PENSIONS - TAKE CONTROL

Too young to retire…

Hewitt LY Ltd, firm of independent actuaries, will try to explain the complex (and not so boring) world of pensions to help you Take Control and plan your retirement. In the first of this series of articles, we lead you through the minefield of pensions, dispelling some of the myths and hurdles to retirement planning and allowing you to "Take Control".)

Most of us are so engrossed in our daily routine that we hardly ever have time to think of what we'll do after we retire, let alone how we'll support ourselves. Retirement is one of those things that for many always feels so far away : *" I'll think about it next year " ; " I'm still young " ; " I've still got plenty of time to save "…*

Others rarely even think of saving for retirement at all… until it's too late!

It's never the right time to start saving for retirement. When we start working, we're busy enjoying those first pay cheques. Then it's time to settle down and get married. *Saas/bahu* (mother-in-law/daughter-in-law) conflicts inevitably crop up and it's imperative to move out of the parents' house and build/buy our own place. Those who have been there know how hard it is when your income is halved because of house loan repayments. After a few years, there are childcare costs to take into account and then children's education and then their marriage, etc, and before we realise, we're retired - a bit too late to plan for retirement…

For previous generations, this may not have been a major problem. Extended families and the inherent family unit meant that children would support their parents in retirement. It was almost expected that grandparents would take care of grandchildren.

But extended families are slowly breaking up. More and more we see children move out when they get married, if not before. Whilst family support still exists, it is questionable as to how long it's going to last and to what extent it can be relied upon. Unless we plan for our retirement, we may find that our situation is not all what we had hoped for and that our retirement income is insufficient to maintain our standard of living.

To understand and to help us "Take Control" of our retirement plans, we need to know how it works and what is available to us. Don't run away, we're not going to embark on a series of complicated definitions! Pension is not as complicated as it first sounds. Let us first contemplate why we need to plan for our retirement.

And too young to die…

I went to the funeral of an eighty-year old last week and overheard someone saying : *" He was too young to die. "* It's true that losing a loved one, whatever his age is always painful but it is also true that in a few years eighty might really be considered too young. This is to say that with medical advancement and education, people are living longer on average than they were a few years back.

This also means that, unless we retire later, we will need a pension for longer than our grandparents did. There is also a greater risk that the retirement pension is not sufficient to meet all our needs if prices increase faster than our retirement income does.

Another problem is that whilst medical advances may help us live longer, the cost of healthcare is also escalating rapidly. This means that we may need to spend considerable amounts on healthcare and for a longer period. If, in addition, we were not fortunate enough to have relatives to care for us, we would need to have sufficient funds to cover nursing care.

Not a bright picture, is it ? Unfortunately, this is the plight of many pensioners who failed to save for their retirement. This is not the story of a European guy who was rejected by his children. This could be us in a few years if we don't plan our retirement carefully.

Income need

A general rule of thumb often employed in many countries is that a person should aim for a pension of two-thirds of his final salary when he retires. In practice, it will depend on your own circumstances : whether you are on low, medium or high salary ; whether you have other non-pension assets and savings ; and if you can rely on support from family.

Expenses after retirement are expected to be lower. For example, mortgages would have been repaid, children would have completed their education, got married and/or moved out and the costs related with full time employment would disappear - e.g. travel costs.

But it is also true that medical expenses could be expected to be much higher.

Unfortunately, post retirement expenses are likely to vary greatly between individuals. One size does not fit all and therefore the target of two-thirds should not be employed without due consideration.

How much savings?

Having decided what level of income (or "pension") I need in retirement, how much will this cost? The honest answer to that question is we don't know. The cost of the pension will depend on several factors such as :

How long you are expected to live ;

Whether you are a man or a woman ;

Whether your pension will increase each year ;

Whether your dependents will receive a pension if you predecease them.

A pension is a monthly income paid to you for as long as you live. The cost of buying that pension is the amount of money you need to have when you retire to pay for all these future "instalments".

The cost of a pension to someone who is expected to live 5 years will be lower than the cost of a pension for someone who is expected to live 20 years. The life expectancy of someone is assessed using historical information about mortality rates. For example : the cost of a pension for a woman is higher than the cost of the same pension for a man as women are expected to live longer than men - lucky or unlucky them ; the older you are when you retire the shorter the period your pension is likely to be paid for ; people who smoke are likely to die sooner than non-smokers, etc.

To give you an idea of the sums involved, the current cost of a pension of Rs 10,000 per month payable for life and increasing at 3% per year on average for a man aged 60 is expected to be Rs 1.3 million. The cost of the same pension if it does not increase is currently estimated at Rs 1.0 million.

The Mauritian perspective

Last week we talked about why we need an income after retirement and how easy it is not to plan our retirement because of various other financial obligations. We also gave an idea of how costly it can be to provide for a pension.

But how can I save for my retirement?

Well you do have the option of putting money under your mattress as our forefathers used to but there are more appropriate vehicles that are designed specially for this purpose.

Personal savings can form an important part of retirement income and those of us who are financially sophisticated may have invested in various financial assets that will yield an income in retirement.

Other persons may have invested in non-financial assets such as property, which will be sold when or shortly after they retire to provide them with a means of living in retirement.

But the most common form of pensions savings is through regular contributions in a pension scheme. Many private sector employers offer their employees the benefit of a pension scheme. Other sources of pension, which we discuss later in this article, also exist.

And how exactly does a pension scheme work?

There are several types of pension schemes, which we'll discuss in another of this series of articles.

A pension scheme is an investment vehicle where contributions are paid throughout employees' working lifetime. Professional investment managers invest these contributions and at retirement, the assets of the pension scheme are used to provide retirees with a pension.

Benefits

The benefit of retirement savings through a pension scheme include:

The investment returns on a pension scheme's investments are not taxed;

Employer contributions into a pension scheme are not treated as taxable income;

An individual may not be able to invest in financial assets such as equities through lack of expertise and/or limited funds. A pension scheme pools the funds of many employees together and can use these specialist products for the benefit of all pension scheme members. Investment and other charges are also typically lower for pension schemes than for an individual again because of the higher funds involved.

The pension scheme is usually a legal entity in itself and, as such, is not exposed to the fortunes of the employer or the individual. This means that even if the employer goes bankrupt, the employees' pensions should, in theory, not be affected. This is contingent on regular and adequate contributions having been paid into the pension scheme. Pension schemes should therefore provide more secure retirement benefits.

Some pension schemes are entirely financed by the employer and are called "non-contributory" schemes. A pension scheme in which an employee would be required to contribute is called a contributory scheme.

What if I am self-employed?

The government is actively promoting entrepreneurship and a number of small businesses are regularly set up. As these businesses grow, they may think of setting up a pension scheme for the benefit of their employees.

But until that happens, the owners of small businesses may wish to provide for their own pensions by subscribing to a personal pension plan (PPP) with an insurance company. These individuals should however shop around and investigate things such as :

Administration and investment charges

How the assets of the PPP will be invested

The financial health of the insurance company (no need to invest in a PPP with an insurance company that is likely to go bankrupt!!!)

They should check the veracity of whatever sales persons tell them and read the small print in the documents provided to them before committing to any particular product. This is especially true for a PPP, which is a very long-term investment.

It would be easy to discard a can of beans if you are surprised with its taste but what if your PPP is only providing you with half the pension you expected and you find that out on the eve of your retirement? This is to say that even after you've bought the PPP, you need to regularly check what's happening to your pension. Ideally, insurance companies should be committed to providing you with regular illustrations of your pension benefits.

Sources of pension

We will now explore the various potential sources of retirement income that we have available in Mauritius.

1) "Old-age pension"

The first source is the "Old-age pension". Every person, whether or not he worked during his lifetime, is entitled to the "Old-age pension" when he reaches age 60. This pension is currently Rs 2,365 per month and increases to Rs 7,035 per month for those aged 90 and above and Rs 7,985 per month after age 100.

The government decides on the level of the "Old-age pension" and any increases thereto and is also responsible for paying the pension through the Ministry of Social Security.

This pension aims to provide a safety net to all pensioners and helps them meet their basic retirement needs but is not likely to be sufficient to maintain their standard of living after retirement.

2) National Pension Fund (NPF), Sugar Industry Pension Fund (SIPF), Civil Service Pension scheme (CSPS) and others :

All private sector employees are members of the National Pension Fund and contribute 3% of their monthly salary, up to a maximum of Rs 10,095, into the fund each month. Their employers contribute 6% of their salaries. The Rs 10,095 is called the NPS ceiling and is increased each year.

The NPF aims to provide retirees with a pension of approximately 1/3 of their monthly salary or the NPS ceiling, whichever is lower, after 40 years.

The SIPF is similar to the NPF but covers all employees of the sugar industry. SIPF members can also be members of the NPF.

Public service employees are not members of the NPF and the government pays their pension in the same way as the "Old-age pension". Civil servants can expect a pension of 2/3 of their final salary after a bit more than 33 years of service.

Employees of parastatal bodies such as Waste Water Authority, CWA, etc, are members of pension funds, which provide roughly the same benefits as those provided to public sector employees. They are also not required to join the NPF.

3) National Savings Fund

All public and private sector employers are required to contribute 2.5% of each employee's earnings, up to a maximum of the NPS ceiling, to the NSF, which will provide employees with a lump sum at retirement.

4) Private pension schemes or PPP :

Individuals earning around the NPS ceiling can get around 60% of their final salary as pension from the "Old-age pension" and the NPF. But this proportion reduces significantly for higher paid employees.

Private sector employers set up private pension schemes for their employees to try and ensure that employees get a decent income in retirement. Private sector schemes' benefits sometimes take account of benefits provided by the NPF but are provided in addition to the 'Old-age pension'. They generally target a pension of 2/3 of final salary after 40 years of service.

As we mentioned, these schemes can be contributory or not for employees. However, there is no requirement on private sector employers to set up pension schemes. The only legal benefit they have to provide, on top of contributions to the NPF, is a retirement lump sum of a month salary per year of service.

If your employer does not provide you with a pension scheme, you could choose to take up a PPP. But remember that you need to "Take Control" and save for your retirement.

5) Family support:

Last but not least, the family support system we mentioned in the last article plays an important role in many retirees' lives but we are not sure it can be relied upon in the future.

Benefits from a pension scheme

When we talk about pension schemes, we tend to think of retirement income only. But, in practice, you will find that pension schemes may provide a whole range of other benefits, which may encourage you to save for your retirement through a pension fund rather than by other means.

1) Retirement lump sum

The most popular retirement benefit is undoubtedly the retirement lump sum. The Minister of Finance's announcement to abolish its tax-free status in the 2006 Budget was met with public outcry. He later conceded to making the first Rs 1 million (or one quarter of the total benefit, if lower) tax-free, which means that anyone earning a scheme pension of around Rs 25,000 per month would not pay any tax on his/her lump sum.

Apart from its tax-free status, the retirement lump sum affords many pensioners a once in a lifetime opportunity to pay off their mortgage, invest in a business or just taking that dream holiday.

But to get the retirement lump sum from a pension scheme, pensioners usually sacrifice part of their pension entitlement. The danger, particularly for lower income households, is that the lump sum benefit is frittered away leaving an inadequate level of pension income. This is why the amount of pension that can be sacrificed to get a lump sum is limited to one quarter of the pension entitlement.

For example, if a pensioner is entitled to a retirement pension of Rs 10,000 per month, he can choose to "convert" part of the pension into a lump sum and receive a "reduced" pension. He can reduce his pension by a maximum of one quarter, i. e. by Rs 2,500 per month. His lump sum could be as much as Rs 375,000 with a reduced monthly pension of Rs 7,500.

The lump sum is calculated differently for employees of the sugar industry and the National Pension Fund does not pay any lump sum. The National Saving Fund pays a lump sum only.

The law requires employers who do not sponsor any pension scheme to pay retiring employees a lump sum of one half of one month's salary per year of service. However, the benefit is not transferable between employers meaning that prior years service are lost if you move jobs.

2) Retirement pension

The main aim of a pension scheme is to provide employees with an income in retirement. The level of income may depend on the number of years of service and the salary at retirement or the contributions paid into the scheme (more on this later).

In addition, the scheme may guarantee that the pension will be paid for a minimum number of years, typically 5 years. This means that even if the pensioner dies during the first 5 years, the pension will continue to be paid during that period.

The pension may be fixed throughout the lifetime of the pensioner or it may increase each year, either by a fixed percentage or in another way. Typically increases to pensions in payment aim to protect a pensioner's purchasing power and are usually linked to inflation.

3) Dependents' pension on death after retirement or death in service

Many of you may be worried about what will happen to your dependents if you predecease them.

Some pension schemes pay a spouse pension if a pensioner or an employee who is still in employment predeceases his spouse. A children's pension may also be paid. But typically the level of these benefits is low. For example, the spouse pension is around one third of the member's pension.

The spouse and dependents' pension may also increase or may remain fixed during the whole time the pension is paid.

A spouse pension will usually cease if the spouse remarries and children pensions cease when they reach 18 or complete full time education (if later).

4) Lump sum on death in service

Most schemes provide some form of lump sum on the death of an employee in service. The norm is two years' salary.

This lump sum aims to help dependents subsist if the main income earner of the family dies. It is very useful especially when young employees, who have large financial commitments and practically no savings, die. This is one of the many advantages that membership of a pension scheme offers over retirement savings outside a pension scheme.

5) Benefits on total and permanent disablement

Some schemes also provide either a lump sum or a pension or a combination of the two if a person becomes disabled while he is still working. Special conditions usually apply for the benefit to be paid.

6) Early retirement

Most pension schemes allow members to retire early, provided that they have fulfilled certain conditions (e.g. worked for a minimum number of years). Members may also be allowed to retire early on grounds of ill health. Here also conditions usually apply.

7) Leaving the employer before retirement

Labour mobility has increased drastically over the last few years and with people changing jobs so often, they may find themselves with a very small retirement pension unless the pension they secured in former jobs are 'portable'.

In 2008, the government amended the portability of pensions legislation, which effectively says that if you have been a member of a pension scheme for 2 years rather than 5 years or more and you leave the employer before age 60 to take up another job, you do not lose the benefit of the pension you accumulated.

You can choose to leave your benefit in the scheme and draw your pension when you reach retirement age or you may transfer the "value" of your benefits to your new employer's scheme or to a Personal Pension Plan.

However, even when you completed more than 2 years' service, you need to bear in mind that your "preserved" pension may not increase between the time you leave the employer and the time you retire. This often results in a surprisingly small pension or transfer value. This is best illustrated using an example.

Suppose an employee's pension when he leaves a company after 20 years service is Rs 10,000 per month compared to his monthly salary of Rs 30,000. i. e. a pension, payable from retirement age equivalent to one-third of his salary at date of leaving. He chooses to leave his pension in the scheme and become a "deferred pensioner" drawing it after 20 years when he reaches retirement age. His salary at retirement has increased to Rs 80,000 per month. Unfortunately his deferred pension has not been increased and is still Rs 10,000 per month. Therefore at retirement age his deferred pension only represents one-eighth or 12.5% of his salary.

All pension schemes do not provide the benefits described above. You should check the rules of the scheme of which you are a member to determine whether you are entitled to any of these benefits.

Some benefits are also provided by the State and the NPF in circumstances other than retirement but they are again very low.

The government announced in year 2008 that retirement age would be progressively increased from 60 to 65 We will analyse the impact of this change in our next article.

An ageing world

Increasing the state retirement age is one of the most politically damaging decisions a government could take. Unfortunately, many governments around the world have been forced to do this over recent years and Mauritius is no exception. In last year's budget the Minister of Finance announced that by 2018, people would only be able to receive state pension benefits from age 65 instead of age 60.

We analyze the reasons for this change in this section:

An ageing world

Have you ever heard your grandmother saying that life was better in her day and that people lived longer? Well statistics would seem to prove her wrong, at least on the "living longer" bit. As for the "quality of life", we'll have to take her word for it.

In fact, life expectancy has increased markedly for many reasons including : education, the development and availability of medical care ; the eradication of malaria, advancement in technologies, general improvements in living conditions and so on. A woman can expect to live 13 years longer than her grandmother. The corresponding increase in life expectancy is 10 years for men.

At the other end of the life cycle, the number of babies born has decreased markedly over the years. My father had 14 brothers and sisters and my mother seven. I have one brother!

The main reasons for this trend are promotion of family planning, changing cultural beliefs (e.g. that children are God sent and the more the better) and more importantly, the fact that the woman's traditional role of "stay at home mom" has changed drastically. Women, more and more, are pursuing an active career and delaying having children until they are in their late twenties or thirties. Statistics show that the fertility rate in Mauritius has decreased from 6.1 children per family in 1960 to 2.0 children in 2000.

Fewer births and increased life expectancy means that the population will "age". That is, the balance between the young and old will shift. According to the latest census conducted by the Central Statistical Office, 7% of the population is aged 65 or over This figure is expected to triple in the next 40 years, meaning that nearly one in three people would have reached (the current) retirement age.

Having an ageing population is not a bad thing in itself. We can surely benefit from the experience and wisdom of our elders. The problem lies in the fact that traditionally working people are relied upon, through paying taxes, to meet the cost of education, basic healthcare and much of the state pension burden, amongst other things. With an ageing population, the ratio of workers to non-workers (i.e. pensioners and children) reduces and with this comes the danger that tax revenues are insufficient to support the population expenditure.

Also, living longer does not mean always being in good health. While medical advancement has succeeded in making people live longer, there are a number of new health "phenomenon" which mean that people require more health care. Diabetes, hypertension, cancer and even AIDS have increased markedly because of changing lifestyle, among other things.

At the same time, the breakdown of the extended family unit will increase the need for state provision of welfare for the elderly.

An ageing population therefore means that changes will have to be made to both public policy and individual behaviour. We have to plan for our retirement even more carefully and "Take Control". On the other hand, the State also has a problem because of expected increases in government expenditure and lower anticipated tax revenues.

How can we tackle this challenge?

Faced with the challenges of an ageing population, society and individuals must choose between four options or a combination of these:

1. pensioners will become poorer relative to the rest of society ; or

2. taxes will increase ; or

3. savings must rise ; or

4. average retirement ages must increase

None of these measures is popular. Failing to maintain the social standing of pensioners is unlikely to gain much support particularly given the increased financial and political importance pensioners will have in society.

The problem with increasing taxes is that taxes may have to increase to a very large extent as the non-working population increases. The same issue arises with borrowing to finance the deficit and neither approach will resolve the long-term issue.

Increased savings through pensions or other vehicles will become critical whether this is achieved through incentives or compulsion. Without increased savings, the reliance on state benefits will be a time bomb just waiting to go off.

Finally, increasing retirement age is likely to be part of the solution. The reality of the situation is that if we live longer we are likely to have to work for longer and retire later!

Implementing the change

We cannot tell an employee that he will retire 5 years later than he planned on the eve of his retirement. An increase in the retirement age has to be implemented in stages to allow future pensioners adequate time to plan for the change.

In Mauritius the change has been implemented over a relatively short period of time. By 2018 all employees will retire at the age of 65 instead of the current age of 60 and anyone aged 58 or less in August 2006 will be affected by this change. This has not left sufficient time for people in their mid to late fifties to adjust to the revised retirement age.

In practice, the retirement age under the new system has been increased by one month for each month from September 2008 to the employee's 60th birthday. For example someone reaching age 60 in December 2008, i.e. 4 months after August 2008, will retire at age 60 years and 4 months in April 2009. Someone reaching age 60 in August 2013 will retire in August 2018 at age 65.

All those born after August 1953 will retire at age 65.

Does this mean I have to postpone my post retirement holiday?

It is true that we are all affected by these changes to some extent as we all receive the "old-age" pension and most of us also get an NPF pension. These changes are also intended to apply to the NSF and to the Civil Service Pension Scheme.

However, many employer sponsored pension schemes allow employees to retire at age 60 and unless changes are made to the rules of these schemes, the changes announced by the government are not likely to force these schemes to increase retirement age directly.

Employers may change the rules of their schemes in future to align the normal retirement age to the state pension age of 65. This is because many sponsored schemes are integrated with state benefits (i.e. benefits are reduced in anticipation of state pension) and hence it may be difficult for someone to retire if he does not get the NPF as well as the scheme pension.

And let's face it, increased life expectancy also means, to some extent, that people may physically be able to work longer, which means that employers can delay replacing employees for about 5 years.

Employers may also argue that the cost of providing a pension has increased significantly from what was originally intended and increasing the pension age to 65 is merely redressing this balance.

Our view is that the government should not force employers to change the retirement age for private schemes but leave it to them to decide what is best for their employees and their business. On the other hand, employees should be able to retire earlier than at normal retirement age with actuarially reduced pensions, as is already the case for many private pension schemes.

You may not have to postpone your holiday finally…

Types of pension schemes

Many employers set up a pension scheme for their employees. This often represents a valuable benefit, rewarding loyal employees with a decent income in retirement. Unfortunately, just because your employer offers you membership of the company pension scheme does not mean that the level of pension it will offer you will meet all your retirement income needs.

You must take control of your own retirement planning and make sure you fully understand what benefits your pension scheme provides to assess whether these meet your needs. The first step towards understanding your benefits is to determine what type of scheme you belong to.

The fundamental differences between the main different types of pension schemes available in Mauritius are explained below.

1. Defined benefit (DB) schemes

Traditionally most, if not all, pension schemes were DB schemes. As the name suggests, the benefits provided by this type of scheme are defined according to set formulae. The most common form of DB scheme is a Final Salary pension scheme. This specifies your retirement benefits in terms of your salary at retirement and the number of years you worked for your employer.

For example, your pension at retirement may be 1/60th of your final salary per year of service, which would give you a pension of two-thirds of your salary at retirement if you worked for your employer for 40 years. Other benefits payable by the scheme, such as death in service benefits, are also specified.

For the employee, the major advantage of this type of pension scheme is that it is easy to understand and members know what their pension will be when they retire. It is therefore easy for them to "Take Control" and to plan their retirement.

For the employer however, providing a final salary pension brings many financial uncertainties and risks. The cost of paying this pension is not known in advance for many reasons : How long will you work for the company ? What pay increases will you receive? What investment returns will the stock market provide? When will you retire? How long will you live? Will you predecease your spouse? …

An actuary will make assumptions for each of these unknown factors and estimate the contributions required to be paid into the scheme so that sufficient funds are available to pay for pensions when members retire.

But the lifetime of a pension scheme can be very long. A new employee aged 20 joining a pension scheme today could still be receiving pension income from the scheme in 80 years time. Since the actuary does not have a "crystal ball", he will sometimes get his assumptions wrong - the stock markets may crash, salary increases may be higher than expected or a new disease may cause more deaths than expected!! These "unexpected" events result in very uncertain pension scheme costs.

Given that the benefits are fixed, at least in terms of salary and service and that the employees' contributions are usually fixed (or zero), this leaves the employer exposed to all the risks and uncertainties of providing the pension benefits.

If these costs become unsustainable or the uncertainty too great, employers may be forced to stop offering a defined benefit pension scheme to their employees. A radical solution to this issue has been the move to defined contributions schemes, where all the risks outlined above are passed on to the employee.

2. Defined contribution (DC) schemes

Whereas under a DB scheme benefits are fixed, under a DC scheme, contributions payable into the scheme are fixed. Each member has an individual account, often called a Personal Member Account (PMA), where employer and employee contributions (if any) are paid each month. These contributions are invested and at retirement the amount in your PMA is used to buy a pension for you and your dependents.

For the employee, the major problem with this type of pension scheme is that the amount of pension you will get is not known, which makes it difficult to plan for your retirement.

For example, you may have Rs1 million in your PMA three years before you retire and your account is invested in equities. Unfortunately, equities fall in value over the 3 years to your retirement by 20% and your account is only worth Rs 800,000. In a DC scheme your benefits would also have fallen by 20%, unlike in a DB scheme where your employer would have borne the fall in the value of equities through higher contributions to the scheme.

Some DC schemes offer members an investment choice, i. e. members have a limited choice in which assets they want to invest their PMA. In such cases, you could make your benefits more predictable by investing your PMA in assets that have more stable market values in the years prior to your retirement. These are assets such as treasury bills and government bonds that are expected to provide lower returns than equities but are more "secure".

But even if you know what your PMA will be when you retire, you won't know what pension this would give you. A PMA of Rs 1 million may sound like a lot of money but may only be equivalent to a pension of say Rs 8,000 per month. This is why it is very important that members of DC schemes be given regular statements including both the current value of PMA and illustrations of what their pension could be when they retire.

In spite of all the risks borne by members of DC schemes, employees often prefer DC schemes to DB schemes. Possible reasons for this are :

Members like the idea of having their own PMA

DC benefits are more portable as members simply transfer their PMA to their new employer's pension scheme if they leave after having completed 5 years' service

It is easier for members to make additional contributions into a DC scheme to secure a higher pension

Members are not educated on the risks of a DC scheme and also fail to understand the value of guarantees offered by a DB scheme

Employers also tend to prefer DC schemes, as costs are more predictable than under a DB scheme but more paternalistic employers worry that employees bear too much risk under a DC scheme. An alternative for these employers is a risk-sharing scheme.

3. Risk-sharing schemes

Final salary DB schemes and DC schemes lie at opposite ends of the risk spectrum, with the employer or employee taking all the risks respectively. As the name suggests, a risk-sharing scheme offers a middle ground between these extremes. They come in many different "shapes and sizes" depending upon where along the risk spectrum they are designed to sit.

The largest risk-sharing scheme in Mauritius is the Sugar industry Pension Fund (SIPF). Contributions payable to the SIPF buy a defined amount of pension i. e. each contribution earns a member an amount of pension which will be paid at retirement. That pension is guaranteed, but it is not guaranteed to increase over your working lifetime. The SIPF may award discretionary increases if the fund is in good financial health. This means that you will get at least the guaranteed pension and can plan your retirement accordingly.

These types of schemes limit the risks inherent in DB and DC schemes but only few such schemes exist, as the administration involved is quite complex.