The Finance (Miscellaneous Provisions) Bill 2012

18 December 2012

"The only constant is change, continuing change, inevitable change, that is the dominant factor in society today. No sensible decision can be made any longer without taking into account not only the world as it is, but the world as it will be."

˜ Isaac Asimov

The Finance (Miscellaneous Provisions) Bill will be voted in Parliament this week. The object of this Bill is to provide for the implementation of measures announced in the Budget Speech 2013 relating to taxation and national finance and matters consequential or incidental thereto.

We elaborate on the sections of the Bill which concern pensions and health insurance.

Public Pensions Defined Contribution Pension Scheme

One of the most important developments in the retirement landscape over the past years has been the global trend away from defined benefit (DB) plans towards defined contribution (DC) plans. In line with this, the Finance Bill makes provision for the launching of a Public Pensions Defined Contribution Pension Scheme, for government officers appointed on or after 1 January 2013. All participants will have an individual account and the scheme will be administered by SICOM or authorized agents.

A Public Pensions Advisory Committee will oversee the Scheme. The Committee will be chaired by the Financial Secretary and be responsible for operational decisions, investment strategy and recommendations, as well as ensuring that the Scheme is kept viable. We note that the committee structure is similar to the actual National Pensions Fund/ National Savings Fund Investment Committee.

Officers (appointed on or after 1 January 2013) will be required to contribute a minimum rate of 6 % of pensionable emoluments to their individual account. The Government will in turn contribute 12% of pensionable emoluments to the account.

What happens in the case of participants who resign from public service?

Assuming that they have made contributions for at least one year, the participants will not be refunded their accumulated benefits However, they may choose to transfer the accumulated benefits to a pension scheme administered by SICOM or an authorized agent, leave the benefits in the individual account until retirement or death; or else in such manner as may be prescribed.

We moreover note that the Statutory Bodies Pension Funds Act will be amended in order to be in line with the new Defined Contribution Pension Scheme.

Our Views

The shift towards Defined Contribution pension plans does have some positive aspects, both for public officers and for the Government. It could encourage labour market mobility because those leaving public service will benefit from greater portability of their individual accounts. However, such a shift will also reallocate investment risk within the financial system from the Government as an employer to the employees concerned and their households. It remains to be seen whether newly recruited public officers will be ready to see high volatility in their individual accounts. Officers who join in as from 1 January 2013 will become increasingly

exposed to financial markets, and retirement income may be subject to greater variability than before. It should be highlighted that the initial Defined Benefit Scheme was one of the factors which attracted people to the Mauritian public service.

We also believe that the minimum 6% contribution by public officers to the Defined Contribution Scheme could encourage savings. Participants could hence benefit from higher retirement income, although much will depend on the performance of financial markets. We furthermore believe that officers will be encouraged to make additional pension related contributions if the latter become tax deductible.

We are of the view that regular presentations/ education will be necessary for participants and trade unions. They should be aware that the individual accounts will remain volatile and will depend highly on the performance of financial markets. Regular performance updates should be provided.

Finally, it is worth highlighting that Defined Contribution pension plans encompass a wide range from pure unitized plans with individual investment choice to cash balance, Career Average Revalued Earnings (CARE) and Defined Ambition plans which are more like hybrids between pure Defined Benefit and pure Defined Contribution.

Tax Relief for Medical Insurance Premiums

One of the measures announced in the 2011/12 Budget speech was to allow employees to use their monthly National Savings Fund (NSF) contributions as payment of private health insurance. Those opting to do so were allowed to redirect their future monthly contributions to the insurance company of their choice.

The Finance (Miscellaneous Provisions) Bill now goes one step further. As from 2013, taxpayers will be entitled to deduct the actual amount of premium paid for a medical or health insurance policy from net income. Premiums paid for dependents will also be deductible.

The table below summarizes the annual maximum amount of medical premium qualifying for tax relief:

COLUMN 1	COLUMN 2
Category claimed as Income Exemption Threshold	**Premium allowable (Rs)**
Category A (no dependent)	12,000
Category B (one dependent)	12,000 for self +12,000 for dependent
Category C (2 dependents)	12,000 for self +12,000 for first dependent + 6,000 for second dependent
Category D (3 dependents)	12,000 for self +12,000 for first dependent + 6,000 for second dependent + 6,000 for third dependent
Category E (retired or disabled person with no dependent)	12,000
Category F (retired or disabled person with one dependent)	12,000 for self +12,000 for dependent

In the case of a household with three dependents, the above measure will allow a net saving in income tax of up to 5,400 rupees per annum.

It is important to note that no relief will be allowed if the premium has been paid by the employer of the person or if the premium is paid under a combined medical and life assurance scheme.

Our Views

Health insurance premiums can be expensive, especially if paid by self. However, in the medium to long term, having health insurance can prove less expensive than remaining uninsured. A person without health insurance will have to pay for all of health care costs out of pocket. The above medical insurance relief measure will now offer tax deductions to

lighten the impact of those costs. We welcome this measure. Taxpayers may feel encouraged to take medical insurance. This could potentially result in a better quality of life in future. This measure may also result in public hospitals becoming less crowded.

Conclusion

New recruits in the public service will as from 2013, contribute to a Public Pensions Defined Contribution Pension Scheme. This is a major change as accumulated benefits will depend significantly on the performance of financial markets. Risk is being transferred from the Government as an employer to new recruits and this is in line with international trends. Efforts should be made to educate the newly appointed public officers about the features of a defined contribution plan. The administrator of the plan should also provide regular information to members on how their individual accounts are performing.

Health insurance premiums will moreover become tax deductible. We would expect this measure to encourage taxpayers to take additional medical insurance for themselves and their dependents. Besides encouraging protection, it can ultimately enable taxpayers to benefit from an improved quality of life.

We furthermore believe that the time is now appropriate for individual pension contributions to become tax deductible as well. Contributions from individuals are fully taxable since 2006. Such a system makes savings towards retirement taxed twice for individuals, initially when contributing and again when receiving the benefits at retirement in the form of taxable pensions. Tax deductibility of contributions could potentially induce individuals to save more for their retirement.

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