



SOCIETY OF ACTUARIES

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# Social Security Systems in the English-Speaking Caribbean

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**T**he Caribbean is comprised of islands and countries that are in or border the Caribbean Sea. These countries and islands are located to the south east of Florida, USA, and to the north of Venezuela, South America. They are organized into 25 territories including sovereign states and overseas departments/dependencies of Great Britain, France and the Netherlands.

Sixteen of the English-speaking countries have social security systems that are known as either National Insurance or Social Security Schemes. These systems range in size from 1,600 contributors and 283 pensioners to 326,000 contributors and 80,000 pensioners and provide financial support through various types of benefits, pensions and lump sum grants to current and former workers and self-employed persons. Protection for dependants is also provided by way of survivors' benefits that may be paid following the death of an insured person. The systems are similar in design with each having its own governance and administrative structures, contribution and benefit rules and a mandate to provide various social benefits to its residents partial. These social

security programs, therefore, touch the lives of the majority of the region's 6.2 million people.

The benefits offered by most systems are:

**Short-term benefits:** Sickness, Maternity, Funeral.

**Long-term benefits (pensions):** Old-age/Retirement, Invalidity, Survivors.

**Employment injury benefits:** Injury, Medical Care, Disablement, Death and Funeral.

The two main short-term benefits are income replacement in nature and are paid during periods of sickness and maternity. Two single-sum payments are also usually offered—maternity grant paid following the delivery of a live baby, and funeral grant paid following the death of an insured person or, in some cases, a near relative.

Pensions that fall under the long-term benefits or pensions category are defined benefit pensions based on final average insured wages and the number of contributions that were made. For 30 to 35 years of contributions, pensions range from 50 percent to 65 percent of final average insurable wages. All systems have a minimum pension ensuring a certain basic standard of living to all pensioners. Where the insured fails to meet the minimum contribution requirements for a pension, most schemes make a lump sum payment.

Employment injury benefits could be temporary or permanent, total or partial, and in most instances are very similar to the short-term and long-term benefits described earlier. However, the payment of employment injury benefits is restricted to cases where an accident has occurred, or a disease has developed, in the course of employment.

Although many schemes and governments are now considering them, unemployment benefits are only offered in Barbados. Many schemes also pay assistance or non-contributory pensions to the elderly and, in some cases, invalids and survivors, whose incomes are low.

Although the benefits packages offered by Caribbean social security schemes are more similar than they are different, there is wide variance in contribution rates. As shown in Figure 1, combined employer-employee contribution rates in December 2005 ranged from 5 percent in Jamaica to 17<sup>1/4</sup> percent in Barbados. For most systems, these rates have existed since inception. The insured wages of each system are limited by a wage ceiling that ranges from 1.3 to 3.4 times average insured earnings.

During 2003, social security contributions totalling US\$650 million were made by and on behalf of an estimated 1.2 million workers and self-employed persons, and approximately US\$450 million was paid out in various benefits and pensions. An estimated 260,000 people received regular monthly or fortnightly pension payments.

With contribution rates initially set to produce more revenue than required to meet expenditure in early years, all schemes have enjoyed cash flow surpluses each year and thus have built up large pools of funds. As at the end of 2003, combined social security reserves totalled US\$5.9 billion or 19 percent of regional GDP. These funds have been invested in various public and private sector instruments, both locally and throughout the region, expanding the pool of funds available for investment, facilitating the improvement of physical and other infrastructure, and spurring the development of local economies.

In addition to the collection of contributions, adjudication and payment of benefits, maintenance of wage records and investment of funds, national insurance and social security schemes issue unique personal and employer numbers that have become a respected national identifier in most countries. Also, the extensive wage and employment information gathered is a useful source of labor market information that is used for tracking changes in employment patterns, wages and worker mobility.

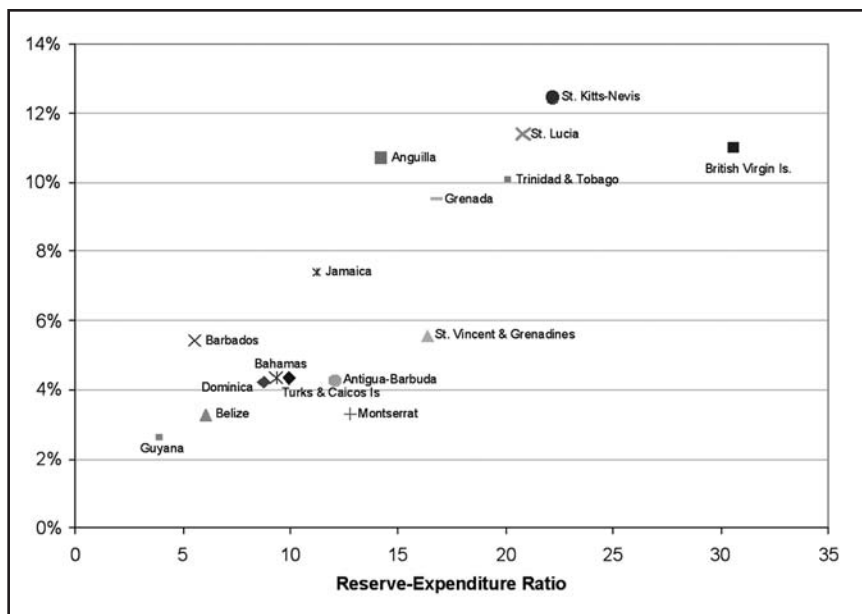
For decades, Caribbean people have left their homeland to reside and work elsewhere within and outside the region, and quite often may not have made sufficient contributions to qualify for benefits in one or more countries.

Figure 1: Country & Social Security Scheme Data

	Population (in 000's)	GDP (millions of US\$'s)	Total Cont. Rate	Benefits as % of GDP	Reserves as % of GDP
Anguilla	12	92	10.0%	1.7%	45.0%
Antigua-Barbuda	70	744	8.0%	1.7%	26.4%
Bahamas	320	5,257	8.8%	2.0%	23.3%
Barbados	270	2,702	17.3%	5.0%	30.7%
Belize	275	963	8.0%	1.7%	14.7%
British Virgin Is.	24	848	8.5%	0.5%	23.6%
Dominica	71	214	9.8%	4.3%	44.3%
Grenada	104	414	9.0%	1.6%	34.6%
Guyana	740	731	13.0%	3.3%	15.4%
Jamaica	2,640	7,353	5.0%	0.4%	5.7%
Montserrat	5	35	9.0%	1.6%	34.3%
St. Kitts-Nevis	48	312	11.0%	2.5%	73.1%
St. Lucia	160	693	10.0%	1.5%	39.8%
St. Vincent	110	311	6.0%	1.6%	33.4%
Trinidad & Tobago	1,280	10,831	8.7%	0.6%	14.2%
Turks & Caicos Is.	21	251	8.0%	1.1%	22.0%

Note: SS contribution rates – December 2005. All other data relate to 2003.

Figure 2: Comparative Current Financial Status, 2003



Therefore, to avoid gaps in benefit protection for such persons, two regional social security reciprocal agreements are in place. With these agreements, mobile workers are protected wherever they work, and where contributions in a particular country are not sufficient to qualify for a pension, contributions made in

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other participating states may be used to meet individual country requirements. Several countries have also entered into similar agreements with Canada, Quebec and the United Kingdom.

Across the Caribbean, social security and national insurance programs have earned the respect and confidence of their respective publics and are considered, in most countries, to be the *crème de la crop* of public sector institutions. Most programs, however, are plagued by high administrative costs, poorly diversified investment portfolios, political interference and lack of transparency, rules that do not allow the program to automatically adjust to economic changes, pensions that are only loosely tied to actual contributions and extremely low participation rates among the self-employed.

Actuaries have played an integral role in the development of Caribbean social security systems, having been involved in the design and initial projections of each scheme. They also conduct required periodic actuarial reviews at three to five-year intervals. In these reviews, long-term demographic and financial projections of up to 60 years are performed and the actuary is expected to provide policy advice on the relevance and adequacy of contributions and benefits for both the short and long terms.

## The Future

With ageing populations in all countries, the 16 schemes will see a gradual decline in the number of contributors supporting each person drawing a pension. Today, each is adequately funded for the short and medium terms, but almost all are financially unsustainable for the long term at current contribution rates and level of pensions being promised. (Figure 2 on page 27 shows a comparison of the current financial states of each fund, as measured by pairs of values representing 2003 reserve-expenditure ratios and surplus relative to total insurable wages.) Timely and appropriate reforms, especially to pension provisions, will therefore be required to ensure that adequate

benefits will be paid to current and future pensioners without requiring excessive contribution rates by tomorrow's employers and workers.

Other necessary elements to ensure long-term financial solvency are sustained positive economic growth and good governance. A final ingredient that could enhance system sustainability and compliment efforts toward a regional single market and economy is the partial or full integration of these 16 systems. Given the similarities of the schemes and their economies, their small size and the high cost of operations, a single Caribbean social security system should be the medium-term goal of regional policymakers. □



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