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"INADEQUATE RETIREMENT PLANNING COULD HAVE DISASTROUS CONSEQUENCES"

Retirement may seem a distant future compared to the pressing demands of today. Insufficient planning could however have disastrous consequences for individuals but also for the economy and society at large. The warning is fired by Bernard Yen, Managing Director of Aon Hewitt (Mauritius), an independent actuarial, employee benefits and investment consultancy firm. Bernard is also an independent board member of MCB Capital Partners and has gained most of his overseas experience at Mercer, one of the world's largest actuarial and benefit consulting firms.

What do we expose ourselves to if we do not plan for our retirement?

The main risk is that we may not be able to maintain a decent standard of living in retirement. A traditional benchmark is to aim for a pension of two-thirds of your final salary, assuming you no longer need to save or spend on others when you retire. Some, especially the lower paid and unhealthy, may need a pension closer to 100% or more of their final salary while others will find it difficult to cope with less than 50% of their final salary if they want to maintain their lifestyle. Some others may need to keep on working.

What would the consequences be if the country's ageing population does not plan appropriately for its retirement?

The consequences could be disastrous for the economy and society at large. The government may face pressure to increase the basic retirement pension which is paid for by taxpayers. The National Pension Fund (NPF) can only pay what it is designed to pay out of contributions it has received, which is a maximum of around Rs 4,000 a month. Pensioners who cannot afford private medical treatment will fall back on public hospitals, putting pressure on them and taxpayers again. The economy itself could grind to a halt if pensioners, or their children having to support them, reduce their spending on food, travel, leisure and entertainment. There are also fears that if the older population cannot afford to retire and needs to carry on working, this may result in more unemployment at younger ages.

How can we plan our retirement effectively?

The best place and time to start is in our workplace. If we want to work for 40 years and enjoy retirement for another 20 years or so, it is easier to save a little during all 40 working years than a lot more in just the last 20 working years, for example. Employer-sponsored pension funds, such as the MCB Superannuation Fund, are only designed to give the magical pension of two-thirds of final salary after 40 years of service. If you have previously worked elsewhere without being a member of such a pension fund, you may need to catch up by making voluntary contributions to the MCB fund or another savings vehicle such as a personal pension plan offered by an insurance company or a retirement plan offered by MCB Unit Trust, for example. Some people prefer to invest in land or buildings to earn rental income in their old age, but the difficulty here is that you lock up the capital instead of releasing it over time to give you the higher income that you may need. Others will prefer the security of fixed deposits or savings in the bank, but again the income may be too low if you are afraid of using up the capital too quickly.

Should employers be more involved in the planning of their staff's retirement?

There is a school of thought that retirement is a very personal event and that individuals are best placed to plan their own retirement, if they do so with the right awareness, tools and products, whereas businesses should focus on their core activities. So, at one extreme, you may find some businesses not getting involved at all in the planning of their workers' retirement and perhaps paying higher salaries to them and telling them to look after their own retirement. At the other extreme, there is a school of thought that individuals will never choose to save for retirement by themselves and that they should effectively be forced to do so, either at the level of government with higher taxes or in the workplace with compulsory pension plan membership. In practice, most countries and businesses will steer a middle course. That is the case in Mauritius, where we pay taxes to cover the basic retirement pension, contributions to the NPF and employer-sponsored pension plans, and this may still leave room for individual choice of personal pension and retirement plans. The prevailing culture in Mauritius seems to be that businesses should be involved in the planning of their workers' retirement in some way or another, especially if they are already contributing to CSR activities, for example.

What will be the impact of the Private Pension Schemes Bill?

This Bill is designed to introduce a more comprehensive legal framework for the regulation and supervision of private pension schemes by the FSC. Members of such plans will have the right to more regular information on how their plans are doing and what they can expect from them in terms of benefits. The governing bodies of such plans will have a clearer view of their roles and responsibilities in looking after the funding and investment needs of the plans, leading to greater security for the beneficiaries. The Bill should increase the members' confidence in such plans, while at the same time its requirements should be reasonable and not too onerous for employers. Otherwise, the latter may be discouraged in setting up or sponsoring such plans in the future.

How can individuals be encouraged to invest more in their retirement?

Education and incentives are key. As more people realise that longevity is increasing and medical costs in particular increase with age, they should be encouraged to save for their retirement from day one. Awareness is often not enough, though, due to our human short-sightedness. Fiscal incentives will often tip the balance: people like the idea of saving Rs 1,000 when they know it will only cost them Rs 850 or Rs 750 after tax relief. We have been calling on the government to restore this incentive which was removed in 2006.

What visibility do we actually have on the future of our personal finances?

The truth is that we will never have perfect visibility for the future. Markets will always go up and down and returns can only be guaranteed in the short term and at a cost. However, we know that most people will live many years in retirement and they will have to save enough money in advance. We also have to believe that, in the long term, people should be rewarded for saving instead of spending, so it makes sense to save. The difficulty is finding the right balance between different kinds of investment which offer different risk/return and other characteristics. There are professionals who can help employers, governing bodies and individuals to make informed choices and invest in a wide range of instruments for long-term growth. We may get it wrong from time to time because of the uncertainties, but we will certainly get it wrong if we do nothing and hope for the best!