

RECOMMENDATIONS FROM THE
ECCU PENSION REFORM
COMMISSION

PRESENTATION TO
THE CARIBBEAN ACTUARIAL
ASSOCIATION

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Background Information on OECS/ECCU

- Six sovereign island states: Antigua and Barbuda, Dominica, Grenada, Saint Lucia, St Kitts and Nevis, St Vincent and the Grenadines and the dependent territory of Montserrat. The ECCU countries have a combined land area of 1091 square miles, a population of 626,000, a GDP of US\$5.3B and per capita income of US\$ 8,500. (Note status of Anguilla and BVI)
- Evolution from Free trade area, customs union, common market, with recent formal agreement to Economic Union and on road to possible Political Union.
- Common legal and institutional arrangements: Heads of Government Forum , Economic Secretariat of the OECS, Monetary Council, Eastern Caribbean Central Bank (ECCB) and common currency, stock exchange and securities regulatory arrangements, Appellate Court (with plans for integration at progressively lower levels),
- Cooperative arrangements in many policy and functional areas including for example in the regional procurement of pharmaceuticals.
- Harmonization and pursuit of common macro-economic and social policies e.g. The Eight Point Stabilization and Growth Programme

Existing Social Assistance and Institutional Arrangements for Retirement in the ECCU

- State support to Social Assistance is less than 1% of GDP with unemployment of over 15% and with indigent, poverty and vulnerability levels at unacceptable levels.
- Contributory and Defined Benefit Social Security Arrangements exist in all countries from the seventies but all, in varying degrees, with inequitable and generous design arrangements, low returns on investments, high administrative cost ratios, limited coverage particularly among the self employed, and generally unsustainable.
- Unfunded , non-contributory and badly designed State Pension Schemes are gradually being terminated with new state employees being accommodated under the National Social Security Schemes because of the increasingly unaffordable costs to governments.
- Unregulated but fiscally incentivized Private Occupational Pension Schemes (POPS) with very limited coverage that are largely restricted to the very few large foreign and /or unionized employers in the various countries but their terms and conditions are very far from standard or uniform
- Very high financial intermediation to GDP ratio but this is dominated by commercial bank activity with a very limited capital market for personal and business activity.
- Generous fiscal incentives for personal savings and investments. N.B: It is argued that incentives are more favourable for foreign investors

Mandate of Commission

- Second of Trilogy of Commissions with first being on Tax and Tax Administration Reform and the current on Public Expenditure Reform.
- Mandate of the Pension Reform Commission
 - Review strengths, limitations and weaknesses of existing pension arrangements in the ECCU region
 - Use theoretical literature and global and regional best practice and experiences to reform and improve existing retirement income arrangements
 - Recommend programmes to alleviate future poverty particularly among the growing population of the elderly in environments that are increasingly less dependent on community support and where there are competing urgent demands on very constrained fiscal accounts.
 - Use pension arrangements to mobilize long term savings and optimally channel resources to essential national and regional economic and social development.
 - Consult very widely with the various stakeholders.

Composition of Commissions

- Largely nominated from successful, experienced and credible national and regional economic and public management technocrats and practitioners from as many countries as possible and drawn from academia, regional institutions and with national experience at both public and private sector levels.
- Skill set included economic, legal and management practitioners. Actuarial assistance was sourced through consultancies and on the considerable body of work that was available through the international institutions such as the World Bank, IMF, IDB, ILO and the CDB and triennial work done by external actuaries.
- Structure was deliberate to ensure broad knowledge of economy and society, allow focus on the consideration of broad economic and general issues, engage in public consultation, and to inspire public confidence and buy in.
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Commission's Conceptual Approach to the Execution of Their Mandate

- Focus on:
 - A comprehensive, coordinated and national/regional approach to the retirement income issue
 - Structural and fundamental issues rather than on the parametric and actuarial balancing issues that are the normal recommendations of actuaries.
 - Economic management issues to ensure that adequate real resources are available to beneficiaries after their very long period of savings and sacrifice.
 - Governance and management issues that will reduce per capita administrative costs and optimize returns on investments.
 - Aligning reform measures and proposals with current initiatives to an Economic Union and a Single Economic Space.
 - Developing and deepening the regional capital market to ensure that long term resources are channeled more optimally into financially feasible long term investments with optimal social and economic impacts.
 - Educating and sensitizing stakeholders on rationalization of issues and implications of measures and proposals
 - Transitioning arrangements that are realistic, affordable and sustainable

Commission's Approach to Execution of Mandate

- Development of and agreement on Conceptual and Operational Framework
- Allocation of Responsibilities among Commissioners
- Data Gathering on Existing Arrangements.
- Study of:
 - Theoretical Literature
 - Existing Arrangements and Modalities for Social Assistance and Pensions in the ECCU.
 - ECCU Pension Reports by International Agencies.
 - Global Best and Worst Practices
- Consultation with Major Stakeholders
- Analysis of Data and Other Information
- Formulation of Recommendations
- Periodic Reports to ECCB and Monetary Council
- Draft Final Report

Main General Recommendations

- Acceptance of the need for the establishment and/or strengthening of the legal and institutional framework for a national/regional Four Tier Social Assistance, Pension and Personal Savings and Investment in the ECCU along the following lines:
 - Tier One: A programme of social assistance financed by public sector allocations, incentivized contributions from the corporate sector and encouragement of more voluntary efforts from NGOs to take care of the elderly and retirees to at least an affordable level between being indigent and in poverty.
 - Tier Two: A comprehensive, contributory defined benefit Social Security arrangement to cover all nationals from the age of eighteen or from first employment and to cover all of working life to retirement.
 - Tier Three: A contributory and defined contribution State Pension Scheme (SPS) to cover all public sector employees; and separate POPS, on the same terms as the SPS, to cover all private sector employees and the self employed.
 - That means that all persons would, during their working lives, be contributing to both Tier 2 and 3 schemes and would be receiving post retirement income from both of these schemes.

Main General Recommendations (Contd.)

- Tier Four: Tax incentives and other encouragement for personal saving and investment for such social and economic initiatives as: financing of tertiary education for self and family, acquisition of residential accommodation, direct and indirect saving and investment for business development/involvement, and for major contingencies.

Tier Four would also include provisions and arrangements for Reverse Mortgages to allow homeowners to use, if they so wish, the equity in their homes to supplement their retirement income.

Establishment of a government department or agency that is dedicated to monitoring and taking care of the elderly to ensure that their welfare is enhanced and their interests protected and safeguarded.

Main General Recommendations (Contd.)

- That all Social Security, SPS and POPS have the following attributes incorporated in their designs:
 - **Adequacy**: of objectives and of the provisions to meet them.
 - **Affordability**: to the beneficiaries of the Schemes provisions and costs.
 - **Sustainability**: to deliver its provisions and promises to beneficiaries and stakeholders.
 - **Robustness**: to withstand the inevitable inherent vulnerabilities and volatilities.
 - **Equitability and Fairness**: such that members' benefits are transparent and based on their relative contributions and subject only to natural randomness. Must not be, or seen to be used as a policy instrument for social and/or political engineering.
 - **Predictability**: to deliver on the promises, whatever their longevity, without surprises, bearing in mind that such arrangements span a lifetime over many generations.

Main General Recommendations (Contd.)

- Between allocations from Social Assistance and/or contributions from Social Security provide:
 - Skills training to the unemployed to allow them to acquire training (say for no more than 6 months) to make them employable to the level of the minimum wage. Some basic very limited financial assistance, basic apprenticeship and/or minimum wage employment should be provided during the training period. This facility is to ensure that all are equipped to contribute to output and be productive members of the society/economy. The benefits to society are much greater than the social, financial and economic costs of unemployment.
 - Some progressively reducing level of unemployment assistance from the second month of unemployment and for no more than six months on condition that the beneficiary is prepared to engage in any available employment (from the level of the minimum wage) that he is qualified for. This provision is to minimize the level of vulnerability in the countries.

Other More Specific Recommendations:

Design

- As much standardization of scheme classes across the region, within countries and between POPS and SPS to simplify the arrangements for public understanding, reduce administrative costs, and to facilitate portability in order to allow and give expression to the free inter- and intra-country movement of labour.
- All Social Security, SPS and POPS would be contributory in equal proportions between employers and employees. It is estimated that 10% of employees income would provide the necessary benefits on condition that per capita administrative costs are significantly reduced, returns on investments are considerably improved, there is universal and continuous coverage and contributions from the age of 18 or from first employment to retirement.
- Retirement age should be standard and automatically determined and applied across all schemes and throughout the region. The retirement age would allow an average retirement life of 15 years and computed every ten years on the basis of fifteen years less than the average life expectancy at age 65.

Other More Specific Recommendations:

Design (Contd.)

- SPS and POPS would be integrated with Social Security to allow a combined pension income of 85% of final income (on an equitable basis to be determined) for the first five years of retirement and 75% thereafter. This is to recognize that immediate post retirement expenses (e.g. on travel) and also the weaning from indirect income benefits derived from employment).
- All SPS and POPS would have immediate vesting, complete portability, some limited and bounded indexation for inflation, guaranteed pensions and some level of benefits to surviving spouses and child dependents (up to age 18 and up to 23 for those pursuing tertiary education).
- Abolition of the payment of gratuities, which in the public sector are inequitable and discriminatory and are a heavy cost to the public purse. The concept of gratuity would not arise as all employees would be automatically covered under Social Security and also under SPS and/or POPS.

Other More Specific Recommendations:

Governance and Management

- Regional arrangements will always be the preferred option between national and regional for the implementation of Social Security and SPS. This is to gain scale economies, diversify risk and investment opportunities and also to allow greater autonomy and professionalism in the governance and management of these schemes. Going forward only regional arrangements should be allowed for the implementation of Reverse Mortgages and for POP Funds.
- There should be significant restrictions on the number of regional institutions managing Reverse Mortgages and POP Funds so as to optimize scale economies while allowing for some competition between these institutions. Not more than about three such bodies should be allowed to operate at least in the medium term.
- The governance and management of Social Security and SPS should be a national/responsibility rather than the exclusive responsibility of governments at the national and/or regional levels. As such nominations for governance should be sought from government, minority parties, the corporate sector, trade unions and their term of office should be independent of their nominees, have fixed terms except for prescribed breaches of individual performance

Other More Specific Recommendations:

Governance and Management (Contd.)

- Governance and management should be sourced from the best amongst the broadest pool of qualified and competent professionals with impeccable integrity and demonstrated commitment to the success of the various schemes. Nepotism, favouritism, geographical and political considerations should not be factors in the selection process.
- Very strong regulatory arrangements will need to be established and implemented to monitor and safeguard the financial success and integrity of the various schemes under monitor. Accountability with very punitive penalties for compliance failures should be essential part of the regulatory framework.
- The Regulatory Framework must include the provision of timely, relevant and meaningful reporting to parliaments and the countries; annual reporting of individuals statements to all participants; public education and sensitization on retirement, financial and social security and retirement matters; encouragement of public and media education and discussions on relevant issues

Other More Specific Recommendations: Transitioning Arrangements

- Recommendations are for universal coverage and improved scheme designs in a context of very limited resources. As such transitioning arrangements will be required and are recommended particularly for Social Security, SPS and POPS as follows:
 - Social Security to continue its reforms through its unreasonable but traditional approach of unilateral changes in benefits to ensure continuing solvency. However, the recommendations, with their focus on economies and efficiencies would lead to improvements in benefits without additional cost to employees, beneficiaries and ultimately to the State.
 - Reintroducing SPS where they have been terminated and/or not in accordance with the recommended design but making the new improved arrangements compulsory only for new entrants and voluntary and optional for others. Existing employees who are not close to retirement would be offered the option of participating in the new scheme and also to opt to convert the actuarial equivalent of the old scheme benefits to the new scheme.

Other More Specific Recommendations:

Transitioning Arrangements (Contd.)

- POPS, which are in any case very limited would follow the same transitioning approach as for SPS.
- Those transitioning arrangements would mean that it could take a long time, around 45 years, to achieve complete universal coverage.

Follow Up

- ECCB and ECCU Monetary Council have accepted in principle the Commission's recommendations.
- Continuing mandate to Commission to:
 - Consult and sensitize shareholders on the nature, rationale, implications and desirability of the various recommendations.
 - Assist and give guidance to countries as they explore their various options bearing in mind the movement to a Single Economic Space.
- Engagement of consultants to assist in the preparation of legal, institutional, policy and operational framework for the implementation of:
 - Optimal arrangements at the national level; and
 - Optimal arrangements at the regional level

In order to offer governments the best choices whilst respecting their own agenda, time frame and goals.

Tacit agreement that the implementation of regional arrangements would not require regional consensus but the agreement of minimum number of countries to provide the critical mass for the implementation and leaving national docking open to any additional country that may wish, at any time, to come on board.

Follow Up (Contd.)

- The full report can be accessed through the ECCB website
- Thank You
- Questions
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