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# SOCIAL SECURITY IN THE ENGLISH-SPEAKING CARIBBEAN

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**T**he Caribbean is a region consisting of the Caribbean Sea and many islands. It is located southeast of the Gulf of Mexico and North America, east of Central America, and to the north of South America. It comprises French, Dutch and English-speaking islands, a reflection of former and current colonial ties to France, The Netherlands and England, respectively.

This article features the social security programs (SSPs) in the English-speaking Caribbean. The 16 countries that fall under this umbrella are Anguilla, Antigua & Barbuda, The Bahamas, Barbados, Belize, British Virgin Islands, Dominica, Grenada, Guyana, Jamaica, Montserrat, St. Lucia, St. Christopher & Nevis, St. Vincent & the Grenadines, Trinidad & Tobago and the Turks & Caicos Islands. Ranging in size from 5,000 in Montserrat to 2.9 million in Jamaica, the total population of these countries is approximately 7 million.

## BACKGROUND

Caribbean social security programs began to emerge in the mid-1960s with the guidance and support of the International Labour Office (ILO). Referred to locally as National Insurance or Social Security, these SSPs can best be described as being:

- defined benefit in structure,
- partially funded,
- publicly administered with public oversight of investments, with
- final average pensions that are weighted for short service.

When combined, there are close to 1.5 million employed and self-employed persons making contributions to Caribbean SSPs and approximately 350,000 receiving monthly pensions.

## GOVERNANCE FRAMEWORK

Established through Acts of Parliament, all but one of the 16 Caribbean SSPs are administered by a tripartite (government, employer and employee) board which is accountable to a government minister. The sole exception, Jamaica, has its National Insurance Scheme administered

as part of the Ministry of Labour and Social Security. Each SSP is headed by a director/CEO who is supported by a team of executives and staff who together are responsible for administering that country's SSP. Although leaders of regional SSPs meet regularly to discuss issues and challenges common to all, each SSP is independent of others.

## BENEFITS

Benefits offered by Caribbean SSPs can be categorized and described as follows:

### Short-term benefits:

- Sickness: typically 60 percent of average insurable wages for up to 26 weeks.
- Maternity: 60- to 67-percent of average insurable wages for up to 13 weeks.
- Unemployment (only in two SSPs): 50- or 60-percent of average insurable wages for up to 13 weeks (Bahamas) and 26 weeks (Barbados).
- Funeral grant: one-time payment to assist with burial expenses.

### Long-term (or pensions) benefits:

- Old-Age/Retirement: lifetime pension based on age and/or retirement status. (In most countries, the pension is not affected by continued employment beyond normal pension age.)
- Invalidity: pension for as long as being incapable of economic employment.
- Survivors: pension to spouse and/or children of a deceased insured person.

### Employment Injury benefits:

- Injury: 67 percent of average insurable wages for up to 26 weeks if injury is job-related.
- Disablement: lifetime pension based on percentage of disability due to job-related injury or disease.
- Medical care: reimbursement of reasonable medical expenses associated with a job-related injury or disease.
- Death (Survivors): pension to spouse and/or children of an insured person who dies due to a job-related injury or disease.

In a few countries, the SSP also finances a non-contributory pension that is paid to older persons who failed to make sufficient contributions for a contributory pension but are now deemed to be in need.

More than 65 percent of Caribbean SSPs expenditure relates to the long-term benefits (pensions). While pension eligibility requirements and benefit calculations vary among SSPs, the typical SSP Retirement/Old-age pension has the following characteristics:

- 10-year contribution requirement;
- Normal pension ages between 60 and 65 with several increasing to 65 over a 10- to 15-year period;
- Where 65 is the normal pension age, reduced pensions are payable from age 60;
- Benefit rate of 30 percent for first 10 years of contributions plus 1 percent for each additional year of contributions;
- Insurable wages averaged over the best three or five years in the 10 years prior to benefit award.

Automatic cost of living adjustments to pensions only exist in four of the 16 English-speaking SSPs. In the others, pensions are increased on an ad hoc basis, with the timing and size of the adjustment at the sole discretion of the current government.

## FINANCING

With traditional ILO design, all SSPs remain partially funded, defined benefit systems. The initial contribution rate was deliberately set below the expected average cost of future benefits with the expectation that contribution rates would be increased periodically as the program matured. As a result of this funding approach, accumulated reserves (or assets) are considerably less than accrued projected liabilities.

Contribution rates for the typical benefits package as described earlier vary widely among Caribbean SSPs from 5 percent in Jamaica to 18.25 percent in Barbados, with most having a contribution rate of between 8- and 11-percent. These contributions are applied to insurable wages, which are limited by a fixed-dollar

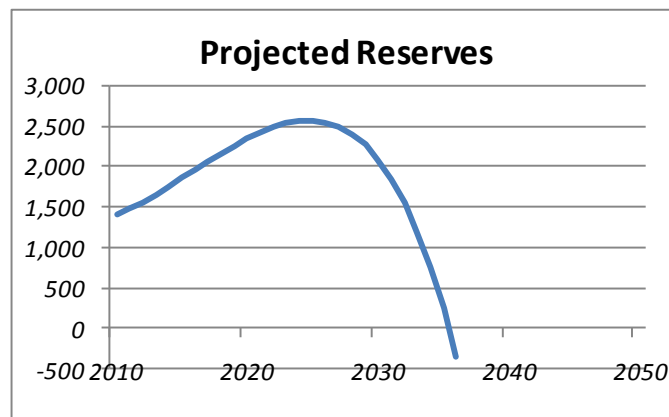
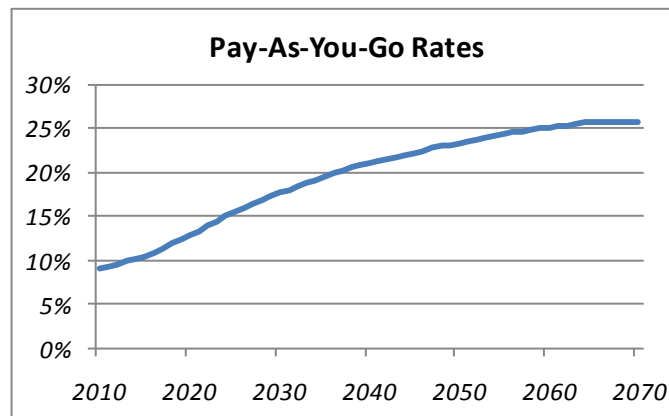
earnings ceiling. These earnings ceilings range from approximately 80- to 300-percent of average national wages.

At current contribution rates, many of which have not changed since inception, all but one or two Caribbean SSPs are unsustainable with depletion of reserves expected between 2030 and 2050 in most.

The projected financial state of most Caribbean SSPs is depicted by the following two charts which illustrate projected reserves and projected pay-as-you-go rates for a typical Caribbean SSP. The projected year for fund depletion or ultimate pay-as-you-go rates vary depending on the SSPs age, past and current contribution rates, and adjustments to pension provisions.



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## INVESTMENTS

Caribbean SSPs have amassed large pools of reserves, with many exceeding 40 percent of national GDP. Most SSPs invest the lion's share of the reserve funds in local investments, predominantly in their Government's debt instruments. A few have varying portions of their assets invested regionally and internationally.

Given the close links between Caribbean countries and the United States, from which most imports originate, inflation in most countries has been relatively low in the past two decades, averaging between 2.5- and 3.5-percent per annum. Nominal rates of return have for most of the last decade been quite good, at 6- to 7-percent per annum, but have experienced gradual declines in recent years.

## ACTUARIAL REVIEWS

By law, each social security program must have an actuarial review conducted at three- to five-year intervals. Social Security and National Insurance Acts all require that the actuary prepare a report on the financial condition of the Fund and advise on the adequacy or otherwise, of contributions to support promised benefits. Although this requirement is primarily technical (demographic and financial projections), it has become the norm that the actuary also provide policy advice. This advice usually includes an assessment of the coverage offered by the earnings ceiling, benefits and their qualifying conditions, the level of minimum pension rate and other key parameters, and recommendations aimed at ensuring overall relevance of the program and its long-term sustainability.

In some respects, this expectation of policy advice takes the actuary beyond his/her traditional training and expertise. However, the actuaries conducting these reviews typically have policy experience either from having worked with an international organization, such as the ILO, or at a regional social security scheme.

Once completed, the report of the actuarial review must be tabled in Parliament. The report thus becomes public and permits the general

public to become aware of the current and projected states of its social security scheme.

In 1990, actuaries practicing in the Caribbean formed an association known as the Caribbean Actuarial Association (CAA). The CAA's main goals are to support the development of actuarial science in the Caribbean and to maintain the high standards and image of the actuarial profession. The CAA recently attained Ordinary Membership status with the IAA.

While the CAA does not yet have a Standard of Practice for work conducted on social security programs, one is currently being drafted and is expected to be adopted in December 2011. The proposed social security standard will provide guidance to actuaries performing work on Caribbean SSPs. The two existing CAA practice standards cover pensions and life insurance.

## STRENGTHS AND CHALLENGES

Across the region, SSPs have earned the respect and confidence of their local constituents and are considered, in many countries, to be among the better administered public sector institutions. They provide a good source of funding for both public and private infrastructure and other development projects, and are a significant source of funds for commercial banks. SSPs play an important role in the social and economic development of Caribbean countries by providing reliable income support to insured persons, especially the elderly, when they are unable to work.

Most programs, however, are plagued by low coverage among self-employed persons, high administrative costs, poorly diversified investment portfolios, long-term unsustainability at current contribution rates and benefit promises, and varying degrees of political interference. Many also suffer from the slow action of governments to implement adjustments to key dollar parameters, such as the wage ceiling and pensions in payment and actuarial recommendations designed to enhance benefit adequacy and financial sustainability.

## RECENT REFORMS

As Caribbean SSPs mature and expenditure rates approach or surpass current contribution rates, many SSPs have either recently made or are about to make reforms aimed at enhancing long-term sustainability. Typical reforms include:

- Gradually increasing the normal pension age to 65 (to 67 in Barbados);
- Reducing the accrual rates payable for the first 10 years of contributions;
- Increasing the number of years over which final average wages are determined;
- Automatic adjustments of the wage ceiling and pensions in payment; and
- Increasing the contribution rate.

One reform measure often recommended by actuaries that has not yet been well received by policymakers is having pensions based on indexed career earnings instead of on final average earnings.

The recent global economic crisis has had a tremendous impact on Caribbean economies with most experiencing economic declines in 2009 and 2010. SSPs have not been spared; most have experienced a decline in contribution income as the number of contributors and average insurable wages have fallen. Investment returns have also declined. Although short-term benefits also fell slightly given their link to current employment, pension payments continue to increase each year as more persons qualify for larger benefits. Due to rising unemployment, The Bahamas National Insurance Board introduced an unemployment benefit in 2009 and a few other countries are considering adding this to their benefits package.

Although there are slight variations between countries, Caribbean countries have aging populations due to declining fertility rates and improving life expectancy. Total fertility rates range from around 1.7 to 2.2 and life expectancies at birth are approximately 70 for men and 75 for women. Outward migration to North America and Europe, a Caribbean phenomenon for decades, continues. There is also growing

inter-regional migration as efforts to form a single market and economy are being gradually realised. To ensure that contributors who migrate within the region do not suffer loss of social security benefits, the CARICOM Social Security Agreement was adopted in 1997. This agreement allows those who fail to qualify for a pension in one or more countries due to insufficient contributions, to receive a proportionate pension from these countries once the total combined contributions made in these countries would allow him/her to qualify for a pension in at least one of the countries. Several SSPs also have reciprocal agreements with Canada and the United Kingdom.

The promises that Caribbean Social Security programs have made to current and former workers are quite generous when compared with those offered in OECD countries. This is partly due to the low concentration of private sector pension schemes in the region. Each SSP is currently adequately funded to meet its obligations for the short-term, and in most cases the medium-term, but almost all are unsustainable in the long-term at current contribution rates and benefit provisions. Timely and appropriate reforms, coupled with growing economies and good governance practices, will therefore be required to ensure that adequate pensions will be paid to future generations of Caribbean pensioners without requiring excessive contribution rates by tomorrow's employers and workers. 