

SPEECH

By the Prime Minister and Minister of Finance,
Dr Honorable Navinchandra Ramgoolam,
At the National Assembly,
on the Budget for financial year 2025-2026, on the topic
of Pension Reform

Tuesday 17 June 2025

Madam Speaker,

In the Budget Speech, we have announced a major reform to the Basic Retirement Pension (BRP). It is abundantly clear that the old age pension system in Mauritius has become fiscally unsustainable and financially unbearable by the reckless policies of the previous Government.

In our country, the present working generation shoulders the responsibility of funding the BRP expenses for the

elderly generation. When present workers retire, it will be their turn to benefit from pensions and the future working generation will fund it.

When the number of workers is much higher than the number of older retirees, this system is relatively sustainable. But when the number of workers shrinks and the number of old age pensioners soars, the system becomes fiscally unsustainable and financially unbearable.

Madam Speaker,

2. It is extremely rare for a country to provide old age pension to

- i) all persons who are only 60 years old;
- ii) those who have not contributed for their old age pension, as the BRP is a non-contributory pension;
- iii) everybody who attains the age of 60 irrespective of his income and assets

Mauritius, it seems, is the only such a very rare case.

Even in rich and advanced countries, the old age pension is paid much later than 60 years (often at 65 years). It is sometimes contributory and it is mostly means tested.

Precisely to ensure its fiscal sustainability and its fairness and equity across generations.

As a result of these three combined features in our old age pension, the BRP has become fiscally unsustainable and financially unbearable.

3. The following facts and figures demonstrate beyond any reasonable doubt the fiscal unsustainability of the BRP.

First, the share of BRP in GDP has increased from 1.9 percent in 2010 to 3 percent in 2015-2016 to 6.1 percent in 2020-2021. It currently stands at 7.8 percent of GDP.

Without reform its share of GDP will continue to rise.

Second, the proportion of BRP in government recurrent expenditure has escalated from 9.6 percent in 2010 to 14.2 percent in 2015-2016. It then rose to 20.1 percent in 2020-2021, and has reached 24.5 percent in 2024-2025.

Without reform, it will continue to absorb a higher share of recurrent expenditure.

Third, BRP as a percentage of government recurrent revenue has surged from 9.7 percent in 2010 to 15.2 percent in 2015-2016. It reached 21.4 percent in 2020-2021, and rose further to 30.6 percent by 2024-2025.

Without reform, its share of recurrent revenue will inexorably increase.

Fourth, in absolute terms, BRP has increased from Rs 5.97 billion in 2010 to Rs 13.1 billion in 2015-2016, then to Rs 27.9 billion in 2020-2021, and further to Rs 55.4 billion in 2024-2025.

Madam Speaker

In 14 years between 2010 and 2024/2025, spending on pension has ballooned by a staggering 828 %.

In only 4 years between 2020-2021 and 2024-2025, it has almost doubled from Rs 27.9 b to Rs 55.4 b.

It will likely reach Rs 100 b in 2035

How can this be sustainable ?

Without reform, the expenditure on BRP will sharply rise
Fifth, the population aged 60 and over has grown substantially from 186,400 in 2015 to 257,600 in 2024.

It will continue to grow as the population ages and will reach around 315,000 in 2038.

Equally the ratio of older persons will rise considerably with the ageing population. From around 20 % today to 30 % in 2051.

Without reform, our pension system will run out of money if the current demographic trajectory persists.

Sixth, the fertility rate has dropped sharply over the years. From 5.9 in 1960 to 2.8 in 1980, 1.57 in 2010 and 1.34 in 2024.

It is now well below the replacement rate of 2.1. This indicates a declining population and this trend will accelerate in the future.

Without reform, there will be far fewer workers to support far more pensioners.

Seventh, the number of workers will continue to decline while the dependency ratio will rise, thus decreasing the ratio of working individuals to pensioners.

The ratio of workers to pensioners has declined from 3.9 in 2015 to 2.7 now and is expected to further fall to 2 in 2035.

Without reform, the smaller working population will have to bear a growing burden of contributions to finance the pensions of the many more retired.

Eighth, life expectancy at 60 years has increased for both men and women.

Life expectancy of men at 60 has risen from 13.4 in 1962 to almost 17.92 in 2022. For women it has gone up from 16.3 years in 1962 to 21.75 in 2022. It means that Government has to fund non contributory pension for a much longer period for both men and women.

Without reform, it will be very challenging to fund pension for more people with higher number of pension years.

Ninth, to give the House a sense of the financial burden, BRP payments in the last fiscal year exceeded the total Government spending on education, health, and housing combined.

Without reform, expenditure on pension will crowd out critical investment in education, health and housing.

Tenth, to finance this increasingly rising expenditure, Government has had to borrow massively, thus raising the public sector debt to an alarming level of 90 per cent of GDP.

Without reform, debt will continue to rise as a share of GDP.

Eleventh, debt servicing has risen sharply and is the second most important expenditure after pension. It amounted to a staggering Rs 21.8 billion in fiscal year 2024-2025.

Without reform, the country will spend a rising share of its expenditure on debt servicing thus crowding out key priorities.

4. As early as 2015, the IMF in an expert report, projected that by 2050, expenditure on BRP would be at an unsustainable 8 percent of GDP. Because of the irresponsible decisions taken by the previous Government, we are already at 7.8 percent now, that is around 25 years ahead than projected by the IMF.

Madam Speaker

5. No politician likes to make unpopular decisions. However unchecked and unreformed, rising expenditures on BRP will significantly penalise our children and grand children.

This is about intergenerational fairness and equity.

So we have no choice than to act responsibility.

I fully understand that pension reform can be an unpopular choice for today's voters, presenting a

dilemma for politicians sensitive to public opinion and also those engaged in reckless populism and unbridled demagoguery.

For all the reasons mentioned above, pension reforms are vital to rebalancing the burdens across present and future generations in a fair and equitable manner. This may entail short-term costs for long-term sustainability. It is also why it is imperative that the general public is aware of pension reform and the challenges faced in the future

Madam Speaker,

6. There is an utter confusion in the mind of many people between a contributory and a non contributory pension. A contributory pension plan requires the beneficiary to pay into the plan from his salary (like occupation pensions). In a non-contributory pension plan the beneficiary does not contribute for the benefit he receives.

7. The BRP is a non-contributory pension. There is no contribution from beneficiaries. It is funded from the Consolidated Fund.

As such, all increases in the BRP can only be financed through higher debt or higher taxes.

8. Under a contributory pension system, an employee can choose to retire earlier than the prescribed retirement age and benefit from a reduced pension.

9. This does not apply to the BRP which is non-contributory. Eligibility to BRP is typically not based on employment history or prior contributions, but rather on factors such as age and residency. In other countries it also depends on income and asset of beneficiaries.

10. Let me also clear another confusion about the retirement age.

The budget has not changed the retirement age.

The retirement age was 65 and remains 65.

Flexibility for early retirement for those in specific sectors has not changed for contributory pension.

We are only aligning the entitlement to BRP with the retirement age.

In order to ensure its fiscal sustainability

Madam Speaker,

11. The dire financial predicament we have inherited demands immediate and decisive fiscal consolidation. Without prompt corrective measures, we risk to follow the trajectory of countries such as Sri Lanka and Greece, nations that delayed essential reforms and ultimately faced severe financial crises, forcing them to accept tough, externally imposed bailout conditions.

12. The previous Government's legacy bears troubling similarities to those examples. Their pattern of unchecked and reckless spending has placed our public finances in dire straits. As a result, our national debt is projected to rise to Rs 642 billion by the end of June 2025, equivalent to 90 percent of GDP, highlighting the urgent

need to restore fiscal discipline and rebuild economic resilience.

13. There is a very high risk of the country being downgraded if there is no fiscal consolidation. I wish to remind the House that a downgrade to junk status would have very serious implications on the cost of borrowings, our financial services sector, the value of the rupee, investments, FDI, and the economy as a whole.

14. We simply cannot afford a downgrade from investment status to junk status.

Madam Speaker,

15. As a responsible government, we could not ignore the risks posed by our unsustainable pension system – not only to public finances but also to the well-being of our elderly population.

16. We have no choice than to reform our shockingly unsustainable pension system. Unreformed, there would be no financial resources to pay for future pensions, even for those above 65 years.

17. There is hardly any country that has the rare combination of providing old age pension to all those above 60, without any contribution and without a means test.

18. In fact, several developed countries have embraced two of the following three measures:

- a) extension of the retirement age to 65 and beyond.
- b) introduction of a contributory element in the system with exemptions for low income earners.
- c) adoption of means-tested systems for old-age pensions so as to allocate public resources more efficiently and equitably and target support to those in need.

In these systems, eligibility for a pension or the amount received is based on household income and/or assets. Countries such as Australia, Canada, Japan, South Korea and Chile use means-tests as an eligibility criteria for old age pension.

Madam Speaker,

d) In light of the devastating legacy left by the previous administration, we had no choice but to confront the urgent need for pension reform head on. However, we remain deeply mindful of the challenges the most vulnerable may face under the proposed changes and are committed to addressing their concerns with compassion and empathy.

e) As a democratic Government, we have heard these concerns. As a compassionate Government that is committed to stand by the most vulnerable at all times, we have decided to establish two Inter-Ministerial Committees to examine the matters related to the Basic Retirement Pension.

f) The first Committee will explore potential income support for individuals aged between 60 and 65 who will become ineligible as a result of the reform and whose main or sole source of income is the BRP. This will cover a range of beneficiaries such as housewives, retirees and workers with low occupation pension, all who rely mainly or solely on the BRP.

g) This Committee will be chaired by myself and comprise the Deputy Prime Minister, Minister of Financial Services and Economic Planning, Minister of Energy and Public Utilities, Minister of Labour and Industrial Relations, Minister of Industry, SMEs and Cooperatives, Junior Minister of Finance and Junior Minister of Social Integration, Social Security and National Solidarity.

h) The second Committee will examine potential support for individuals who are unable to work due to health-related disabilities. The Committee will be chaired by the Minister of Social Integration, Social Security and National Solidarity and comprise the Minister of Housing and Lands, the Minister of Agro-Industry, Food Security, Blue Economy and Fisheries, Minister of National Infrastructure, Minister of Health and Wellness and Minister of Foreign Affairs, Regional Integration and International Trade.

Madam Speaker,

19 The escalating financial burden on future generations from an ageing society is a challenge faced by most countries.

If the current demographic trajectory of Mauritius persists, then our pension system will simply run out of money.

Let me be very candid.

The BRP system is a time bomb that is fast ticking away. However, it is unfortunate that many do not seem to really care as they will no longer be around when the bomb will explode.

Worse Madam Speaker,

A highly respected professional actuary has stated that “this time bomb has already exploded.

We now face the urgent and uphill task of containing the damage.”

Consequently, pension reform is absolutely critical
It aims at enhancing fiscal sustainability

At the heart of this reform is the imperative to establish parity between what each generation pays and receives, thereby promoting fairness in intergenerational burden-sharing.

Thank you.
