Aon Pension News Alert - The Finance (Miscellaneous Provisions) Bill

The Finance (Miscellaneous Provisions) Bill (the Bill) will be at its first reading in the National Assembly on 7 July 2020. We summarise, in this News Alert, the key changes and proposed suggestions regarding NPF/CSG and pension aspects ahead of the vote of this Bill.

National Pensions Act - Insured person

The National Pensions Act 1976 (the Act) basically defines an insured person as a private sector employee aged between 18 and 65.

NPF Contributions

Section 13 of the Act will be amended so that no person will become eligible to be an insured person after 31 August 2020. This in effect aligns with amendments (by repealing section 17, 17A, 17B, 18) brought in to stop contributions to the National Pensions Fund (NPF) by an employer, employee, the unemployed and self-employed as from 1 September 2020 as mentioned in the Budget Speech 2020/21.

However, those who had previously contributed to the NPF prior to 1 September will still be considered as insured persons and receive their benefits accordingly.

NPF Benefits

The Bill however mentions that benefits payable to an insured person will be calculated on the amount of contributions paid ***by the employee***. This is a matter of concern since it is not clear how the employer portion contributed for so many years will be used going forward.

We propose that the wording of Section 13(1B)(c) be amended to confirm that the NPF pension will be based on the total employer and employee portions.

Introduction of the Contribution Sociale Généralisée (CSG)

We note the formal introduction of the CSG in the Bill, payable as from the month of September 2020 going forward. We welcome the idea of leaving most of the details to be prescribed later by regulations (e.g. definition of employee and self-employed, the CSG contribution rate, the salary on which to calculate CSG, etc…). This would allow government time to consult more widely on the proposals before prescribing the details.

However, we believe that the September 2020 implementation would be too quick in that context. It might be better to push back the implementation to January 2021 or even January 2022 so that the start of the Portable Retirement Gratuity Fund (PRGF) can be integrated into a coherent whole for employers.

In addition, we note with concern that CSG contributions will be paid to the Consolidated Fund and pooled with all other forms of Government revenue, including tax revenue, and used to meet any Government expenditure going out of that Fund. There will therefore be no direct link between CSG contributions and benefits, which seems to confirm our view that the CSG is effectively a tax.

This also confirms the Pay As You Go (PAYG) nature of CSG rather than being funded i.e. the contributions received from the working population are immediately used to pay current pensioners, so there are no savings for the future. Such a system is clearly unsustainable as opposed to the NPF which is based on the concept of advanced funding. We had highlighted the serious ramifications of such a system in our June 2020 News Alert as well.

It is also worth noting that benefits (other than pension benefits) may be prescribed. These might be the unemployment benefits referred to by the Minister of Finance in a previous televised address.

Penalties

Employers who do not pay the CSG to the MRA will have to bear a penalty of 10% of any unpaid CSG plus interest of 1% per month during which CSG remains unpaid. The penalty and interest should be paid by the employer and cannot be recovered by deducting an employee's pay.

The Private Pension Schemes Act

We welcome the introduction of 'Abandoned Funds' in the Bill to which unclaimed benefits, especially at the time of winding up of a pension scheme, can be transferred to. This would help Trustees on winding up whereby some members cannot be retraced or do not opt to transfer out their benefits.

This further protects the members' benefits by enabling the refund of these abandoned funds to the owner or his/her heirs should they be found many years after a private pension scheme is wound up.

Sugar Industry Pension Fund

We also note that, in line with worldwide trends, the Sugar Industry Pension Fund Act will be amended to set up a new Defined Contribution scheme, with details of its operation, contributions and benefits to be prescribed at a later stage.

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