PENSIONS

‘The New Agenda’ – Mauritius

Trisha Dulloo
Financial Services Commission
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AGENDA

• Introduction
  • Multi-Pillar System in Mauritius
  • The Industry In Figures
• Measurement
  • Paying for pensions
  • Valuation of pension schemes
• Challenges and Social Security Reform
• FSC Mauritius & Pensions Supervision
• Conclusion
Introduction
Multi-Pillar System in Mauritius
The Industry In Figures
INTRODUCTION

- To improve sustainability and fairness of arrangements to finance old-age

- **Sustainability**
  - Narrow perspective – balance long term assets and liabilities
  - Broader perspective (macro-level) – fiscal and economic burden of the pension system currently and in the future

- **Fairness**
  - Different groups in society do not have vastly different levels of pension *(but currently disparities – few at higher levels enjoy more favourable pension benefits than the rest of the population)*
  - Equitable provision between men and women
  - Equitable tax and other treatments
  - Intergenerational aspects of pension systems
  - Increasing cross-border labour flows – equitable treatment of foreign workers
### Five-Pillar System for Mauritius

<table>
<thead>
<tr>
<th>Pillar 0</th>
<th>Pillar 1</th>
<th>Pillar 2</th>
<th>Pillar 3</th>
<th>Pillar 4</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Basic Retirement Pensions</strong></td>
<td><strong>National Pensions Fund (NPF)</strong></td>
<td><strong>National Savings Fund (NSF)</strong></td>
<td><strong>Private Pension Schemes</strong></td>
<td><strong>Family/ household support or other social security benefits</strong></td>
</tr>
<tr>
<td><strong>Features</strong></td>
<td><strong>Features</strong></td>
<td><strong>Features</strong></td>
<td><strong>Features</strong></td>
<td><strong>Features</strong></td>
</tr>
</tbody>
</table>
| - Universal Pension  
  - Funded by Gov. Taxation  
  - Paid as from age 60 | - Mandatory  
  - Funded DB  
  - Income Replacement | - Mandatory  
  - Funded DC  
  - Income Replacement | - Voluntary private provisions  
  - Funded DB/DC  
  - Income Replacement | - Informal  
  - Family/ own house  
  - Personal/ public health  
  - Free transport |
| **Establishment** | **Establishment** | **Establishment** | **Establishment** | **Establishment** |
| - In 1951  
  - National Pensions Act | - In 1978  
  - National Pensions Act | - In 1995  
  - National Savings Act | - In the 1950s  
  - Private Pension Schemes Act 2012 (old Act of 1954 repealed) | - Major component for many generations |
Pensions Sector at a glance

- **Public Sector**
- **Statutory Bodies**
  - NSF (public, parastatal, private)
  - NPF (private sector)
- **SIPF**
- **Private Pensions**
Total Assets under Management

Total Pensions Assets under management = MUR 154.3 billion (USD 5.1 billion)

<table>
<thead>
<tr>
<th>Public Sector Managed Pensions</th>
<th>Assets (MUR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statutory Bodies</td>
<td>10%</td>
</tr>
<tr>
<td>SIPF</td>
<td>2%</td>
</tr>
<tr>
<td>NSF</td>
<td>10%</td>
</tr>
<tr>
<td>NPF</td>
<td>53%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Private Sector Pensions</th>
<th>Assets (MUR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managed by other providers</td>
<td>5%</td>
</tr>
<tr>
<td>Managed by Insurers</td>
<td>20%</td>
</tr>
</tbody>
</table>

Note: Public Sector ‘Government’ Employees’ Pension are unfunded
Mandatory Pillar – NPF

- Introduced in 1976
- DB scheme
- Covers employees of private sector firms – 60% of the labour force (except sugar industry employees and those on low wages)
- Contributions on salary are paid by both employers and employees
- Standard rate of contribution = 6% (Er) and 3% (Ee)
- Contributions result in the accumulation of points on the basis of declared cost of a point at the time of contribution
- Pension benefits depend on the accumulated points & declared value of a point at the time of retirement
- NPF invests heavily in Government securities
- NPF also administers the BRP – the benefits & administration expenses of which are covered by budgetary transfers
Mandatory Pillar – NSF

- Set up in 1995 & replaced the Employees Welfare Fund
- DC scheme
- All employees (public, parastatal and private sectors) are required to participate in the NSF
- Every employer contributes 2.5% of the total basic salary of each of his employee
- Employees of private sector have to contribute an additional 1%
- NSF is administered by the Ministry of Social Security
- NSF heavily invests in government securities
- Another objective of the NSF is to set up and operate for the benefit of employees, such schemes, including loan schemes, as may be prescribed by the Ministry of Social Security
Paying for pensions
DB vs DC
Funded vs Unfunded

- Pensions systems existing around the world are either funded or unfunded

- **Funded**  ➔ Use contributions from current workers to accumulate assets; these assets are used in part or in full to pay benefits in the future

- **Unfunded**  ➔ Use contributions from current workers to pay benefits to current retirees, giving current workers “promises” in return for contributions
DB vs DC

• Pensions schemes are classified into 2 main categories:
  – DB (Defined Benefit)
  – DC (Defined Contribution)

• **DB ➔** Under a DB scheme, benefits are defined in advance according to a prescribed formula that is linked to members’ salaries or length of service
  – E.g. A scheme may guarantee a pension of $1/60$ of final salary for each year of service with a maximum of two-thirds of final salary upon completion of 40 years service
DB vs DC

- **DC ➔** Under a DC scheme, contributions rates for both the employer and the employees (if any) are fixed from the start and are defined in the rules of the Scheme.

However, the benefit on retirement is not known in advance as it will depend on:

- the contributions paid,
- the investment return on those contributions and
- the cost of converting the accumulated fund to a pension at retirement.
• In Mauritius, private company pension scheme operate majorly as DB
• Since the last decade, the Mauritian Pensions industry is experiencing the DB to DC conversion. This is due to high cost uncertainties of DB plans.
• Nowadays, newly set up employer pension schemes are DC
• DC plans transfer the investment risk to the members
Valuation of Pension Schemes
Actuarial Valuations

• Actuarial reviews are undertaken at regular intervals, mostly every 3 years

• Local actuaries use investment return assumptions that are close to projected rates of salary growth

• Mortality tables are selected from the set that is produced by the UK Institute and Faculty of Actuaries.
  – PA(90) mortality table
  – PMA92 mortality table

• The Private Pension Schemes Act introduced in November 2012 requires private pension schemes to undertake actuarial reviews every 3 years
Accounting Valuations

- Accounting reviews are undertaken every year

- Audited accounts are required to comply with international accounting standards on pension liabilities.
  - IAS 19 (adopted in Mauritius as MAS25 – up to year 2001)

- IAS 19 specifies, inter alia, the AA corporate bond yields (or similar) as the discount rates to be used in valuing actuarial liabilities

- IAS 19 requires employers to report in their accounts any shortfall in the pension scheme they sponsor
Challenges and Social Security Reform
# Major Challenges

<table>
<thead>
<tr>
<th>Challenges</th>
<th>Developing Countries</th>
<th>Mauritius</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Poverty &amp; low awareness</td>
<td>✗</td>
<td>✗</td>
</tr>
<tr>
<td>2. Ageing Population</td>
<td>✓</td>
<td>✗</td>
</tr>
<tr>
<td>3. Low Saving rates</td>
<td>✗</td>
<td>✗</td>
</tr>
<tr>
<td>4. Underdeveloped Capital Market</td>
<td>✗</td>
<td>✗</td>
</tr>
<tr>
<td>5. Low participation in voluntary pension arrangements</td>
<td>✗</td>
<td>✗</td>
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</table>
## Private Pensions Industry

<table>
<thead>
<tr>
<th></th>
<th>PPS managed by other service providers*</th>
<th>PPS managed by Insurance companies</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of schemes</td>
<td>34</td>
<td>971</td>
<td>1,005</td>
</tr>
<tr>
<td>% of DC schemes</td>
<td>59</td>
<td>46</td>
<td>46</td>
</tr>
<tr>
<td>No. of pensioners in payment</td>
<td>4,068</td>
<td>8,232</td>
<td>12,300</td>
</tr>
<tr>
<td>No. of other members</td>
<td>25,161</td>
<td>49,176</td>
<td>74,337</td>
</tr>
<tr>
<td>Annual contributions</td>
<td>MUR 900 m</td>
<td>MUR 3.3 bn</td>
<td>MUR 4.2 bn</td>
</tr>
<tr>
<td>Benefit payments (including annuity purchase)</td>
<td>MUR 460 m</td>
<td>MUR 1.7 bn</td>
<td>MUR 2.2 bn</td>
</tr>
<tr>
<td>Assets under management</td>
<td>MUR 6.9 bn</td>
<td>MUR 28.6 bn</td>
<td>MUR 35.5 bn</td>
</tr>
</tbody>
</table>

* other service providers include a governing body, investment adviser, asset manager, CIS manager which are authorised or licensed under relevant Acts

Source: FSC Mauritius Annual Statistical Bulletin
Private Pensions Industry

- The PPSA 2012 requires that private pension schemes in Mauritius adhere to good governance principles.
- Pensions schemes currently not governed by a governing body that oversees the overall pension scheme operations are required to restructure in order to comply with the new law.
- Insured pension schemes which are administered and managed by insurance companies are required to go through such process.
- Therefore, umbrella schemes / master trusts – promoted by the insurers – are being established as per requirements of the law to ensure that the insured pension schemes are in legality.
Private Pensions Industry

Following current restructuring of insurer’s pensions business, statistics in respect of private pension schemes licensed by the Commission is as follows:

<table>
<thead>
<tr>
<th>No. of schemes</th>
<th>DB</th>
<th>DC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deemed to be licensed</td>
<td>53</td>
<td>34</td>
</tr>
<tr>
<td>Newly licensed (newly set up)</td>
<td>8</td>
<td>1</td>
</tr>
<tr>
<td>Total schemes currently licensed</td>
<td>61</td>
<td>35</td>
</tr>
<tr>
<td>No. of master schemes (sponsored by insurers)</td>
<td>2</td>
<td>-</td>
</tr>
<tr>
<td>No. of new applications under process (master schemes sponsored by insurers)</td>
<td>3</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: FSC Mauritius
As at April 2015
FSC (Mauritius) & Pensions Supervision
1. Pension Act 1952
2. Employees Superannuation Fund Act 1954 (repealed)
5. Local Authorities Act 1980
7. Private Pension Scheme Act 2012
The Mauritius Revenue Authority was approving Pension Scheme Rules under the now revoked Regulation 5 of the Income Tax Act. Following proclamation of the PPSA, several of the limits that were imposed by these regulations were removed/relaxed.

Private Pension Schemes Act 2012 and its Rules

Financial Services Commission Mauritius

*The Mauritius Revenue Authority was approving Pension Scheme Rules under the now revoked Regulation 5 of the Income Tax Act. Following proclamation of the PPSA, several of the limits that were imposed by these regulations were removed/relaxed.
Consolidated Framework

• The Private Pension Schemes Act 2012 ("PPSA") was enacted on 1\textsuperscript{st} November 2012

• The PPSA has addressed the regulatory gaps that prevailed prior to 1\textsuperscript{st} November 2012 as follows:

**Disclosure**
- Annual benefit statements to members
- Regular returns to the FSC
- Whistle blowing provisions
- Inspections & intervention by the FSC

**Governance**
- Composition / suitability of members of Governing Body
- Fit & proper
- Prudent person
- Role and responsibility of Governing Body towards the scheme

**Prudential**
- Custodian for safekeeping of assets
- Unencumbered assets
- Segregated assets
- Prudent written investment policy
- Actuarial valuation
- Technical funding requirements
Consolidated Framework (cont’d)

REGULATOR (FSC Mauritius)

PPS
[beneficiaries]

Actuary

GOVERNING BODY

Auditor

Administrator
[licensed or authorised]

Pension Investment Manager
[licensed or authorised]

Custodian
[licensed]
FSC Rules under PPSA

1. Licensing and Authorisation (Operational since 01 Nov 2012)
2. Governance (Operational since 01 Nov 2012)
3. Disclosure (Operational since 01 Jan 2013)
4. Investment (Operational since 31 Jan 2014)
5. Technical provisions & underfunding (Operational since 31 Jan 2014)
6. Administration (Operational since 01 Sep 2014)
7. Schedules & Returns (Operational since 1 Sep 2014)
   - Auditor & Actuary (Upcoming)
   - Winding up (Drafting process)
   - Transfer, compromise or amalgamation
   - Provision in respect of DB & DC schemes
   - General provisions of private pension schemes
**International Collaboration**

FSC’s first participation at the International Organisation of Pension Supervisors (IOPS) was in December 2004. Mauritius was among the first countries to become a governing member of the IOPS. The PPSA is in line with the international principles, recommendations and guidelines issued by the IOPS and the Organisation for Economic Co-operation and Development.

<table>
<thead>
<tr>
<th><strong>FSA</strong></th>
<th><strong>PPSA</strong></th>
<th><strong>Practice</strong></th>
<th><strong>Confidentiality</strong></th>
<th><strong>In preparation</strong></th>
</tr>
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<tbody>
<tr>
<td></td>
<td><strong>Indicator: Financial, Human and Other</strong></td>
<td><strong>Indicator: Risk Based Supervision</strong></td>
<td><strong>Indicator: Risk Based Supervision</strong></td>
<td><strong>Indicator: Information Confidentiality</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Indicator: Investigation and Enforcement</strong></td>
<td><strong>Indicator: Operational Transparency</strong></td>
<td><strong>Indicator: Information Confidentiality</strong></td>
<td><strong>Indicator: Information Confidentiality</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Indicator: Risk and Consistent Approach</strong></td>
<td><strong>Indicator: Governance Code/Practice</strong></td>
<td><strong>Indicator: Risk Based Supervision</strong></td>
<td><strong>Indicator: Risk Based Supervision</strong></td>
</tr>
</tbody>
</table>
Global Access

External: Established in Mauritius. Regulated in Mauritius. Provides pension benefits to mainly non Mauritian residents [conducts business mainly outside Mauritius].

Foreign: Established outside Mauritius. Regulated outside Mauritius. Provides pension benefits to Mauritian Residents but also to residents outside Mauritius (e.g. a multinational company operating a branch in Mauritius).
Conclusion
Conclusion

• Sound principles of design but no single best pension system for all countries

• It is important to think in terms of several pillars of retirement provision rather than focus exclusively on just one pillar

• Pension reforms
  – All pensions systems have embedded risks that must be understood and managed
  – A country should not set up a system beyond its capacity to implement
THANK YOU
FOR YOUR KIND ATTENTION

Vision

“To be an internationally recognised Financial Supervisor committed to the sustained development of Mauritius as a sound and competitive Financial Services Centre”