AON Hewitt

The Private Pension Schemes (Technical Funding Requirement) Rules 2013

Happy New Year! At the beginning of January 2014 it's looking like the next months are going to be an interesting time for private pension schemes in Mauritius. As part of the shaping process of the pension legislation, the Financial Services Commission (FSC) has published the Technical Funding Requirement Rules which will come into operation on 31 January 2014. This is in line with our previous expectations that private pension schemes should be subject to regular funding assessments and corrective measures in cases of serious underfunding.

Technical Funding Requirement

A key measure for a defined benefit (DB) pension scheme is the funding ratio, which is the value of its assets divided by the value of its technical provisions or liabilities as calculated by an actuary in line with the Rules.

The Rules specify that the scheme meets the technical funding requirement if it has a funding ratio of at least 100% at the valuation date and if the contributions that will be made over the subsequent period covered by a schedule of contributions (typically 3 years until the next valuation of the pension scheme) can be expected to keep the funding ratio at least at 100%.

If the funding ratio is at least 90% and the scheme has established a plan to correct the deficiency in an appropriate timeframe covered by the schedule of contributions, it will still be considered to meet the technical funding requirement.

Statement of Funding Policy

The governing body of a private pension scheme and the actuary need to prepare a written statement of funding policy (SFP). A DB scheme's SFP needs to include the method and assumptions used in calculating the technical provisions and the contribution rates, and the period over which the technical funding requirement will be met (if not yet). A defined contribution (DC) scheme's SFP needs to include the method and assumptions used in estimating the pension benefits for disclosure to individual members in annual benefit statements.

Actuarial Valuation of Private Pension Schemes

The Rules require the governing body of a DB scheme to assess the technical funding requirement based on its actuarial valuation report at least every 3 years. It is now also mandatory for a DC scheme to submit an actuarial report at least every 3 years (unless specifically exempted by the FSC from doing so).

The actuarial valuation report or actuarial report needs to be submitted to the FSC within 9 months after the financial year-end of the private pension scheme, which is a relatively short period compared to current practice in Mauritius where actuarial valuation reports can easily take more than a year to be finalised after allowing for sufficient time in gathering data, preparing audited accounts of the pension scheme, carrying out the calculations and sensitivity analyses and discussing the results with governing bodies and sponsoring employers.

Assets and Liabilities – General Valuation Requirements

In valuing the assets of a pension scheme for the purpose of actuarial reporting, the actuary should exclude any assets that are not admissible or exceed the concentration limits specified in the FSC's Investment Rules. The actuary can also, if deemed appropriate, exclude any right provided under an insurance policy from both the assets and liabilities of the scheme.

Assets and liabilities will need to be assessed at the same valuation date and in a consistent manner. In a DB scheme, the actuarial value of the assets will be consistent with the basis used to value the liabilities and will be compared with the fair (or market) value of the assets (which can be different). In a DC scheme, the actuarial value of the assets can only be the fair value of the assets.

A DB scheme's basis for calculation of liabilities will consist of a funding method that takes into account the particularities of the scheme and the sponsoring employer, with prudent and well-chosen assumptions.

Prudent assumptions are determined by allowing for an appropriate margin to reflect possible future adverse deviations in both financial and demographic assumptions.

Any change in funding method or assumptions for the liabilities will also need to be justified by a change in legal, demographic or economic circumstances.

For a DC scheme, calculation of the liabilities or technical provisions is more straightforward as they consist of the sum of members' individual accounts at the valuation date.

A member's individual account in a DC scheme is the accrued amount at the valuation date, that is, the sum of total contributions made by the member and/or sponsoring employer, the investment returns obtained on the contributions and any capital appreciation less capital depreciation, cost of insured benefits and expenses as credited or charged to each account.

Contents of Actuarial Valuation Reports for DB Schemes and Actuarial Reports for DC Schemes

The minimum contents of the actuarial valuation report for a DB scheme have now been specified in the FSC Rules and these are generally in line with typical actuarial valuation reports we prepare. The contents include the following information:

- Summary of previous actuarial valuation results (if any);
- Analysis of changes in the benefits, membership profile, contribution rates and investment policy;
- Summary of the scheme's membership information and steps taken to ensure accuracy of data;
- Summary of the pension benefits and contribution rates, if any;
- Details on funding of expenses, death, disability and other allowances;
- Summary of the assets;
- Methodology and assumptions used;
- Sensitivity analysis;
- Analysis of change in surplus/deficit from the previous actuarial valuation;
- Strategy recommended by the actuary for the utilization of any surplus or financing of any deficit;
- Recommended future contribution rates.

The actuarial valuation report needs to be submitted to the FSC along with:

- An actuary's certificate to confirm the calculation of the funding ratio in line with the Private Pension Schemes Act 2012 and the Private Pension Schemes (Technical Funding Requirement) Rules 2013; and
- An actuary's certificate confirming the adequacy of the schedule of contributions to ensure the technical funding requirement is met.

The minimum contents of the actuarial report for a DC scheme are similar to the above for a DB scheme but fewer.

Utilization of Surplus in DB Schemes

The new FSC Rules state that any surplus in a DB scheme can only be used to the extent of maintaining the funding ratio at or above 105%. The surplus amount can be used to either subsidise the employer's and/or members'

contributions, to meet the scheme's expenses or to fund discretionary benefits.

The actuary needs to submit a report to the FSC to confirm the strategy that will be applied to utilize the surplus is in line with the above threshold.

Funding Deficits and Contingency Plans for DB Schemes

We are aware that many private pension schemes in Mauritius have funding deficits when carrying out the triennial actuarial valuation exercise. The FSC Rules introduce corrective measures to ensure the deficits are eliminated over an appropriate timeframe. These include immediate cash injections into the private pension scheme or additional contributions over a predetermined period. This should improve the security of the private pension scheme members' benefits as employers and governing bodies will focus more systematically on the funding position of schemes in consultation with their actuaries.

If a DB scheme is in deficit, a contingency plan needs to be prepared and approved by the FSC. The plan needs to include the timeframe over which payments will increase the funding ratio to 100%, the regularity of the additional payments, the actuary's certification of the plan and the sponsoring employer's certificate of compliance to the plan.

Conclusion

In general, we are pleased that most of our recommendations to the FSC in the limited consultation process prior to issue of these new FSC Rules have been taken on board. The Rules provide for funding deficits to be corrected over a number of years instead of just a few years or even immediately as required in some countries. This flexibility should benefit sponsoring employers and the long-term interest of the members while encouraging the employers and governing bodies to keep a closer eye on the funding status of their schemes and correcting any deficits appropriately.

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