style-type: none"> · BRP of Rs. 9,000. · Any future increase in BRP. · After 40 years of contributions, NPF benefits of around 1/3rd of minimum wage (approx. Rs. 6,250 per month). 	<p>Cost</p> <ul style="list-style-type: none"> · CSG tax of Rs. 3,000 per month (3% of earnings), as employee. · CSG tax of Rs. 6,000 per month (6% of earnings), as employer. <p>Entitled benefits</p> <ul style="list-style-type: none"> · BRP of Rs. 9,000. · Increase in BRP of Rs. 4,500 per month at age 65 from July 2023. 	<p>Suffers from a cost increase of Rs. 7,314 per month from the higher CSG tax compared to the NPF contributions.</p> <p>Loses entitlement to NPF of approx. Rs. 6,250 per month.</p> <p>Subsidises others for the cost of the CSG benefits.</p>

Equity between public sector and private sector employees

Both private sector and public sector are entitled to the BRP. The NPF is the only mandatory contributory pension scheme for the private sector whereas the public sector benefits from the mandatory contributory civil service pension scheme.

Under the new measures, a public sector employee benefits from the increase in BRP of Rs. 4,500 at the expense of a private sector employee who loses his entitlement to NPF benefits but continues to contribute via the CSG tax. The Civil Service Pension Scheme has not been abolished and the public sector employee is not subject to the CSG tax.

All individuals will benefit from the increase in BRP but there will now be 2 classes of employees:

- 1 those who pay for it via the CSG tax - the private sector employees; and
- 2 those who do not pay for it - the public sector employees.

	Current System	Post budget measures
Civil servant earning Rs. 200,000 per month	<p>Cost</p> <ul style="list-style-type: none"> · Contribution of Rs. 12,000 per month (6% of earnings) <p>Entitled benefits</p> <ul style="list-style-type: none"> · BRP of Rs. 9,000. · Any future increase in BRP. · After 33.3 years of service, pension of Rs. 133,000 (2/3rd of pensionable earnings) from Civil Service Defined Benefit Scheme) 	<p>Cost</p> <ul style="list-style-type: none"> · Contribution of Rs. 12,000 per month (6% of earnings) <p>Entitled benefits</p> <ul style="list-style-type: none"> · BRP of Rs. 9,000. · Increase in BRP of Rs. 4,500 per month at age 65 from July 2023. · After 33.3 years of service, pension of Rs. 133,000 (2/3rd of pensionable earnings) from Civil Service Defined Benefit Scheme)
Private sector employee earning minimum wage of Rs. 10,200 per month	<p>Cost</p> <ul style="list-style-type: none"> · NPF contributions of Rs. 306 per month (3% of earnings). · Employer contributions of Rs. 612 per month (6% of earnings). <p>Entitled benefits</p> <ul style="list-style-type: none"> · BRP of Rs. 9,000. · Any future increase in BRP. · After 40 years of contributions, NPF benefits of around 1/3rd of minimum wage (approx. Rs. 3,400 per month). 	<p>Cost</p> <ul style="list-style-type: none"> · CSG tax of Rs. 153 per month (1.5% of earnings). · Employer CSG tax of Rs. 306 per month (3% of earnings). <p>Entitled benefits</p> <ul style="list-style-type: none"> · BRP of Rs. 9,000. · Increase in BRP of Rs. 4,500 per month at age 65 from July 2023.

Equity between generations of workforce

During their working time, individuals currently over the age of 60 have been taxed to pay for the BRP of the previous generation. In turn, the BRP they are currently receiving is financed by taxing the current working generation.

The current working population also saves, to some extent, for their retirement by contributing to the NPF. With the abolishment of the NPF, the current working population will cease contributing for their own retirement but will be asked, under the CSG, to instead contribute for the increase in benefits of existing retirees – in the hope that the next generation of the workforce will be taxed to contribute for their future benefits when they retire.

Impact of budget measures on employers

Voluntary Pension Schemes

For paternalistic reasons, many employers in the private sector offer occupational pension scheme to their employees to thank them for having spent their working life with the employer and contributing to the success of the business. The contributions made are a percentage of basic salary and are considered as part of the employee remuneration.

Under the new CSG, the employer will be taxed a percentage of its employees' earnings, with no linkage to any benefits to its employees.

Increased cost on employers

With the CSG tax, now based on employees' earnings, the costs to employers will be higher in respect of each of its employees with earnings higher than Rs. 50,000. In particular, certain employers in the financial services industry will see their costs in respect of CSG tax double, compared to their NPF contribution costs.

Increased Deficits for some Pension Schemes

The pension benefits under many defined benefit occupational pension schemes are targeted to be a percentage of final salary and allows for the NPF benefits. With the abolishment of the NPF, many employers may have to increase their contributions to the pension schemes.

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