

CSME & SOCIAL SECURITY

The Impact of the CSME on Regional Social Security Systems

CAA 16th Annual Conference

Paramaribo, Suriname

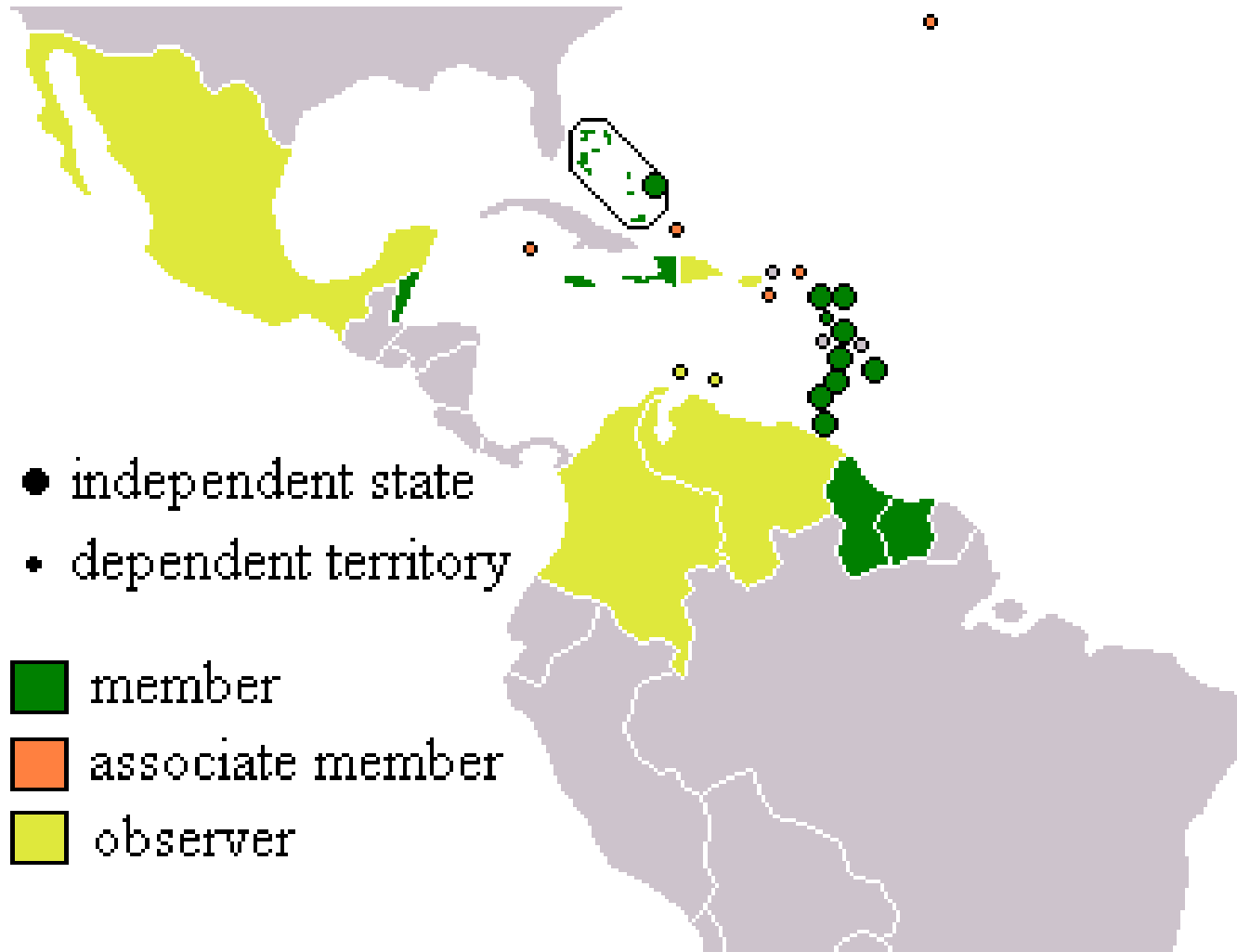
December 7-8, 2006

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What is CARICOM?

- Caribbean Community
 - Established in July 1973
 - Treaty establishing the Caribbean Community and CARICOM Common Market
- 15 Member States
- 5 Associate Member States
 - participating in areas of functional cooperation

Who's In CARICOM?



What is the CSME?

- CARICOM Single Market and Economy
- Trade and economic framework
- Purpose
 - increase the productivity and competitiveness of CARICOM nationals
- Size
 - 7 million w/o Haiti
 - 15 million w/ Haiti

Implementation of the CSME

- Revised Treaty entered into force on January 1, 2006;
- Single Market became operational on January 1, 2006;
 - Initially six Member States
 - OECS Members (6) joined in July 2006
 - Bahamas, Haiti & Montserrat not yet in
- Single Economy in place by Dec 31, 2008

Key Single Market & Economy Elements

- Free movement of goods & services
- Right of establishment
- Common External Tariff
- Free circulation of imported goods
- Free movement of capital
- Common trade policy
- Free movement of labour

Social Security in the CSME

- Formal systems in all Member states except Haiti & Suriname
 - Also in Anguilla, BVI & TCI
- Established between 1966 & 1987
 - Some preceded by NPF systems
- Most administered by quasi gov't institutions

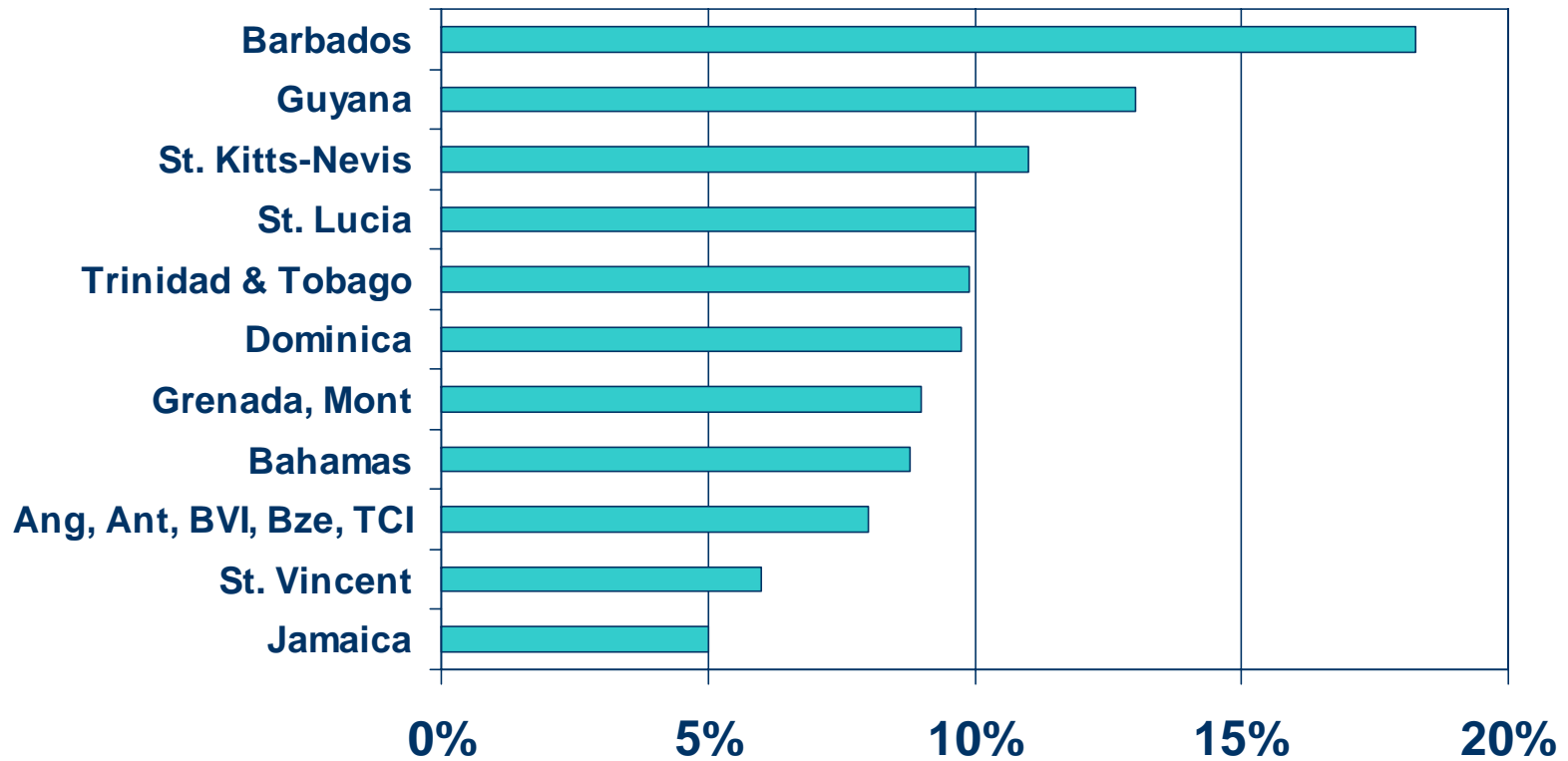
Social Security Benefits

- Short-term benefits
 - Sickness, Maternity, Funeral
- Employment Injury benefits
 - Medical care, Injury, Survivors, Disablement
- Pensions
 - Old-age/Retirement, Invalidity, Survivors
 - Non-contributory
- Unemployment – only Barbados
- Health – coming soon to some!

Social Security Systems in the CSME

- All formal sector workers covered
 - Self-employed covered in most
- Contributions levied on wages up to a ceiling
- Contribution rates range from 5% to 18.25%
- Separate fund
- Broad mix of investments

SS Contribution Rates (2006)



Social Security Pensions

- Defined benefit
- Partially funded
- Minimum pension
- Ad hoc indexation in most

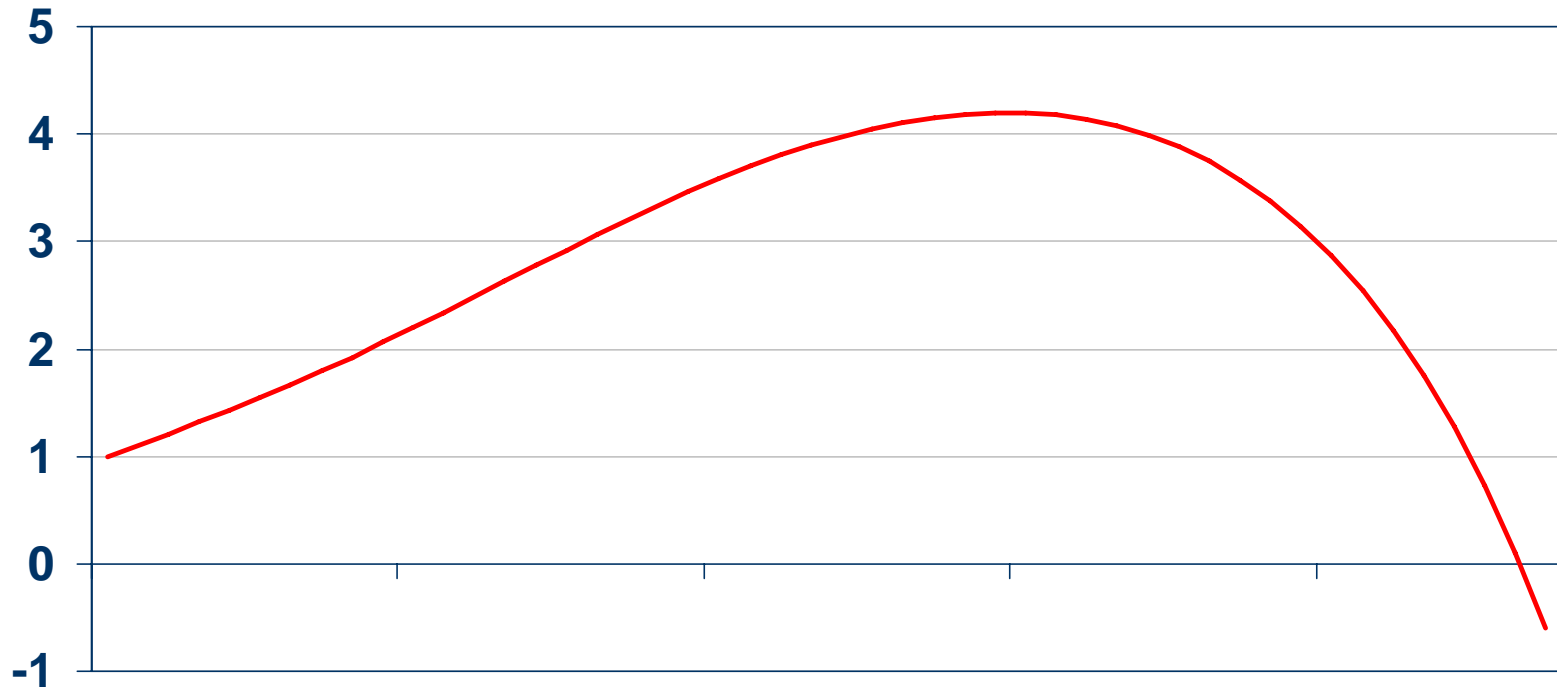
Old-Age & Retirement Pensions

- 10 years of contributions req. for pension
- Best 3 or 5-year Average Ins. Wages (AIW)
 - Non-indexed career component in a few
- Maximum benefit of 50% to 60% of best AIW
 - Earned after 30 to 35 years
 - Larger accruals in first 10 to 15 years

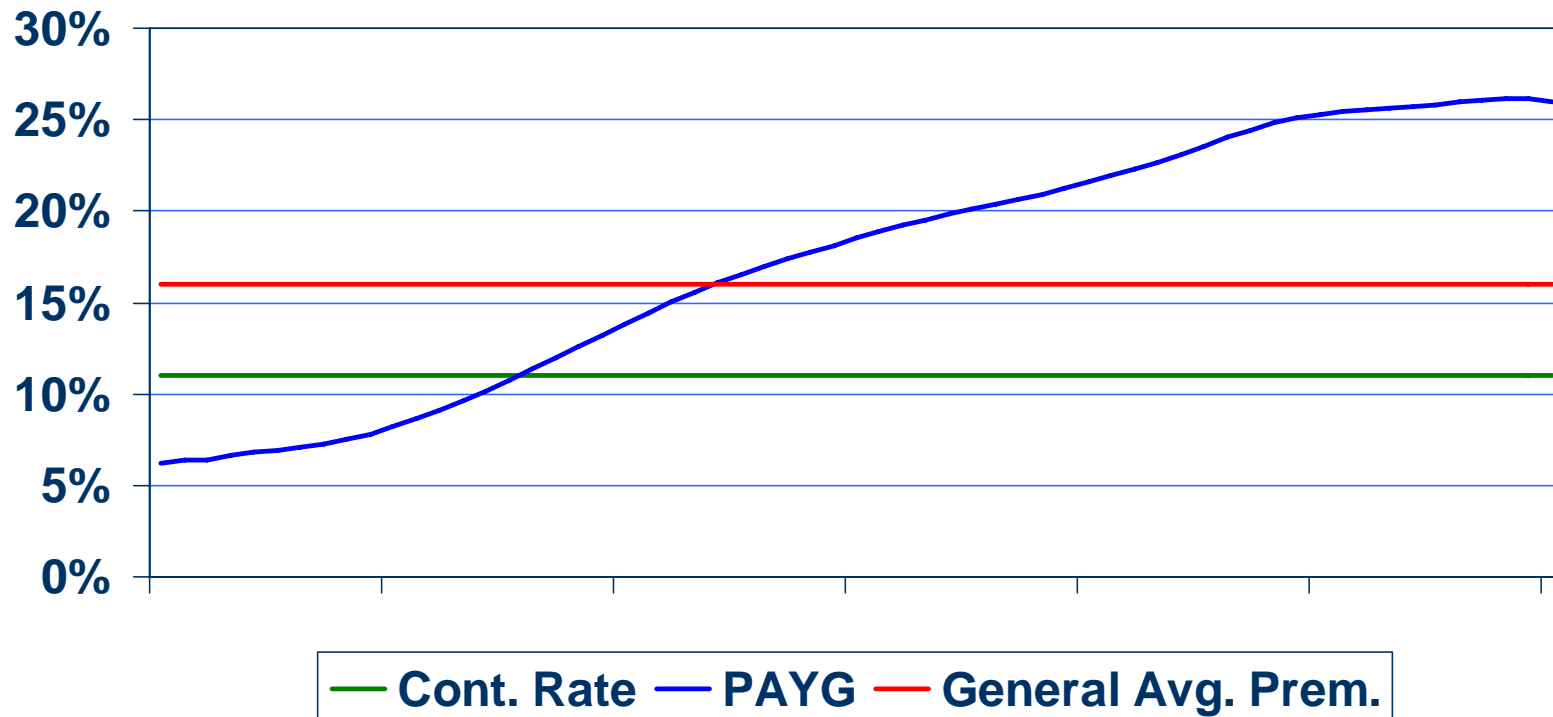
Challenges

- Compliance
 - Especially among self-employed
- Large funds in small economies
 - Mismatched & poorly diversified assets
- Excessive government interference
- High-cost operations
- Static policies
- Long-term sustainability

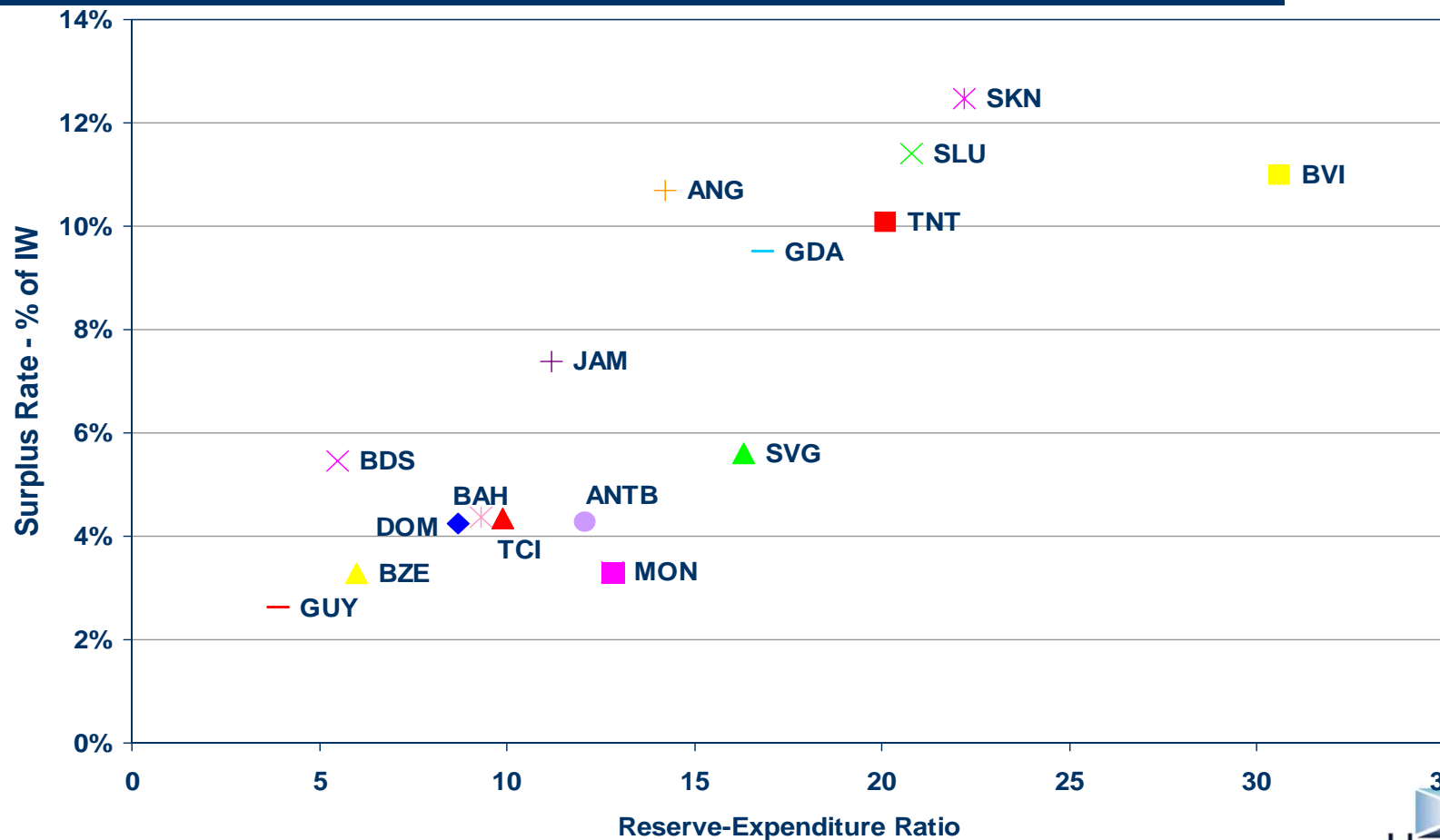
Projected Social Security Reserves



Contribution & Cost Rates



Financial Status of CARICOM Social Security Systems, 2003



CARICOM Social Security Agreement

- Effective April 1, 1997
- Aim to prevent persons employed in >1 state ending up in a disadvantaged position
 - Pay pensions instead of grants
- Totalisation of contributions
- Payment of 1 pension in home country

CARICOM Social Security Agreement

- Old age or retirement pensions
- Invalidity pensions
- Survivors' pensions
- Disablement pensions
- Death benefits in the form of pensions

CARICOM Social Security Agreement

- Works well where fail to qualify in any state
- Whenever it applies, scheme pays more
 - Could lead to excessive pensions
- Slow response times

CSSA Eg. 1 – Qualify in none

Country	Contributions		Rate Applied to Avg. Ins. Wage
	Made	Req'd	
A	450	500	$450/1200 \times \text{Ben \% for 1200 wks}$
B	400	500	$400/1200 \times \text{Ben \% for 1200 wks}$
C	350	500	$350/1200 \times \text{Ben \% for 1200 wks}$
Total	1,200		

Assessment: CSSA works well, providing pensions for all contributions made.

Eg. 2 – Qualifies in all

Country	Contributions		Rate Applied to Avg. Ins. Wage
	Made	Req'd	
A	500	500	Ben % for 500 wks (30%)
B	550	500	Ben % for 550 wks (31%)
C	600	500	Ben % for 600 wks (32%)
Total	1,650		

Assessment: CSSA does not apply & combined pensions could be well in excess of 60% of avg. IW.

Eg. 3 – Qualifies in one but not in others

Country	Contributions		Rate Applied to Avg. Ins. Wage
	Made	Req'd	
A	650	500	Ben % for 650 weeks (33%)
B	350	500	$350/600 \times$ Ben % for 600 wks (21%)
C	250	500	$250/600 \times$ Ben % for 600 wks (15%)
Total	1,250		

Assessment: Pensions paid by all states but combined pensions could exceed rate payable if all made in one state.

Impact of CSME on Social Security

1. Social Security schemes free from competition
2. Depends on what happens!
 - Economy
 - Each country & entire CSME
 - How policymakers react
3. One regional system?

Ingredients For Sustainable Social Security Systems

1. Good economy
2. Good design
3. Low administrative costs
4. Good governance

Cost of Social Security Pensions

$$\text{PAYG Rate} = \frac{\text{Total Pensions}}{\text{Total Ins. Wage}}$$

$$= \frac{\text{Avg. Pension}}{\text{Avg. Ins. Wage}} \times \frac{\# \text{ Pensioners}}{\# \text{ Contributors}}$$

$$= \text{replacement ratio} \times \text{demographic ratio}$$

CSME Impact On The Economy

1. Labour market
 - Employment levels
 - Labour productivity
 - Wage levels
2. Inflation
3. Investment opportunities

How Policymakers React

- Harmonization of contribution & benefit provisions
- Contribution rate adjustments
- Investment diversification
- Revised CARICOM Social Security Agreement
- Using SS funds to assist disadvantaged

Increased Levels of Integration

- Level 1. Administrative Integration
- Level 2. One Regional Pension system
- Level 3. One comprehensive social security system

Administrative Integration

- Shared advisory services
 - Actuarial
 - Research
 - Investment
 - Others
- Common IT system
- Regional NI/SS #

One Regional Pension System

- Age/Ret, Invalidity & Survivors pensions
- Indexed career earnings pension
- Local scheme offers other benefits as they wish
 - separate contribution rate
- Centralised admin. & investment of pension system
 - Schemes administer other benefits

One Regional Social Security System

- Fixed benefit package with same rules in all countries
 - Ceiling based on local wage levels
 - Indexed career earnings pension
- Local scheme can offer other benefits with a separate contribution rate

THANK YOU