Debate No. 15 of 15.06.2004

ORAL ANSWERS TO QUESTIONS

PENSION (UNIVERSAL) - ABOLITION

The Leader of the Opposition (Dr N. Ramgoolam) (By Private Notice) asked the Minister of Social Security, National Solidarity & Senior Citizen Welfare and Reform Institutions whether, in regard to the abolition of universal pension announced in the Budget Speech, he will state -

(a) the method and process that will be used to implement the targeting approach for basic retirement pension;

(b) the other basic pensions that will be targeted as from January next;

(c) the number of beneficiaries to be deprived of such pensions;

(d) how self-employed and informal sector employees will be assessed, and

(e) if people with the same income, but different financial responsibilities, will be treated equally.

Mr Lauthan: Mr Speaker Sir, Mauritius like other countries of the world is no exception to the ageing phenomenon. For example the number of beneficiaries of Basic Retirement Pension now stands at about 121,000 for the Republic of Mauritius. In year 2041, the figure will almost treble. If the present situation is to continue, the share of Basic Retirement Pension on Gross Domestic Product will increase from around 2% to more than 11% in around 2040. 11% of Gross Domestic Product for payment of only one item of pension is, in any circumstance, unsustainable for any country.

A very important point to be made here is that payment of pensions entails redistribution of income from the working population to the non-working population. Taking away too large a share from the working population for redistribution will mean that workers will be worst off without Pension Reform.

Mr Speaker Sir, the measures that have been announced in the Budget Speech with regard to Basic Retirement Pension does not amount to a means test. What we are doing is introducing a new concept of targeting in Mauritius and which is referred to in pension literature as affluence test. Whereas a means test targets pension payment to a small group of the poorer segment of the population, the affluence test excludes from payment of pension only a small proportion of the affluent people of our society whose income is to be found at the top end of the income distribution. In a means test, a large proportion of people are excluded from payment of pension whereas in an affluence test, a great number of people will be entitled to pension payment. For example, for the
affluence test that we intend to introduce, only about 3% of the most affluent members will be excluded from the payment of Basic Retirement Pension.

Mr Speaker, Sir, to illustrate the above position, we can take a few figures over the past decade which speak for themselves. For year 1993-1994, the amount paid as Basic Retirement Pension was Rs859 m., whereas the amount earmarked in this budget for Basic Retirement Pension will be Rs4.8 billion, that is, an increase of Rs4 billion. In line with what I mentioned earlier, this indicates clearly that if this trend is to be maintained over the next decade, the strain on our fiscal balance would be tremendous. It is expected that without any reform, the figure would reach 8 billion in year 2041. This shows clearly that there is a great need for pension reform in Mauritius.

Mr Speaker, Sir, it would have been easy for this Government to allow matters to stand as it is. But, as a responsible Government, we are taking a bold step in addressing the issue now. As we are talking about reform, it would be appropriate to inform the House that an institutional framework has already been set up to look into the pension reform process. A Pension Reform Secretariat has been set up at the Ministry of Finance and Economic Development to drive the whole Reform Process. Four Implementation Working Groups has been set up to look into the four areas of Reform. They are the Basic Retirement Pension, the National Pension Fund, the Private Pension and the Public Section Pension. The works of these different groups are co-ordinated at the level of a main taskforce chaired by the Director-General, Economic Development Unit. It is worth pointing out here, that the Implementation Working Group on Basic Retirement Pension (BRP) has recommended that a targeting approach be adopted for payment of Basic Retirement Pension and attention was drawn to the fact that such a targeted approach should also be adopted for other basic pensions.

Mr Speaker, Sir, as regards part (a) of the question, the method and process that will be used to implement the targeting approach for basic retirement pensions, my Ministry will adopt a strategy which will be as far as possible non-invasive in the private life of beneficiaries. As I have already pointed out, we are not adopting a means testing approach in this targeting model, but we will resort to what is generally referred to as an affluent test. In this approach, beneficiaries who draw more than Rs20,000 will be requested not to claim the benefit. In this approach, only a light administrative machinery will be used and administrative cost will be kept to a minimum.

With regard to part (b), the other basic pensions that will be targeted as from January next are -

- Basic Widows Pensions
- Basic Invalid Pensions
- Basic Orphan Pensions
Mr Speaker, Sir, very few among these beneficiaries draw more than Rs 20,000 a month, which means that the pensions will continue to be paid to most of the beneficiaries of these basic pensions.

With regard to part (c), according to the recent Household Budget Survey 2001-2002, there are less than 3% of elderly persons who have income exceeding Rs20,000 a month. This figure shows very clearly, Mr Speaker, Sir, that we are not resorting to a means test, but an affluence test in which only the richer section of the population will be excluded from payment.

As far as part (d) is concerned, the self-employed and employees of the informal sector will be asked like all other beneficiaries drawing a monthly income of more than Rs20,000 not to re-apply for the benefit. Details of the modalities of assessment are being worked out by a technical committee of my Ministry in collaboration with the Ministry of Finance, of course.

With regard to part (e), as far as assessment of income of beneficiaries is concerned, the modalities are being noticed worked out by the technical staff of my Ministry. I would like to point out, however, that this affluence test will be individual-based. This means that if there is an elderly couple where one of the spouses is drawing a personal monthly income exceeding Rs20,000, the Basic Retirement Pension will not be paid to that person. However, if the monthly income of the other spouse is less than Rs20,000 that person will be entitled to the pension.

Dr. Ramgoolam: Mr Speaker, Sir, in the Budget Speech, the hon. Deputy Prime Minister and Minister of Finance talked about the tapering of pension between Rs16,000 and Rs20,000. Can the hon. Minister explain how this will be done?

Mr Lauthan: Mr Speaker, Sir, the hon. Leader of the Opposition has been Prime Minister before. Of course, we know that all the measures contained in the Budget are not supposed to take effect as from the next day. In fact, part of the measures will take effect as from October and the other pensions as from January. So, as it is the current practice, the technical staff of both Ministries is working on the modalities of such a strategy.

Dr. Ramgoolam: In other words, the hon. Minister does not know. He has not worked it out. Now, there is a technical committee that is going to work this out.

(Interruptions)

That's what he has just said! Either he knows or he does not know!

Secondly, can the hon. Minister say whether there was any dialogue with any stakeholder before this was decided?

Mr Lauthan: As I have said, Mr Speaker, Sir, there are four sub-committees working on the various pensions. There have been consultations and dialogues about the
philosophy of Government, about the options. We talked very clearly with the employers and unions about the various options, that is, increasing the retirement age, etc. and the targeting approach for basic retirement pension is one of these options. So, there have been consultations.

**Dr. Ramgoolam:** So, there were committees. Then the Minister said there were also consultations. Consultations with whom?

**Mr Lauthan:** The trade unions and the employers are represented on these sub-committees. They have been informed that we are contemplating various options and the targeting approach for basic retirement pension is one of those options.

**Dr. Ramgoolam:** So, the hon. Minister had the consultations with the trade unions, etc. May we know whether the cutting off point of Rs20,000 was mentioned in those consultations?

(Interruptions)

Well, I am just asking.

**Mr Lauthan:** Mr Speaker, Sir, at that level, we did not arrive at a fixed figure mentioning it. Government has started with the Rs20,000; now, we will have to implement.

**Dr. Ramgoolam:** Mr Speaker, Sir, can the hon. Minister tell the House how he decided on the Rs20,000 cut-off point? Was there any method used? That's what I want to know.

**Mr Lauthan:** Mr Speaker, Sir, as I have said in my reply, Government has aimed at only a few of those people deriving more than Rs20,000. We are talking here about 3% of the beneficiaries. We did not want to target a very great percentage of these beneficiaries. The attempt at first priority was not to target a large number of people and we have decided on those deriving Rs20,000.

**Dr. Ramgoolam:** I think there is a bit of confusion, but never mind! The hon. Minister surely knows that there are many definitions of income and that is why I am asking this question. So, what would he take into consideration as far as income is concerned? Is it going to be basic income, or is he going to include extra allowances, bonus and other benefits before taking that into consideration?

**Mr Lauthan:** Mr Speaker, Sir, the calculation will be made after the return on income tax. The allowances have just been increased again, so after considering all these allowances, there will remain only a few above the Rs20,000 who would be paying. I must say that all the sources of income will be taken into consideration except, of course, all the basic pensions that are not taxed.
**Dr. Ramgoolam:** So, is the hon. Minister going to look into the tax returns of everybody to decide on this? That is what I want to know.

**Mr Lauthan:** Mr Speaker, Sir, we said that we do not want to be very intrusive, aggressive….

*(Interruptions)*

This has been done elsewhere. We just ask people…

*(Interruptions)*

**Mr Speaker:** Order!

**Mr Lauthan:** It is a question of trust. If they feel that they are deriving below the Rs20,000, they will call and let us know.

*(Interruptions)*

They won't be embarrassed. For those who don't come, we will assume that they acknowledge having an income of over Rs20,000 after all these deductions are made, then we will target these people.

**Dr. Ramgoolam:** Mr Speaker, Sir, if the hon. Minister could be clear. My question was: is the hon. Minister just going to look at the basic salary, or is he going to take into account all the allowances which people get, like bonus, overtime, transport allowance, etc.? Furthermore, he said that he will go through the income tax returns; it is on that point that I want a clarification.

**Mr Lauthan:** As I have said, Mr Speaker, Sir, it will be all forms of income, except the basic pensions that the person will be drawing as a source of revenue. Apart from the basic pensions, all sources of revenues will be considered.

**Dr. Ramgoolam:** Let it be very clear. The hon. Minister is saying, therefore, that it will not just be the basic salary, but also the allowances and everything, all taken together, that is, the income that a person gets which is going to be taken into consideration. Is that what the hon. Minister is saying?

**Mr Lauthan:** Mr Speaker, Sir, it will be all sources of income. The allowance deduction, of course, won't apply, but the income proper will be considered.

**Dr. Ramgoolam:** The hon. Minister must be clear.

*(Interruptions)*
That's why I said there are many definitions of income. Let it be very clear. The hon. Minister, himself, is very confused. I am not talking about deductions; I am talking about allowances. For example, somebody gets an income, a basic salary plus additional amount, say, an allowance for transport, earnings on income, dividends, etc. How is he going to do the targeting approach for basic retirement pension?

**Mr Lauthan:** I repeat, Mr Speaker, Sir. All forms of income will be considered in terms of revenues. Of course, we won't consider uniform or transport allowances. Mr Speaker, Sir, those who would be benefiting from uniform allowances won't qualify anyway. So, of course, they won't be targeted.

**Dr. Ramgoolam:** I thank the hon. Minister for the clarifications. So, he is now saying that it will be the basic salary, plus whatever income they get, everything together.

(Interruptions)

This is what I am saying. The hon. Minister will take everything into account: income, including the basic salary and the allowances. At the end of the day, whatever the person is earning…

(Interruptions)

Mr Speaker, Sir, he is trying to be confusing. Whatever a person gets paid at the end of the month will be the basic wages, plus all the things that you might get, for example, transport allowance, bonus, etc.

(Interruptions)

No, no! The hon. Minister has targeted people above Rs20,000! We are not talking about the person who is earning Rs1,000 here. So, there is a basic income plus other things that he might get. So, the hon. Minister is taking the whole thing into account. That is what I am asking the hon. Minister.

**Mr Lauthan:** I don't know what other things the hon. Leader of the Opposition is talking about. They will make all deductions to which they are eligible, and if over and above that they have substantial income, of course, excluding transport and similar allowances.

**Dr. Ramgoolam:** I am not talking of tax allowances. I am asking the hon. Minister when he is going to do this targeting, will it be the basic income plus whatever else somebody might get, not the taxable income. I am not talking of the taxable income.

**Mr Duval:** With regard to the income tax return, the Minister mentions it quite clearly that the Ministry of Social Security will be going through the income tax returns of taxpayers over 60, I presume, to find out which ones are entitled to pension and which ones ought not to be paid a monthly pension. May I ask the hon. Minister whether he expects seriously that income tax returns of people, which are highly confidential in this
country, to be suddenly given to the Ministry of Social Security? Is that how confidentiality is going to be maintained?

Mr Lauthan: Mr Speaker, Sir, we said that not to embarrass people, we shall not invite people whose income are above the twenty thousand bracket to come forward. They won't have to inform us, but those who are below would let us know and then the technicians will sort out the rest. We won't go to the personal files, but in the context of pension reform, we shall be able to do it with a better collaboration with all the services, but we won't go into the personal files either.

Mr Duval: I would like to have a clarification, Mr Speaker, Sir. Clearly, the Minister mentioned the income tax returns and now, he is clearly saying that it is going to be completely different. In fact, it will be on a voluntary action on the part of pensioners whether or not they wish to refrain from taking this pension if they are getting Rs20,000, that there is not going to be any inquiry into the income tax and all that.

Mr Lauthan: I mentioned that after deductions of all the allowances to which they will be entitled, it is only above that we would consider the Rs20,000. I did not say that we would necessarily go into their personal files.

Dr. Jeetah: The hon. Minister informs the House that he will be carrying out an affluence test. Can he indicate how he decides who will be the candidates for this test? How much is it going to cost?

Mr Lauthan: As I said there is a working committee, which will sort it out. As in other cases, budgetary measures are announced. Then the details are worked out by the technical committee.

Dr. Jeetah: Mr Speaker, Sir, does the hon. Minister have any idea at all of the cost of this test or was it done in haste overnight?

Mr Lauthan: We shall give ourselves the means to do it. As I have said, these pensions will not be sustainable over time. We are not looking at the elections next year, we are looking at those people who have just joined the working force and it would be unfair that they continue to work and after 35/40 years they won't get any money. As a responsible Government, we want to have a long-term view of the issue and we will give ourselves the means to conduct this study.

Mr Duval: Mr Speaker, Sir, can I come back to this income tax? Because there are two different replies from the hon. Minister. Once he has said there will be no inquiry on income returns and no divulging of confidential information at the Income Tax department and the other time, he has said "not necessarily". To me there is contradiction here. 'Not necessarily' means they will have access if they want to and the other reply says - 'no they will not have access'. Which is which, please?

Mr Lauthan: We won't go into the personal files of taxpayers.
**Dr. Boolell:** The Minister, of course, has started to walk upon very treacherous and dangerous grounds. We are talking about invasion, intrusion into people's life. Since the hon. Minister has stated very clearly that he believes in dialogue, can I ask him whether a White Paper on pension has been prepared and whether it will be rendered public?

**Mr Lauthan:** I have said, there are various sub-committees for four types of pension. Eventually, of course, Government will come with a White Paper.

**Dr. Ramgoolam:** The hon. Minister says, therefore, that income tax returns will not be looked into at all. So far, it would be a voluntary basis. I just want to check that from him.

**Mr Lauthan:** Mr Speaker, Sir, in any country there are people who just try to cheat in whatever system you come with. Let the technical committee work it out.

*(Interruptions)*

This has been done elsewhere as in Australia, in Hong Kong; we must be able to do it.

**Dr. Ramgoolam:** The hon. Minister must tell the House what means he is going to use. Is he going to tap people's telephone? What is he going to do to find out?

*(Interruptions)*

Does the hon. Minister know what means or he does not know and now the technical committee is going to work on it? Tell us.

**Mr Lauthan:** Other countries are doing this. There have been a lot of consultations. If this has been possible with countries like Hong Kong and Australia, it must be possible for Mauritius, but give time to the technical staff to work upon it.

**Mr Duval:** The hon. Minister has announced something concerning targeting of relief. The Opposition wants to know how feasible this is in the context of what is being proposed. There will be no access to income tax returns, then there is no other way apparently that the Minister can think of to check apart from saying that people will voluntarily abide by this new regulation. What we want to know is: how is he going to apply it and ensure some fairness?

**Mr Lauthan:** Mr Speaker, Sir, let me say that the technical staff of both Ministries has experience, studies have been made elsewhere. We are confident that we will be able to implement it. There is no doubt about it. They have the necessary experience. I cannot offhand come with all the measures two days after the budget with due respect to the experts, to the technical staff.
**Dr. Ramgoolam:** I must remind the hon. Minister - perhaps he has forgotten - since the Budget Speech of 2002/2003, when the hon. Prime Minister was Minister of Finance, he has mentioned year in year out that there will be reform of the pension, that serious thinking is being done and that there will be dialogue. In 2002/2003, a year after that and now the Minister has announced it. That is why I asked him whether there was any dialogue. Obviously there are consultations only in these committees, not with all the stakeholders. Now, the Minister announces a measure that will start in October this year and extended to widows, orphans and invalids in January. Yet the Minister does not know what system he is going to use. This is *un effet d'annonce encore!* The hon. Minister cannot tell the House what method he is going to use up to now!

**Mr Lauthan:** Mr Speaker, Sir, I repeat. Of course it has been mentioned and we will respect our word in terms of White Paper on pension reform. This is a continuity of the fiscal policy of this Government. Now with the measures taken during the last three budgets the Minister of Finance and Government thought that we can start by targeting. The improvement in terms of productivity …

*(Interruptions)*

No with better effectiveness and productivity …

*(Interruptions)*

**Mr Speaker:** Order! Order, please!

**Mr Lauthan:** Now Government feels that we can start targeting. We will go along those lines.

**Dr. Ramgoolam:** The Minister is pulling wool over people's eyes! There is no method, and nothing will be done. Why has he announced it? Just propaganda to make us believe that we are taxing these people, but, in fact, nothing is there concretely. I have noted nothing that the Minister has said concretely.

**Mr Lauthan:** The hon. Leader of the Opposition will be around. We are determined and we will implement it.

**Dr. Ramgoolam:** Let me give the hon. Minister an example: suppose there are two people, one has four children and one has one child. Each of them gets Rs20,100. So, both of them will not have this pension. Is that fair?

*(Interruptions)*

**Mr Speaker:** Order!

**Mr Lauthan:** Mr Speaker, Sir, we have said that it will be an individualised targeting approach.

**Dr. Ramgoolam:** So it is going to be individualised! Does the hon. Minister know how much this is going to cost the country? Does he have an idea? How is he going to get the money? Can he tell us?
**Mr Lauthan:** Mr Speaker, we have said that we will give ourselves the means and we will do it in just a few months' time.

**Dr. Ramgoolam:** The hon. Minister said that he would do it and that it would be individualised, so we want to know how much this will cost. The cost to the benefit might not be realistic. It might be much more if he is going to monitor. How much can this cost? Does the hon. Minister know?

**Mr Lauthan:** I again ask the hon. Leader of the Opposition to be patient. We will work out the figures and we will implement the decision.

**Dr. Ramgoolam:** I am sure the hon. Minister knows that there is a difference between income and wealth. Why does he not take wealth as a criteria? Why wealth has not been taken? In many countries you have wealth tax. Why does the hon. Minister not do that?

**Mr Lauthan:** Mr Speaker, Sir, at the start, we prefer to take income first of all, because wealth is quite tricky. You may have a person who has a property but does not derive any income from it. The person might have worked hard to have a car, a house, but does not derive absolutely any income from these. We need to look into these border line cases. We might be unfair in some way to target property where people do not derive any benefit.

**Dr. Ramgoolam:** So, from what I hear, the hon. Minister is not going to take wealth into consideration. But is he going to do a yearly indexation of the Rs20,000?

**Mr Lauthan:** I do not know, the technical committee will look into it.