

Design and delivery of adequate DC pensions: Challenges and solutions in the African continent

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Retirement Industry Overview

Under Gov. Purview

Under FSC's Purview

Pillar 0	Pillar 1	Pillar 2	Pillar 3	Pillar 4
<u>Basic Retirement Pensions</u>	<u>National Pensions Fund (NPF)</u> - discontinued	<u>National Savings Fund (NSF)</u>	<u>Private Pension Schemes</u>	<u>Family/ household support or other social security benefits</u>
Features <ul style="list-style-type: none"> • Universal Pension • Funded by Gov. Taxation • Paid as from age 60 	Features <ul style="list-style-type: none"> • Mandatory for the private sector 	Features <ul style="list-style-type: none"> • Mandatory for the public (statutory bodies & civil servants) and private sector 	Features <ul style="list-style-type: none"> • Voluntary private provisions • Funded DB/DC 	Features <ul style="list-style-type: none"> • Informal • Family/ own house • Personal/ public health • Free transport
Establishment <ul style="list-style-type: none"> • In 1951 • National Pensions Act 	Establishment <ul style="list-style-type: none"> • In 1978 • National Pensions Act • Aug 2020 - discontinued 	Establishment <ul style="list-style-type: none"> • In 1995 • National Savings Act 	Establishment <ul style="list-style-type: none"> • In the 1950s (old Act of 1954 repealed) • Private Pension Schemes Act 2012 	Establishment <ul style="list-style-type: none"> • Major component for many generations

Recent Policy Developments

- **Amendments to the Workers' Rights Act (WRA):**

Require sponsoring employers to carry out an annual check to ensure that their contributions to their DC private pension schemes (for each employee covered under these schemes) are at least equal to the contributions that they would have paid to the Portable Retirement Gratuity Fund ('PRGF').

- **PRGF:**

Set up in Jan 2020, it provides for the payment of gratuity to a worker on his retirement or to the legal heirs of a worker on the death of the worker. Every employer is required to pay PRGF contributions at the rate of **4.5% of the monthly remuneration** of each worker. An employer is exempted from contributing to PRGF if he sponsors a private pension scheme licensed with FSC.

Recent Policy Developments

- Tax deduction

Up to EUR 1,065 for contributions to personal pension plans

- Consolidation of mandatory pillars

- Basic Retirement Pension (BRP) for each citizen as from 60: EUR 235 per month
- Social contributions ('CSG'), established in September 2020, it pays a monthly allowance of:
 - EUR 43 for those earning up to EUR 530 per month
 - EUR 21 for those earning from EUR 530 to EUR 1,060 per month
- Formula to determine the retirement gratuity under WRA
- Changed from 15/22 to 15/26 of the final monthly remuneration for each year of service for employees working 5-day weeks



Fund type	Number of funds	Total AUM (EUR)
DB	<ul style="list-style-type: none"> Pure DB: 21 Hybrid: 19 	<ul style="list-style-type: none"> Pure DB: 109.7 M Hybrid: 316.8 M
DC	36	916.0 M

- Total employers currently participating= 2,483
- Total number of Members= 113,000 (approx.)



CURRENT TREND

Rationale for the transition

- Mortality rates have declined steadily over the past century, which have translated into large increases in life expectancy
- Pension benefits and healthcare benefits will have to be paid over relatively longer periods, which translate into higher costs for pension schemes and/or Governments.
- The growing financial difficulties being faced by several DB schemes in Mauritius have now further worsened owing to the Covid-19 pandemic outbreak.
- To manage costs, sponsoring employers of DB schemes opting for the phasing out of DB schemes.

Issuance of the Guidelines

- In order to assist with the transition, the Financial Services Commission ('FSC') has issued, on 23 April 2021, a set of Guidelines for the Conversion or Shift of DB pension schemes to DC pension schemes, pursuant to its powers under section 7(1)(a) of the Financial Services Act 2007.

CONVERSION

Definition

“conversion” means the process of converting the members’ benefits in a DB scheme that have accrued up to the date of conversion and crediting the commuted value to the members’ individual accounts under the subsequent DC scheme.

Disclosure to members

Where a DB scheme is fully funded on a portability basis at the conversion date, a conversion shall be permitted provided the following conditions are satisfied:

- (a) communication exercise to members;
- (b) full disclosure of information to members; and
- (c) consent of members is obtained.



SHIFT

Definition

“shift” means the process of shifting the members of a DB scheme to a DC scheme, for future service accrual, on the date on which the accrued pension benefits of members under the DB scheme are preserved.

Disclosure to members

Where a DB scheme is fully funded at the shift date, the following conditions shall apply:

- (a) communication exercise to members;
- (b) full disclosure of information to members;
- (c) consents of members have been sought and the consents obtained are submitted to the FSC; and
- (d) where the consents of all members have not been obtained, legal advice is sought in respect of the non-consenting members and submitted to the FSC.

Statistics on Shifts & Conversions

Application	Completed	Work in Progress
Shift*	8	10
Conversion*	3	16

* Per employer



PPS vs PRGF

- Employer contribution rates into their DC schemes should not be less than the contribution rate payable into the PRGF which is currently **4.5% of monthly remuneration**.
- The FSC Mauritius has observed over the past 2 years that some existing employers and some new employers prefer to participate in the PRGF instead of a private pension scheme.
- **28 existing Employers** have withdrawn from private pension schemes since year 2022 till date.
- Private pension schemes involve service provider fees; PRGF doesn't.
- PRGF provides a lump sum benefit only. Private pension schemes provide a pension for life.

Disclosure requirements under the PPSA

- Beneficiaries are provided with an annual benefit statement that provides them with the necessary information about their contributions, accrued pension benefits and projected pension benefits at retirement;
- Beneficiaries are informed of their pension rights, including portability rights, and have ready access to relevant information about the private pension scheme they are contributing to;
- Beneficiaries are informed in a timely manner of any amendment to the constitutive documents of the private pension scheme documents;
- prospective members are informed, before joining a private pension scheme, of pension rights and are provided with adequate information relevant to the scheme.

THANK YOU

