Universal Age Pensions: The Example of Mauritius

Larry Willmore

Strategies for the Extension of Social Protection

International Training Centre of the ILO

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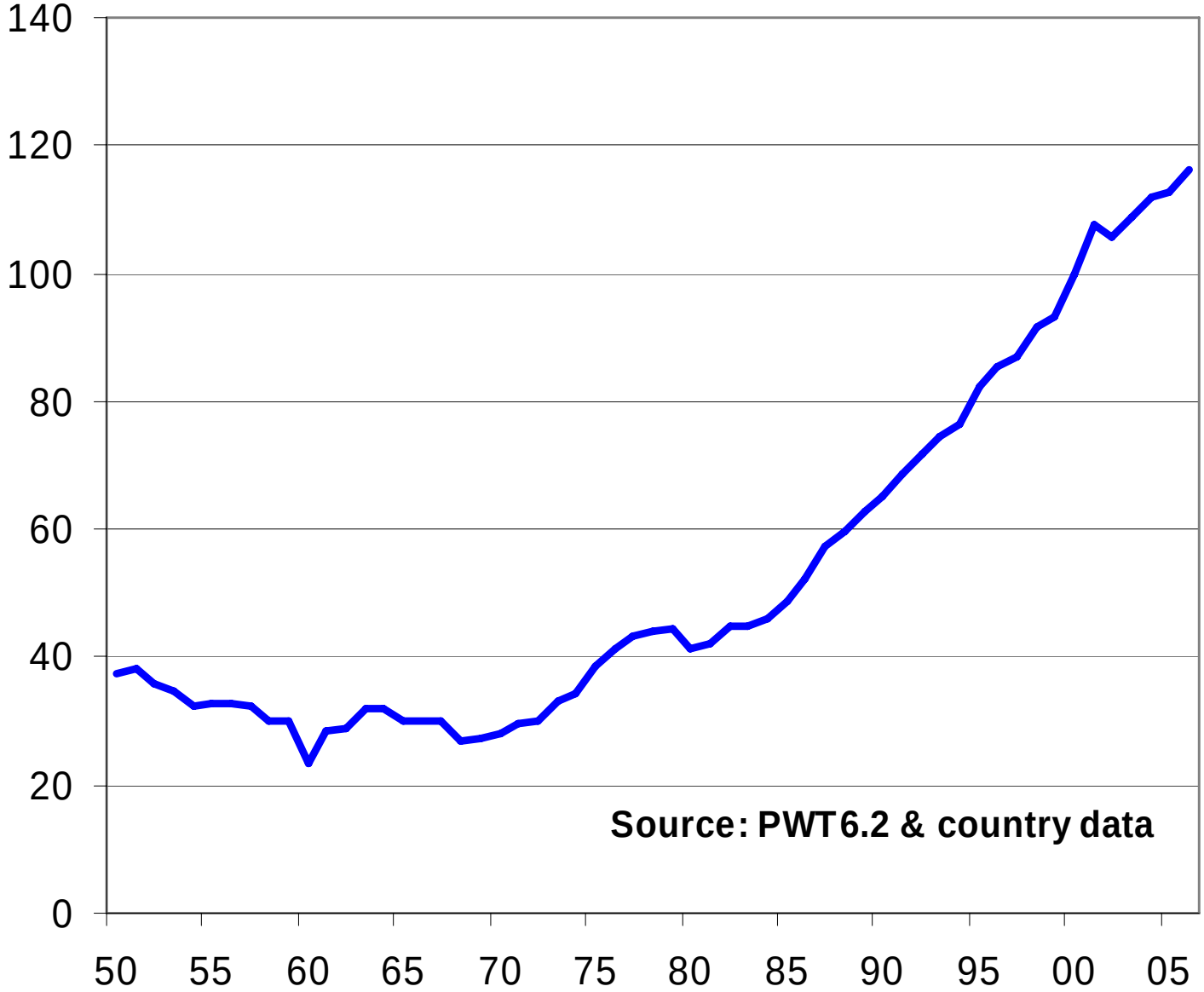
Mauritius: Real Per Capita GDP (2000=100)



Non-contributory basic pension (monthly, fy 2007-2008)

- age 60-89: Rs 2,571 (USD 85)
- age 90-99: Rs 7,647 (USD 250)
- age 100+: Rs 8,680 (USD 280)

+ disability benefit of Rs 1,620

+ pensions for widows and orphans

No income test, no retirement test.

2006 per capita GDP = USD 5,200

Early history

- Jan 1941 – Social Insurance Committee recommends flat, contributory system
- Dr E. Millien dissents, accusing Committee of shifting cost of old age relief from taxpayers to workers
- 1943 – UK Government Actuary agrees that pensions should be contributory
- 1950 – ‘temporary’ non-contributory pensions, means-tested for those 65+ (60+ for females from 1953, 60+ for all from 1965)
- 1957 – Committee of Ministers recommends flat-rate, contributory, compulsory system

Universal benefits (from 1958) and their gross costs in 1958

- 6,000 more pensioners – to 26,000
- Pensioners=r=4% of population
- Pension=p=24% of per capita GDP
- Costs=t=rp=(.04)(.24)=1% of GDP
- Lower administration costs
- Pensions were taxable as income: those in highest tax bracket retained only 4 rupees of the 22 rupee pension

Political support for non-contributory pensions

"The old age pensioner has throughout the years paid taxes on commodities he has consumed as everybody else has. He has paid taxes on tea, sugar, tobacco, matches, rice, pulses, dried fish, rum, calico, khaki, everything he has consumed and used to be able to live as a useful member of our society. One way or another he has contributed to the national budget. The Old Age Pension scheme being financed out of public funds is [thus] a contributory one. The applicant for Old Age Pension has already paid in his contributions.“

F.S. Chadien, Legislative Debates, 1957

Political support for abolition of means test

"[T]he abolition of the means test will help…by not giving the opportunity to the [public assistance] officers to do the things they are now doing: long process of enquiries, asking information from the neighbours as to whether So and So is working, whether So and So is the lessee of so many acres of land or whether So and So is maidservant at Mr. So and So's place. At least the proof that the person has reached the qualifying age will put the officer in an obligation to give that person his assistance and nothing more. And if there is not other reason, for this single reason, I am going to vote for this Bill."

--Mr. Boolell, Legislative Debates, 1958

A new means test (1965-76)

- Those subject to income tax were disqualified (approximately 5% of the elderly population)
- At same time, the qualifying age was reduced to 60 years for everyone

Another experiment with an income test (August 2004)

- Affected pensioners under age 90
- Pension reduced by 50% of income in excess of Rs 208,000 (US$ 7,500)
- Government fell in July 2005
- New government ended “the humiliation previously imposed on pensioners by abolishing the targeted approach and reinstating [the] universal pension”

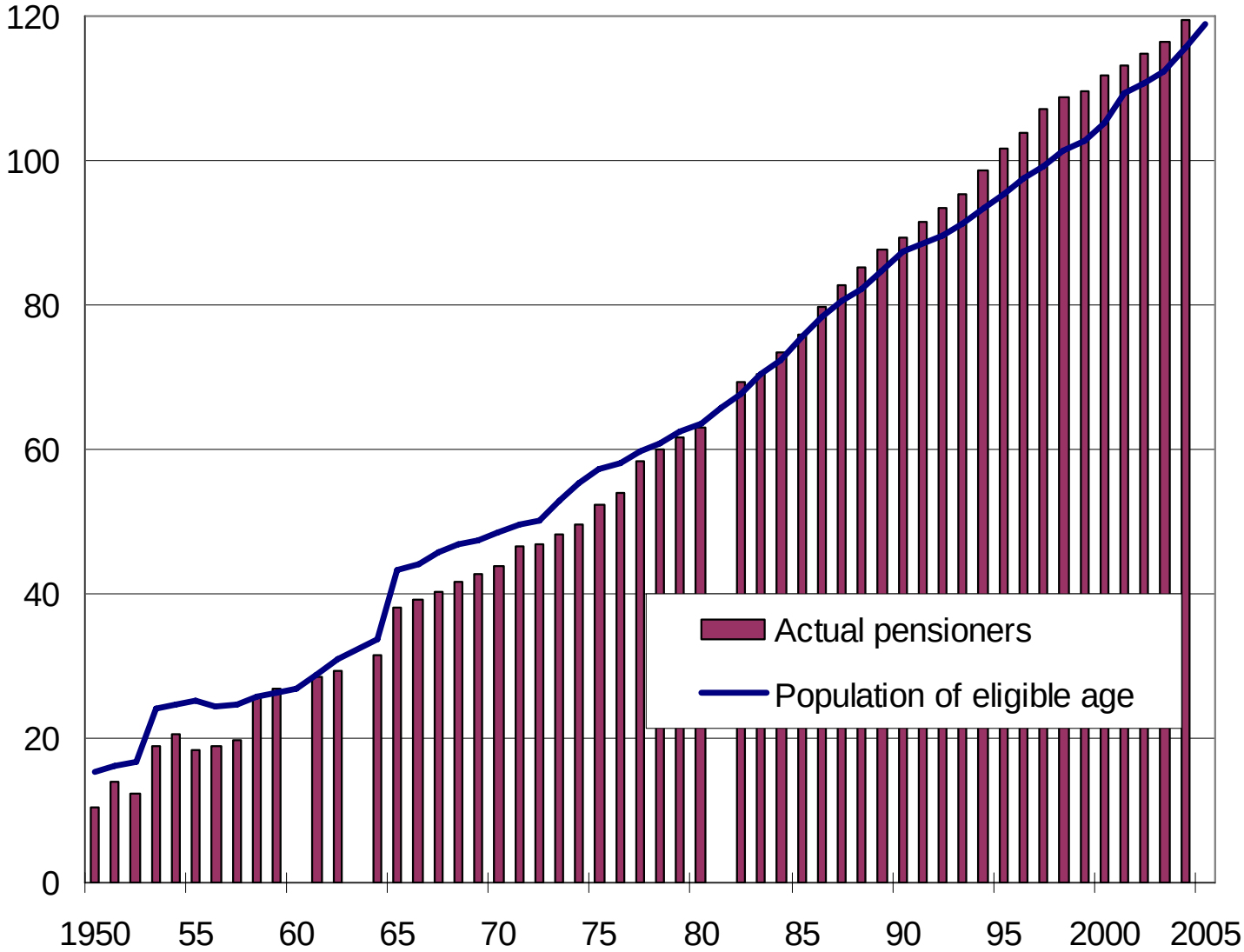
Tax breaks for pensioners in 2005

- Basic Retirement Pension was not taxed
- Up to Rs 75,000 (US$ 2,445) of any contributory pension was tax-free
- Income tax rate was maximum 30%
- For pensioner aged 60-74 in highest tax bracket, total tax relief amounted to Rs 30,428 (US$ 990) – 15% more than the Basic Retirement Pension itself !!!

Recent pension and tax reform

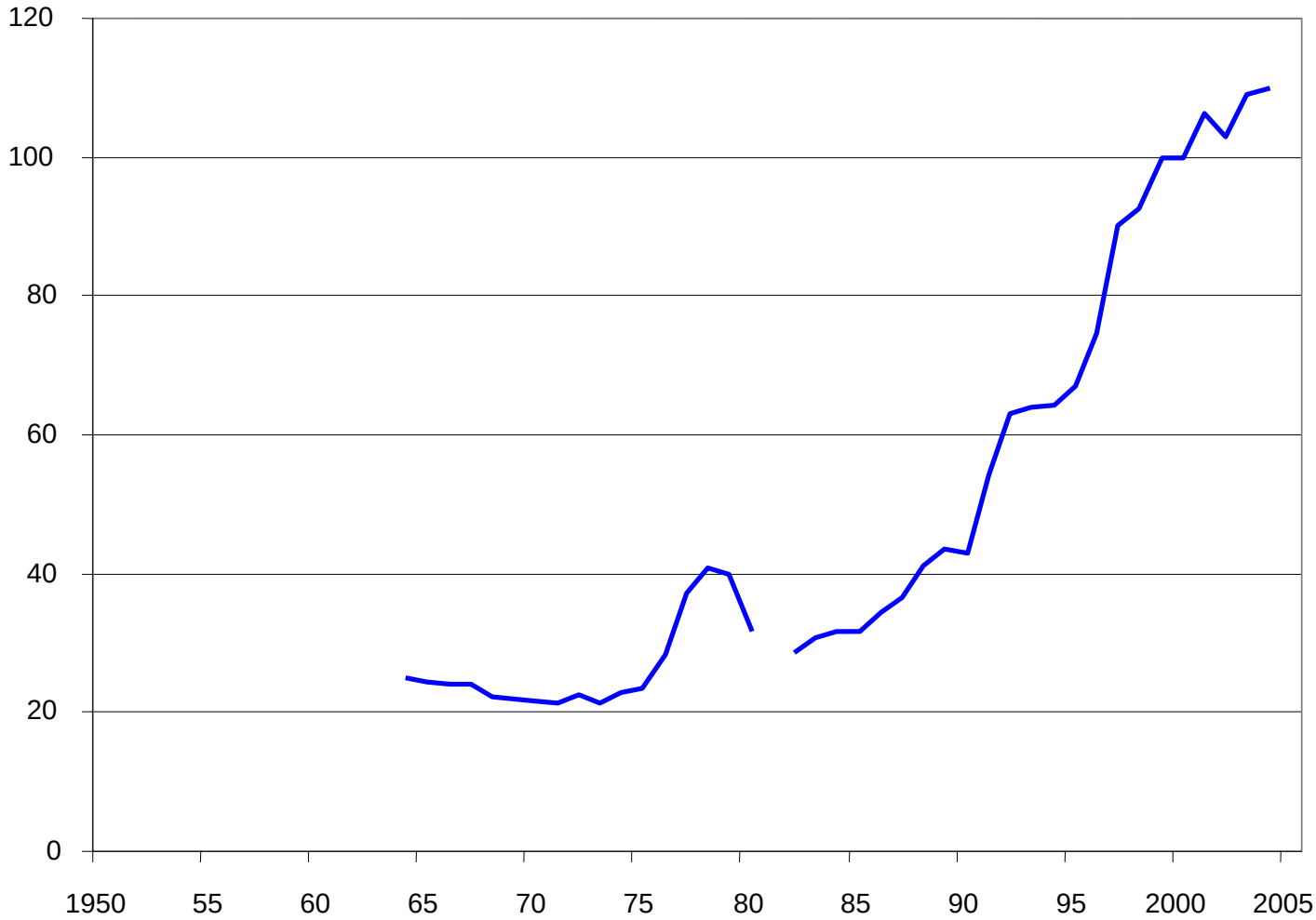
- Universality of basic pension restored
- All pension income is now taxable
- Top income tax rate reduced to 22.5% in July 2006, moving to a flat 15% by July 2009
- Retirement age increased from 60 to 65.
  - Begins August 2008
  - Retirement age to increase one month every two months until June 2018

Figure 1. *Age pensioners in Mauritius (thousands of persons, 1950-2004)*



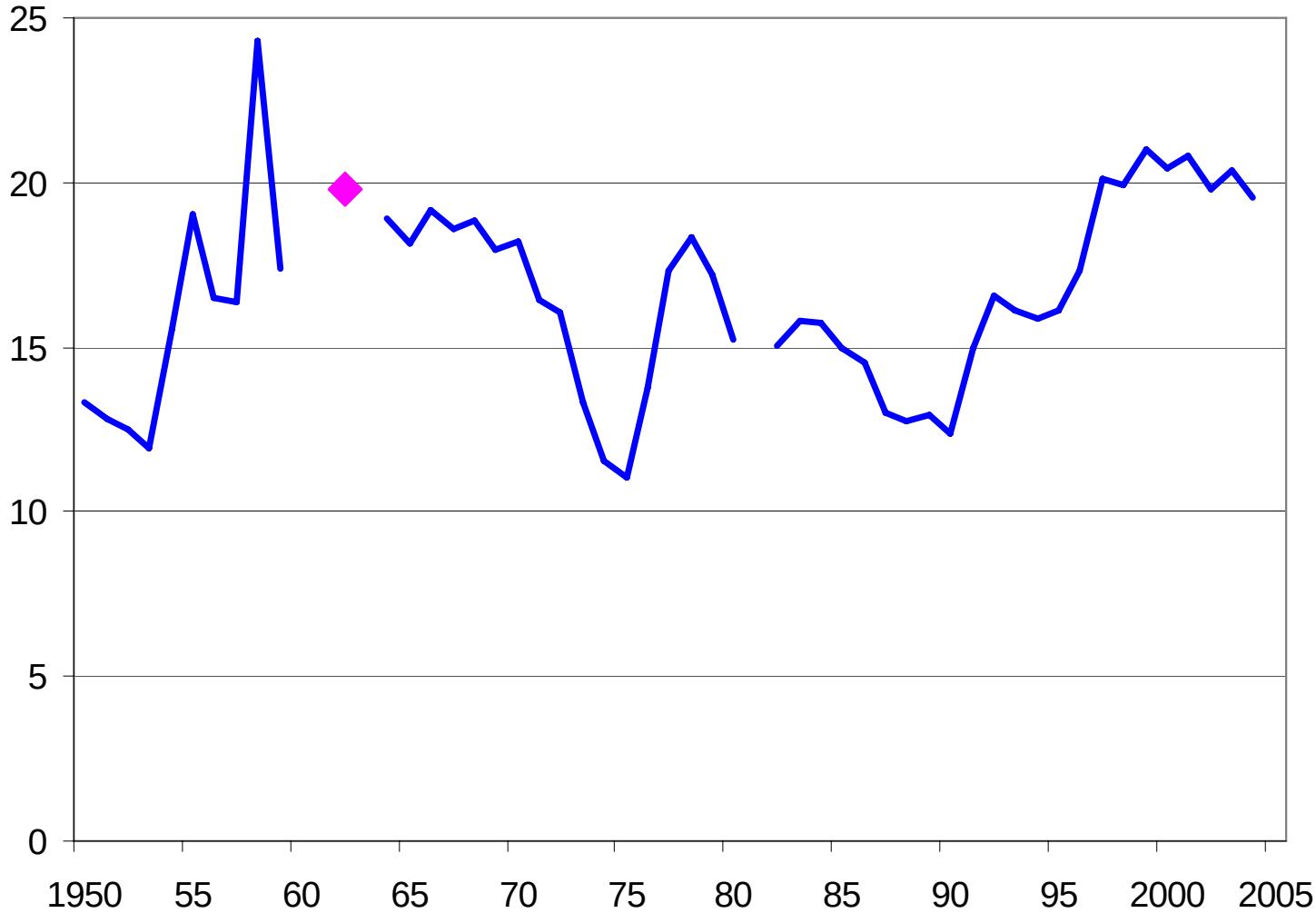
Source: Central Statistical Office and Ministry of Social Security. Data are end-year through 1971, mid-year from 1972. Pension data are missing for the years 1960, 1963 and 1981.

Figure 2. *Average real age pension in Mauritius, 1964-2004 (index, 2000=100)*



Source: Author's calculations from publications of the Central Statistical Office, the Ministry of Social Security and the IMF (consumer price index only). Calendar years through 1971; fiscal years ending in June from 1972. Price data are missing for 1950-1962; pension data are missing for the years 1960, 1963 and 1981.

Figure 3. *Average basic age pension as a percentage of per capita GDP, Mauritius, 1950-2004*



Source: Author's calculations from various publications of the Central Statistical Office and the Ministry of Social Security. Estimates are for calendar years for 1950-1971, fiscal years ending in June from 1972, so the '1972' entry refers to fiscal 1971/1972, '1973' to fiscal 1972/1973, etc. Data are missing for the years 1960, 1961,1963 and 1981.

The cost of universal pensions

	GDP	GDP per capita
1970-2000	5.6%	4.3%
2000-2040	2.0%	1.4%

(actual and projected annual rates of growth)

THE COST OF UNIVERSAL AGE PENSIONS IN MAURITIUS

(thousand rupees in constant 2000 prices; ratios)

Year	**1970**	**2000**	**2010**	**2020**	**2030**	**2040**
GDP per capita (Rs 000)	28	100	118	129	149	176
Pensioner support ratio (15-59/60+)	9.0	7.4	6.1	4.1	3.0	2.5
Pensioner support ratio (15-64/65+)			10.4	6.8	4.5	3.9
Average pension adjusted by per capita GDP (Rs 000)	5	21	25	27	31	37
Average pension adjusted by prices (Rs 000)	5	21	21	21	21	21

THE COST OF UNIVERSAL AGE PENSIONS IN MAURITIUS
(% of GDP)

Year	**1970**	**2000**	**2010**	**2020**	**2030**	**2040**
Pension Age 60	1.1	1.9				
Adjusted by per capita GDP			2.3	3.3	4.2	4.8
Adjusted by prices			1.9	2.5	2.8	2.8
Pension Age 65						
Adjusted by per capita GDP			1.4	2.1	3.1	3.5
Adjusted by prices			1.2	1.7	2.1	2.0

Does a contributory pillar crowd out the basic pension?

"The non-contributory pension scheme should continue to exist side by side with this contributory scheme, the former declining as the latter develops. In due course it would be possible to reintroduce a [tighter] means test as part of the non-contributory scheme."

-- A.E. Goddard, *Report to the Government of Mauritius on the Planning of Social Security* (International Labour Office, Geneva, 1970).

Attraction of contributory pensions (from 1978)

- Increase national saving;
- Avoid redistribution of income and wealth;
- Ensure that living standards of workers do not fall in retirement;
- Build up a fund for government use.

Further information

www.PensionReforms.com

L. Willmore, “Universal pensions in Mauritius: lessons for the rest of us”, United Nations DESA *Discussion Paper* 32 (April 2003).

L. Willmore, “Universal age pensions in developing countries: the example of Mauritius”, *International Social Security Review* 59:4 (October 2006), pp.67-89.

Contact information

Larry Willmore, Research Scholar

International Institute for Applied Systems Analysis (IIASA)

A-2361 Laxenburg, Austria

Email: willmore@iiasa.ac.at

http://www.geocities.com/larrywillmore

Schloss Laxenburg (IIASA)