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HARMONISATION OF PENSION REFORMS IN CARICOM - PART 2

While non-contributory pension funds in the form of old age pensions were first introduced in the UK in January 1909, Barbados was the first of the CARICOM territories to introduce old age pensions, having done so between 1937-8. They were followed by Trinidad and Tobago (1939) and Guyana formerly British Guiana in (1944). Robert Weise, publishing in 1969, suggested that there were hindrances to the development of pension funds in the region. According to him:

“...the evolution toward a compulsory or universal social insurance system has generally been slow....Options for establishing a compulsory and universal program of social insurance in the former British territories have been circumscribed by low income standards, high unemployment or underemployment, and the dependence of a large segment of the population on agricultural pursuits in sectors where seasonal employment or migratory labor predominates.” Social Security Bulletin, Vol 32, No. 4, April 1969.

Accordingly, he raised income and unemployment issues as obstacles to the development of national pension schemes in the region. Today, the issues have gone beyond these. The constraining factors to development of pension funds relate to the smallness of the market in terms of limited instruments, limited capital market development and governance of funds.



At the CCMF conference that was held on May 4th 2012, Jason Julian, General Manager First Citizens Investment Services Ltd, lamented on the limited investment options for pension funds in view of the stringent legislation in most of the region requiring that between 50-70% of investments be placed on fixed income securities and between 80-100% be placed on locally issued securities, whether local or US dollars. He showed

that 75% of the portfolio for pension funds tends to be shared between equities and bonds, (see Figure 1).

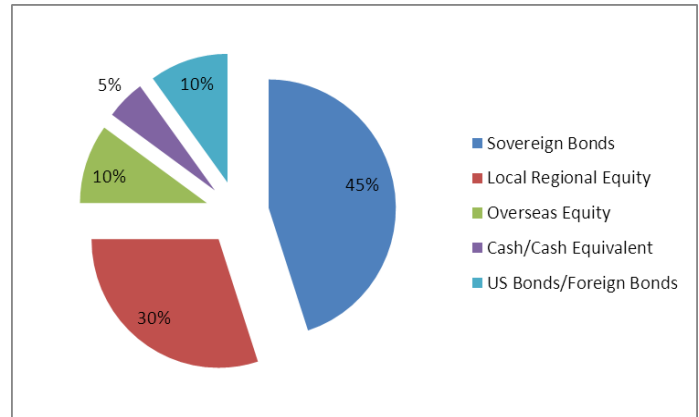


Figure 1 Typical pension funds investment portfolio

Notes: Taken from Jason Julien (2012).

In essence he pointed to the tradeoff between regulations geared to secure pension investments on low risk securities within the economy versus the ability to diversify pension fund investments.

As a result of limited size, certain realities emerge. Investments are confined to local markets where: there are low or negative returns, where the market does not have the capacity to absorb funds, or where there is over-concentration of investments in government securities, there by leading to systematic risk as risks cannot be diversified owing to limited investment options. He therefore suggested that pension fund legislation should be revised to engender greater diversification with necessary monitoring controls.

The issue of portability is another important matter confronting fund design for the region, and concerns the portability of



pension funds within and across the region. A critical question here is whether workers can move across the region and preserve their benefits. At the CCMF pension funds seminar held in May, Kyle Rudden, Consulting Actuary and Managing Director KT Services Ltd, suggested that this is more likely to take place

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with private pension funds with respect to deferred annuities. He however pointed out that the details of such transfers are subject to legislation. As a result, the pace by which portability of pension funds can take place across or within the region is largely dependent on legislative reforms.

Given the movement towards a Caribbean single market and the likelihood that an employee would change employer over his/her working life, Rudden suggested that innovative private pensions by the private sector can hold the key. One such instrument is deferred annuities where the person can invest in their pension and defer the benefits to be gained at a certain time, usually on retirement. This scheme can be portable, suitable and flexible. However, he pointed out that there is need for a degree of harmonization of taxes across the region, such that the scheme should be tax-approved in all jurisdictions or that taxes should only be charged on the benefits. To enable this it would require harmonization of legislation in member CARICOM countries to assist the private sector to design instruments to achieve portability. In addition to portability issues confronting individuals, there is also the issue as to whether annuity rates are correct based on the Caribbean mortality history. Rudden intimated that annuity rates are currently based on disease patterns such as diabetes or cardiovascular illnesses that obtain in North America rather than what obtains in the Caribbean.

Given these questions the best arrangement for pension funds must be discussed. Alejandro Múzquiz Diaz, Executive Director of Operations and Customer Service, Sura Group, Mexico, presenting at CCMF Pension Fund Seminar in May 2012 pointed out that Latin American countries have incorporated private pension schemes into their pension architecture, thus relieving the governments of absorbing the total burden. Even then, he suggested that the authorities must look at the stability of the funds to reduce the cost to governments. A large challenge facing individuals is how to preserve their pension benefits when changing employment across employers or Caribbean countries.



Compared to Caribbean countries, revision of pension legislation is far more active in Latin American countries. An important issue is which is better, privately funded pension schemes or public pensions such as Pay-as-Yoo-Go (PAYG). Diaz showed that Latin America presents a wonderful case study of the private-funded scenario. He showed that Latin America countries were more recent in the revisions of pension funds compared to the majority

of CARICOM countries. Countries in Latin America use either private, individual full funded or mixed competitive schemes. In essence the either use strictly privately funded schemes or a combination of private and PAYG schemes. The move toward private pension schemes may have been prompted by the fact that most employment emanates from the private sector. Moreover, the fully funded schemes convey the advantage that pension funds are prefunded. The disadvantage of private pension schemes is that companies offering private pension can become bankrupt while PAYG cannot become bankrupt as government can increase taxes to meet pension commitments. However, public pension schemes can be a burden to the Treasury as it may increase the fiscal debt. An advantage in Mexico is that the country has several pension systems and individuals have a choice which system to join, in addition the level of risk they would like.

Dr. Kenroy Dowers, Global Head/Senior Manager, International Finance Corporation, examined private pension funds globally. He pointed out that to build the private pension fund industry, there are certain critical areas that must be addressed. These areas include elements of the investment management of pension funds such as the regulatory restrictions, investment policies, suitability of assets, the role of government and general market practice.

Informed by various country experiences, he touched on various aspects of the typology and noted useful points that the CARICOM countries can draw on in relation to diversification of asset classes and efficiency of cost management of the distribution of funds. Further, he discussed transparency and uniform reporting at desirable frequencies. As such, he delved into the organization of private investment funds.



Chart 1 Dowers Typology of ingredients to creation of private pension funds

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Investment Management	Product Design & Guarantees	Risk Management
<ul style="list-style-type: none"> •Regulatory Restrictions •Investment Policies •Availability of suitable Assets •View on Currency Investments •Role of Government •General Market Practice. 	<ul style="list-style-type: none"> •Ultimate entity who undertakes the pension liability. •Underlying Guarantees such as Death and Disability benefits. •Impact of Government regulation on private pensions. 	<ul style="list-style-type: none"> •Regulatory controls and requirements. •Corporate governance. •Regular technical review/actuarial investigations. •Accounting & Reporting Standards. •Solvency and capital requirements. •Asset management regulation on dealing security, safe guarding of assets, trading, liquidity. •Credit/counter party risks.

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Eutrice Carrington, Chief Executive Officer of the Trinidad and Tobago Unit Trust Corporation, pointed out that longevity risk calls for upward revision of retirement ages, higher contribution ratios to public and private pension plan schemes and higher real returns from pension plan assets. She pointed out that regulators need to maximize on information, monitoring mechanisms, early warning systems and automatic triggers.



Sylvester Peter Ramquar, Deputy Chairman of National Insurance Board and Home Mortgage Banks of Trinidad and Tobago pointed out that regional governments are under pressure to provide national insurance to meet basic needs for retirement or for unemployable persons. This is due to the limited means of attracting funding which is normally in terms of employees, employers and taxes.



The emphasis on governance structure and mechanisms is to improve proper reporting, disclosure and transparency. The governance structure of pension funds is an important area to be addressed for the region. Douglas Camacho, President, Chief Operating Officer Guardian Holding Ltd and President of Insurance Association of the Caribbean, noted that a clear definition

of roles between important agents of the fund should be defined in statutes, by laws or trust instruments. Each fund should have a governing body that should be accountable to the fund. An independent auditor should be appointed by the fund and an actuary should be appointed for defined benefit plans. He pointed out that the scope and complexity of internal control measures should be risk-based.

While income and unemployment matters to pension funds, the industry has grown to be more complex. The discussions suggest that the region would need to move toward private



pension funds to relieve the fiscal pressures in meeting pension funds commitments. Further, for funds to be portable within economies and across member countries, it would be ideal for workers to take out defined contribution plans. The defined contribution allows employees to save at a specific amount in an account over time, to withdraw upon maturity the amount based on sum saved plus investment less expenses. However, this would require advanced development in capital markets in order to secure investments and returns at minimal risks. Further it is imperative that legislative reforms taking governance into account be undertaken. The big dilemma is the harmonization of legislative reforms in the region.

**By Dr. Anthony Birchwood
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REGIONAL NEWS SUMMARY

CL FINANCIAL

Barbados Investors and Policyholders Alliance (BIPA) is heading back to court over the CLICO issue. BIPA chairman June Fowler said "The next step is to take action against the directors of CLICO and the former Supervisor of Insurance, now the Financial Services Commission" (BN 18 Oct)

The judicial manager of CLICO International Life Insurance Limited has received sanction from the High Court of Barbados to pursue a restructuring plan for the company. The proposed plan will result in a write-down in value of all policyholders' liabilities to match the estimated value of the company's net available assets. The restructured policyholder liabilities and all the assets of CIL will be transferred to a new company which will be separately governed and man-

aged. All such activities will be subject to regulatory approval in Barbados and the Eastern Caribbean (CNnow 27 Oct)

CARIBBEAN

A review of the liquidity profile of Guyana's commercial banking sector has revealed that commercial banks are positioned to significantly increase the extent of their lending to both individuals and the private sector (SN 28 Sep)

The Trinidad and Tobago Mortgage Finance Co Ltd lowered its mortgage interest rates which ranged from 6 to 8% will now be from 5 to 7% (TE 30 Sep)

Government of Trinidad and Tobago bonds continue to be very attractive to investors in a low interest rate environ-

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The IMF has attributed the slowdown in growth in the Caribbean primarily to decline in productivity rather than to a lack of investment (TG 1 Oct)

British and international investment for the West Coast of Barbados will now be going ahead with a new luxury residential development in St James, between Sandy Lane and Holetown (BAdv 2 Oct)

Barbados' Foreign Affairs Minister Maxine McClean told the 67th Session of the United Nations General Assembly that the global economic and environmental situation has had a disproportionate effect on the country's successful, but nevertheless vulnerable economy. "We bear the burden of rising food and fuel prices and a decline in foreign investment," she said (JG 2 Oct)

As scientists continue to discover more medicinal uses for sorrel, child psychologist Dr Faith Harding is confident that a pilot project to cultivate tonnes of the plant in Guyana will be a great success (GuyTim 2 Oct)

A cloud of uncertainty which was hanging over the 600 jobs at the Ewarton bauxite plant in St Catherine was lifted with the announcement that the Russian-based aluminium producer, UC Rusal, will be investing US\$100 million (J\$9 billion) in the facility (JG 3 Oct)

The Jamaican economy recorded its second quarter of decline in June, according to new data produced by the Statistical Institute of Jamaica (JG 3 Oct)

The government of Haiti wants to introduce a new mining law that could set royalty rates up to 12% to ensure that the country benefits from its mineral wealth, which is potentially worth US\$20 billion (Carib360 3 Oct)

Guyana has staged another successful Guyexpo, testimony to the vibrancy of the business community there (GCO 3 Oct)

The Latin American and the Caribbean economy will be growing at 3%, more in line with global trends, the World Bank said in a new report. But even with GDP beginning to slow, the region's unemployment rate stood at 6.5% last year, approaching historic lows and well below its peak of 11% a decade ago (GuyTim 4 Oct)

The Jamaica government is giving US\$7 million (approx J\$630 million) in revenues to the Russian-based aluminium producer UC Rusal, under a one-year waiver of the bauxite levy, Energy Minister Phillip Paulwell announced. "If we didn't do that I believe the scenario would be quite different today. We wouldn't have the US\$7 million, plus we wouldn't have the 600 jobs or the production," he said (JO 4 Oct)

Stock market experts on Wednesday defended the tax breaks offered to small listed companies in Jamaica, arguing that it resulted in more than 300 new jobs and has raised billions in capital over three years (JG 5 Oct)

Despite the international appeal and recognition garnered by the Jamaican music industry, it is earning far less than

it could because music is not being produced in the island with business or an international market in mind, said ace guitarist Seretse Small (JO 5 Oct)

The IADB has launched two new credit facilities for Latin America and the Caribbean to help countries deal with shocks caused by external financial crises and the aftermath of natural disasters. The new line, valued at US\$8 billion, is designed to help countries protect their poorest citizens from sharp fluctuations in commodity prices. It will also aid in global liquidity crises and other external events. A separate Contingent Credit Line for Natural Disasters will help countries cover urgent financing needs that arise immediately after a natural disaster (JO 7 Oct)

A new study commissioned by the Florida-Caribbean Cruise Association has found that direct cruise spending totalled nearly US\$2 billion in 21 Caribbean and Latin American destinations in 2011/12 (JG 8 Oct)

An IMF delegation ended a two week visit to St. Kitts-Nevis giving the Denzil Douglas administration kudos for meeting all quantitative performance criteria despite the continued sluggish global economic crisis (JG 8 Oct)

Barbados has been ranked 42nd out of 142 countries in entrepreneurship activity, in a survey undertaken by the Global Entrepreneurship Monitor 2011 (BAdv 8 Oct)

Latin America and the Caribbean need to develop increasingly flexible and innovative financial products and services for the region's burgeoning small and medium enterprise sector, according to discussions held during the 15th Inter-American Forum on Microenterprise (CNnow 8 Oct)

Haiti's Prime Minister Laurent Lamothe said the country is hoping to increase taxes to raise US\$100 million to make "a big difference in the education system (JO 9 Oct)

Since the start of 2012, the Jamaica Social Investment Fund has invested almost one billion Jamaican dollars in community infrastructure, including schools, improving access to basic services for underserved communities (JO 9 Oct)

Guyana is reporting an overall increase in gold production, declaration and sales, with production recording 314,000 ounces, an increase of about 23% over the corresponding period last year (Carib360 11 Oct)

The IADB has approved a \$53 million grant to support Haiti's plan to upgrade its principal highway and to strengthen the Ministry of Public Works and the National Ports Authority (CNnow 11 Oct)

The US-based rating agency, Moody's Investors Service, has downgraded St Vincent and the Grenadines to B2 from B1. It said the decision was a result of poor growth prospects following a protracted recession and weak recovery in tourism, and a significant and rapid deterioration of the government's balance sheet (JG 11 Oct)

THE export performance of Barbados' manufacturing sector during the period of January to May 2012 indicates that exports grew by 20.25% when compared to the corresponding

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period in 2011. According to Minister of Industry, Small Business and Rural Development, Denis Kellman, leading the growth in exports were the rum sub-sector which recorded a growth rate of 53 per cent (BAdv 11 Oct)

Over-burdensome regulations and banking fees have been identified as twin blockades to business in Jamaica (JG 12 Oct)

Grenada made the payment of the semi-annual September coupon on its US\$193 million 2025 Bond (in October) through its paying agent, BNY Mellon, the government in St George's said in a statement. "Despite the difficult circumstances, efforts to secure the necessary funding were successful," according to the statement (TG 13 Oct)

The IMF says it will distribute about US\$1.1 billion in reserves attributed to windfall gold sales profits to its members in order to boost its concessional lending capacity for the Caribbean and other low-income countries during the global crisis (TG 15 Oct)

Latin America could be the new frontier for Barbados' international business sector and the island is positioning itself to grab early market share there (BN 16 Oct)

Barbados is on the right path towards fostering an enabling environment for small and medium-sized businesses, according to Competitiveness and Innovation Advisor for the Caribbean Export Development Agency, Damien Sorhaindo (BAdv 17 Oct)

Remittance inflows, Jamaica's major source of foreign exchange, inched up to a record US\$1.2 billion for the first seven months of 2012 or 3.3% higher than year earlier levels, apparently due to greater job security abroad (JG 17 Oct)

Scotiabank Trinidad and Tobago Ltd has been named "Best Bank 2012" by Global Finance magazine (Newesd 18 Oct)

The technical assistance received through the Indian Technical and Economic Cooperation programme in the fields of agriculture, science and technology, and culture, as well as economic cooperation, has had a positive impact on the country's development, Prime Minister Samuel Hinds said (GuyTim 18 Oct)

Standard & Poor's Ratings Services raised its foreign currency sovereign credit ratings on Grenada to 'CCC+/C' from 'SD/SD'. The agency also affirmed its 'CCC+/C' local currency ratings on Grenada (CNnow 18 Oct)

The World Bank Board of Directors endorsed a new strategy that will guide the World Bank Group's engagement in Suriname for the next two years (CNnow 19 Oct)

Insurance company Algico has been renamed 'Pan-American Life Insurance Company of Trinidad and Tobago' following its acquisition by United States-based Pan-American Life Insurance Group (TE 19 Oct)

As two of the world's fastest-growing regions, China and Latin America and the Caribbean should boost mutual trade and investment to meet the demands of their expand-

ing middle classes, according to discussions held during the sixth China- LAC Business Summit (GuyTim 19 Oct)

JTW & Associates Management Institute Inc, a Guyanese management consultancy firm, is among a number of private sector enterprises in the region to secure approval for grant funding from Caribbean Export under its new €2.5 million funding from the European Union (SN 19 Oct)

CariCRIS, the Caribbean's lone credit rating agency, has given Barbados' largest locally owned conglomerate top marks for the way it has handled its business during a very tough economic period (BN 19 Oct)

With the average age of a farmer in the Caribbean now 62 years old, there is growing concern that commercial agriculture is on a path to extinction - a dire scenario for a region already shouldering a massive food import bill (Caribseek 20 Oct)

Infrastructure work has begun on the first component of the US\$42 million Coastal Risk Assessment and Management Programme, which is a combined effort between the IADB and the Coastal Zone Management Unit (BN 23 Oct)

The government of Barbados is stepping up its efforts to develop a large renewable energy sector to significantly reduce the vulnerability of the country to high oil prices, including diesel and fuel oil, with a major focus on electricity generation and usage (CNnow 23 Oct)

IADB president Luis Alberto Moreno joined Haitian President Michel Martelly, US Secretary of State Hillary Clinton and former US President Bill Clinton for the inauguration of the Caracol Industrial Park, a modern manufacturing facility in northern Haiti (CNnow 23 Oct)

The Caribbean Basin Security Initiative continues to be strengthened with a further injection of US\$458,000 in funding to combat transnational crime and increase public safety (BAdv 24 Oct)

Jamaica dipped two spots to rank 90th in the annual Doing Business rankings report, despite improvements to its tax and customs procedures, according to the 2013 report (JG 24 Oct)

The Antigua & Barbuda government said it had reached an agreement with stakeholders in the gaming industry in a new effort to resolve a decade-long impasse with the US over remote gaming services (JG 24 Oct)

If Barbados embraced an idea articulated by its top diplomat in Washington, Bajan students would be taught "entrepreneurship" while in the nation's classrooms so they can start their own businesses. At the same time, more secondary school students would learn to speak Spanish (BN 25 Oct)

The combined remittances by Surinamese people living in the Netherlands, the USA and the Netherlands Antilles totalled only US\$159.4 million in 2011, whereas in 2009 no less than 198 million euros were remitted from The Netherlands alone. The decline in remittances from The Netherlands is attributed to the euro crisis, unemployment among Surinamese people in The Netherlands, and the lack of a clear diaspora policy in

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Suriname. Meanwhile, the increase of foreign investments and the associated growth of expatriates in Suriname have resulted in more money being sent out of the country (Carib360 25 Oct)

Canadian Prime Minister Stephen Harper announced two initiatives that will promote sustainable economic growth in the Caribbean region. One will work with the Caribbean Farmers Network to enable farmers to increase the quality and quantity of fresh, regionally grown fruits and vegetables, and help these producers link with buyers such as regional grocery chains, cruise lines, airlines, hotels and restaurants. The other will assist more than 15 communities in managing and responding to natural disasters (CNnow 25 Oct)

Natural gas producer BG Trinidad and Tobago and Chevron Trinidad and Tobago Resources SRL have announced the approval of the Starfish field development project off the East Coast of Trinidad and Tobago (TE 25 Oct)

State banking group First Citizens will be reducing its TT dollar prime lending rate by 0.25%, effective November 1 (TE 25 Oct)

The IADB has approved US\$20 million for a global loan programme to the Caribbean Development Bank for projects in the four IDA-eligible OECS member countries (CNnow 25 Oct)

Noranda Jamaica Bauxite Partners saw its third-quarter profit plunge on near historically low aluminium prices. Persistent global macroeconomic concerns, particularly the European sovereign-debt crisis and fears of slowing economic growth in China, have dampened LME aluminium prices since the second half of 2011 (JO 29 Oct)

The Central Bank said headline inflation, measured by the 12-month change in retail prices, slowed to 7.7% in September. On a monthly basis, however, headline inflation rose by 1.1 per cent in September (TE 29 Oct)

UPCOMING CONFERENCE

The Caribbean Association of Banks, Inc.(CAB) formerly the Caribbean Association of Indigenous Banks Inc (CAIB) will host its first conference under the CAB name and brand at the world-class Montego Bay Convention Centre, Rose Hall, St. James, from November 14-17, 2012. This conference will mark the 39th staging of the Annual General Meeting and Conference, and will be held under the theme: **Partnering for Regional Transformation, Development and Growth: Empowering the Financial Services Sector.**

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