OBSERVATIONS ON THE PAPER ON BASIC RETIREMENT PENSION OF MAURITIUS – by Larry Willmore (response of the author in blue arial script)

1. Latest data on the Basic Retirement Pension (BRP) are available at: http://www.gov.mu/portal/goc/cso/ei629/toc.htm.

I appreciate very much the ready availability of online information for recent years, but lament the absence of historical data. I did not have the opportunity to visit your country, so had to rely on material available in the library of Columbia University in New York City and in the Library of Congress in Washington, DC. (I was living in New York when I carried out this research.) With much difficulty, I was able to gather a nearly complete series of data from 1950 -- still missing is information on the number of pensioners in 1960, 1963 and 1981.

2. We consider that the BRP became fully universal in 1976 when even those persons liable to pay income tax became entitled to receive the pension as of right.

This is true, but the history of basic old age pensions in Mauritius begins in 1950. There was an income test that excluded approximately the wealthiest (least poor) 20% of those who would otherwise qualify by age. This income test was abolished in 1958, an event that "added approximately 6,000 to the number of old age pensioners, who came to total 25,783 at the end of 1958" (p. 71). The pensions were taxable as regular income, but I do not regard that as a means test. "In 1965 government lowered the qualifying age to 60 years for everyone and, at the same time, reintroduced a mild form of means testing: older persons with sufficient income to be subject to payment of tax – approximately 5 per cent of the covered population – were disqualified" (p. 72). "In 1976, as part of the National Pensions Act …, government … eliminated the means test" (p. 72). Also, I understand that the pension itself was exempt from income taxation. So, I agree, the BRP once again became fully universal, as it had been in the period 1958-1965. The only difference is that the post 1976 rules were more generous to the wealthy, since the pensions were not taxable. "In August 2004, for the third time in history, government imposed an income test on basic retirement pensions. …. This time the income test was short-lived, for the ruling political coalition lost the national elections of

July 2005. A new government moved quickly to 'end the humiliation previously imposed on pensioners by abolishing the targeted approach and reinstating [the] universal pension to all pensioners'" (p. 79).

3. In an earlier version of this Paper, the question of a greater number of beneficiaries than the number estimated by the Central Statistical Office was mentioned. The Director of Audit also raised this question in the 1980s. We explained that the CSO figure was just an estimate and not a real count as in a census. We also explained that we continue to pay this benefit while a beneficiary is abroad for a period not exceeding 6 months. We also pay this benefit for a whole month even where a person dies on the 1st of that month. We also pay this benefit for a full month whatever be the date of birth of the person during that month. There is a time lag between the date of death of a beneficiary and the date on which the name is removed from our register. In fact, the 1981 Census clearly showed that there was a great discrepancy between the estimated figure of the CSO and the figure revealed in the Census with regard to the number of persons over the age of 60 years.

I suspected as much, but not having first-hand knowledge of Mauritius, could not be sure. There has been reported fraud in other African countries and in Bolivia, so, in my ignorance, I could not totally rule out this possibility in Mauritius. If I write again on Mauritius, I will state more categorically that the discrepancies result largely from underestimates by the CSO of the number of aged persons residing in the country.

4. As far as targeting of the benefit is concerned, all the trade unions were also against this measure and campaigned for it to remain universal. They did not like the stigma associated with means testing.

This is interesting information, of which I was unaware. I saw no news of attacks on targeting until after the change of government. This illustrates how poorly we are served by international news.

5. The Minister of Finance announced a number of measures in his last Budget Speech in order to reform our pension system, including the BRP. Among others, normal retirement age and normal pension age of 60 years will be increased to 65 years over a period of ten years, from August 2008 to August 2018. The annual increase in BRP will be limited to the increase in prices. Henceforth, the BRP will be taxable. Special

deduction for the elderly has been removed. The tax system has been simplified in the last Budget Speech.

I like very much the idea of an increase in normal pension age, which is long overdue given increases in life expectancy. (By the way, this should not be called 'normal retirement age' because the BRP is not retirement-tested … a pensioner may continue to work without losing the right to receive a pension. Actually, the BRP is a misnomer as well … BAP – Basic Age Pension – would be a better term.) I also like the fact that the BRP will once again be taxable. But the price indexation formula will most likely prove unworkable. There will eventually be pressure to restore the value of the BRP in relation to the prosperity of the country, i.e. with increases in wages rather than prices.

6. In its Report (Modernizing an Advanced Pension System, November 2001), the World Bank recommended the privatisation of the contributory part of the National Pensions Fund (NPF). One of the main reasons for this recommendation was that, at the international level, "privately managed funds obtain substantially higher returns" on investments than publicly managed funds. What the Report chose to be silent on was the fact that in Mauritius privately managed funds by insurance companies providing long-term life insurance have substantially higher administrative costs and lower returns compared to the NPF. This underperformance of the private sector was clearly brought out in another Report of the World Bank (The Role of Occupational Pension Funds in Mauritius, April 2003, by Dimitri Vittas of the World Bank). The WB 2001 Report drew attention to the fact that achieving a better investment return in a privatised NPF was key to the success of privatisation but failed to show whether the private sector was able to do so.

I was aware of this, and totally agree with the argument. I did not discuss it in the paper because I chose to focus on the BRP, which is the unique feature of Mauritius, and one that, in my opinion, merits emulation by other countries. I am on record opposing mandatory contributions to *any* pension scheme, public or private. (See my "Three pillars of pensions? A proposal to end mandatory contributions", UNDESA Discussion Paper No. 13, June 2000, http://www.un.org/esa/desa/papers/2000/esa00dp13.pdf or http://papers.ssrn.com/sol3/papers.cfm?abstract_id=233586)

7. The Paper also refers to the question of indexation of the contributory scheme. As from 2001, the Ministry has been indexing the cost and value of pension points on the rate of annual wage increase. This has also been the case for increases in the ceiling of insurable wage. We have always disputed the claim that without a change in the indexation system, the replacement rate would have represented only 12.5 per cent in 2018/19. Even in 2001, pensions in payment exceeded the replacement rate of 12.5% of insurable wage.

The 12.5% figure is not my calculation. I am simply reporting what the World Bank states in its 2004 report. I see no reason to question this figure, though, as it is fully consistent with pensions in payment in 2001 exceeding 12.5% of the covered wage. As I note in footnote 9 (p. 82), again citing the World Bank's 2004 report, "those who retired before July 1999 received a better return on contributions, because participants over 40 years of age in July 1978 were given double points for their contributions". In other words, most pensioners in 2001 would have received double points for their contributions.

In any case, I included mandatory contributions in this paper only for the sake of completeness. My real purpose was to explain to the world how Mauritius, a very poor British colony, was able in the 1950s to achieve universal pension coverage for all its elderly residents, without subjecting them to the stigma of poor laws. It is this beautiful story that I sought to tell. The Mauritius experience is no longer unique in the developing world, but it was unique in the 1950s. Mauritius, in short, is a pioneer in universal pensions. Contributory pensions to my mind are an individual rather than a state matter, so I favour making them voluntary rather than mandatory, but this is a personal preference. Many observers, such as Professor Titmuss and, indeed, most staff of the World Bank, favour a paternalistic state that forces to citizens to save (reduce their consumption) in prescribed amounts and in prescribed ways so as to enjoy increased consumption in old age.

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Thank you for your thoughtful comments, which are much appreciated. I regret that I did not have access to them before the paper was published.