

## HARMONISATION OF PENSION REFORMS IN CARICOM - PART 1

The ideal would be for pension reforms in the Caribbean Community (CARICOM) to be harmonised. This is important as differences in national legislation can cause difficulties in worker mobility across the CARICOM economic space leading to challenges in terms of equity issues, in terms of the degree of coverage, in productivity and employment among other issues. In view of these issues, the Caribbean Centre for Money & Finance (CCMF) hosted a very important seminar on the “Future of the Pension Fund Industry in the Caribbean”. The seminar was very timely as pension reform is the subject of active discussion worldwide and is emerging as an important area necessitating legislative reform. As a result, CCMF invited leading international and regional experts to address the burning issues related to the theme. Four sessions were fitted into the programme as follows: “Global Developments in Pension Schemes”; “The Mechanics of Pensions in the Caribbean”; “Can Current Private Pension and Social

Security Schemes Sustain us After Retirement?” and “Governance and Social Protection”. The article is in two parts: Part 1 focuses on the first two themes of the programme, and Part 2 will appear in a subsequent newsletter.

The first part of the programme provided an international perspective by examining the global developments in pension schemes. We had on hand Dr. Baoping Shang of the IMF and Mr. Will Price of the World Bank. Dr. Shang noted that after rapid increases in pension expenditure in the advanced industrialised countries between 1970 and 1990, pen-



From left Dr. Anthony Birchwood-Research Fellow-CCMF and Dr. Baoping Shang-IMF



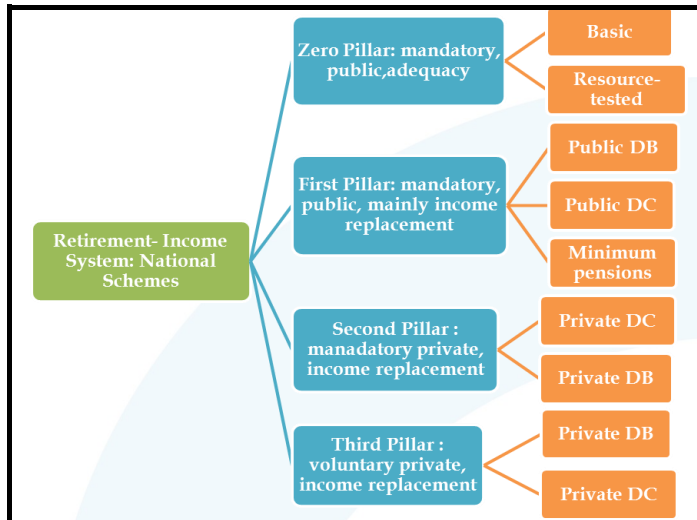
From left Dr. Anthony Birchwood-CCMF, Mr. Ewart Williams - CBTT, Hon. Winston Dookeran - Ministry of Finance, Prof. Compton Bourne -Executive Director CCMF & Prof. Clement Sankat -Principal U.W.I

sion fund expenditure then slowed in these countries as a result of pension reforms. An important factor that prompted the reforms was attributable to the fact that persons were living longer than expected. The aging populations have increased pension expenditure in developed economies.

Mr. Price outlined the World Bank typology in terms of zero to third pillar of retirement-income system – national schemes.

## HARMONISATION OF PENSION REFORMS IN CARICOM CONT'D

Mr. Price noted that countries are at different stages of development, so many do not possess all the pillars



Source: extracted from Will Price (2012). World Bank. Presented at CCMF Conference on 4th May 2012. DC is defined contribution and DB is defined benefit.

of development of the pension market. Significantly, he pointed out that the existence of capital markets is a prerequisite to the implementation of private pension funds. As a result the third tier should be implemented cautiously, subject to capital market development. Indeed, when looking at the CARICOM situation, several may not be in a position to easily implement the second pillar as markets are at an embryonic stage.

Accordingly, it was observed in the second session that the region is still young in actualising pension reforms. Perhaps Barbados may be the most advanced with respect to the devising of Pension Legislation. Charles Herbert of Ekler in Barbados noted that the country has a legislative framework covering three tiers – National Insurance Scheme, Private Pension Plans and Personal savings. Regulation of the private pension funds moved from Inland Revenue, to Supervisor of Pensions, and by 2011 it was regulated under the Financial Services Commission. The act sought to provide protection of employees and includes provision for minimum wage, encouragement of pension plans and provisioning of statistics from annual returns, mandatory registration and fines for offenses.

There were presentations by James Camacho and Tim Kimpton of Trinidad and Tobago who examined the proposed Occupational Pension Act. They intimated that that country is at the stage of proposing a private pension act in which it outlines the



structure of the pension plans. In addition it delineates the duties of the key elements of the various stakeholders including the sponsoring company, corporate and individual trustees and management company. In addition, the proposal outlines the reporting standards between stakeholders and regulators. Penalties for breaches are also explicit and take the form of administrative fines.

Harmonisation of pensions in the ECCU is complex given that the ECCU consists of six independent territories, one British dependency and two associate members. The Chairman of the ECCU Pension Reform Commission, Marius St. Rose, pointed out that workers are moving over from state designed social assistance to national insurance, evidenced as state designed social assistance in the sub-region accounts for only one per cent of GDP<sup>1</sup>. However, pension fund programmes are national in nature, so the job of the Commission is to review and recommend at a conceptual and operational level, while crafting of legislation belongs to the respective governments. The Commission has recommended a national and regional four tier system: social assistance, pension, personal savings and investment. The recommendations are largely state-financed



## HARMONISATION OF PENSION REFORMS IN CARICOM CONT'D

pension schemes along with tax incentives and, possibly, reverse mortgages to stimulate savings.

The consensus that emerged from the seminar is that pension funds in the region should be conceptualised and operated at a regional level. This is critical as there are limited opportunities to diversify investments in a small economy where the financial sector



is thin given that capital markets are at an embryonic stage of development. It is envisaged that by operating at a regional level, country risk can be reduced as investments can be diversified across countries. For example, the chairman of the ECCU Pension Reform Commission noted that limited investment opportunities arise because of overbanking, given that this is a small sub-region but banks dominate the financial sector.

Another concern is the size of pension funds relative to GDP since this can leave the country vulnerable to shocks that may occur in the pension industry. Further, national pension funds should be added to the country's debt burden. An instructive lesson that the Caribbean can draw on, is the forecast of the growth of pension funds relative to GDP. The IMF has forecast pension funds to GDP ratio for the advanced developed and emerging economies for the period 2010 to 2050. The forecast is useful to prepare for the pressures that pension funds impose on GDP. The forecast in the developed countries suggests that pension

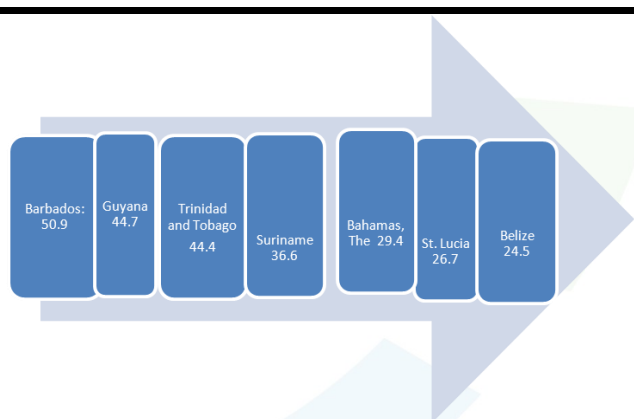
Life Expectancy at Birth

| Country             | 1950-55 | 2010-2015 | 2045-2050 |
|---------------------|---------|-----------|-----------|
| Bahamas, The        | 59.0    | 75.4      | 80.8      |
| Barbados            | 57.2    | 78.3      | 81.6      |
| Grenada             | 62.0    | 69.6      | 78.1      |
| Jamaica             | 58.5    | 73.3      | 76.0      |
| St. Lucia           | 54.1    | 74.7      | 79        |
| St. Vincent         | 51.1    | 72.5      | 77.3      |
| Trinidad and Tobago | 59.1    | 71.4      | 78.7      |

Source: Data extracted from EKLER (2010). <http://www.cartac.org/UserFiles/File/Joint%20MFM-PFM%20Conference%20Barbados%20Nov%202010/day%202-3-a%20Pres%20on%20recent%20pension%20reforms%20in%20BDS%20-%20lisa%20wade-9-nov-2010.pdf>

funds would increase by 1.2 per cent of GDP by 2030 and accelerate to 1.4 per cent of GDP owing to an aging population. It would be unwise for the CARICOM region to ignore the aging demographic profile that may arise. Forecast by EKLER confirms the aging structure of the region. Planning for future pension liabilities owing to the aging profile of the population is critical to meet the financing needs.

Dependency Ratio for CARICOM by 2050



Source: Extracted from Paddison (2006). Social Security in the English Speaking Caribbean. <http://www.eclac.cl/publicaciones/xml/8/26918/lcl2561i.pdf>

## HARMONISATION OF PENSION REFORMS IN CARICOM CONT'D

The IMF identifies certain challenges that countries must address. One of these challenges includes high old-age dependency ratio in terms of working population to fund the population over 65. Indeed, the increase in the dependency ratios for the various territories would call forth higher levels of country resources to deliver pensions.

The IMF suggests that certain options are available to countries given increases in expenditures owing to an aging population. One of these options is with respect to gradually raising the retirement age, in

| 70      | 65                            | 62                  | 61        | 60  |
|---------|-------------------------------|---------------------|-----------|---|
| Jamaica | The Bahamas, Barbados, Belize | St. Kitts and Nevis | St. Lucia | Antigua and Barbuda, Dominica, Grenada, Guyana, Montserrat, St. Vincent and the Grenadines, Trinidad and Tobago |

Source Extracted from Paddison (2006). Social Security in the English Speaking Caribbean. <http://www.eclac.cl/publicaciones/xml/8/26918/lcl2561i.pdf>

light of the fact that as the pensionable age increases it eases the pension debt burden. In most of the CARICOM region, the retirement age is 60, but a few countries have ventured to 65 and 70. Thus raising the retirement age for the countries with retirement age at 65 or over may be tight. However, the majority of countries have greater freedom to raise the retirement age. Further, the experts agreed that there is no evidence that raising the retirement age increases unemployment.

Harmonisation of pension funds in the region is not easily achieved as countries are at different stages of developing pension legislation and also at different stages of market development. As such, some countries have been able to move beyond state funded

pensions in the direction of private pensions. In addition, most, if not all, countries are not ready for a defined contribution system given weak development of capital markets, so these countries may gravitate towards a defined benefit system. However, a defined benefit system exerts pressures on governments to generate sufficient returns to honour benefits. Discussion of these issues is quite timely as the region needs to confront these issues in developing legislation.



<sup>1</sup>State designed social assistance was badly designed, giving low returns on investments accompanied by high cost ratios with limited coverage with respect to the self-employed.

**By Anthony Birchwood (PhD)  
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## REGIONAL NEWS SUMMARY

### CL FINANCIAL

- The High Court in Port of Spain ruled that in the matter of an application by CLICO policyholder Percy Farrell and four others against the failed insurance company, the Central Bank, Minister of Finance Winston Dookeran and Attorney General Anand Ramlogan, the claimants were not entitled to pre-emptive costs on their application before the court to have money paid out of the Statutory Trust Fund established by the Central Bank (TE 30 Mar). These five policyholders then appealed this decision (TG 17 Apr)
- The Clico United Policyholders' Group has been granted leave for judicial review to challenge Government's bailout plan for the troubled financial institution (TG 20 Apr)
- Government has in the last five months paid out almost \$870 million to 11,361 clients of Clico and British American Insurance Company Ltd (BA) who had investments in annuities and mutual funds (TG 21 Apr)
- Some 4,000 policy holders of British-American Insurance Company are expected to benefit from the continuation of their policies following a US\$30 million liquidity support fund approved by the ECCU to capitalize and prepare the sale of BAICO's traditional insurance business (CNnow 25 Apr)

### THE STANFORD GROUP

- Antigua's former Financial Services Regulatory Commission chief, Leroy King, is seeking a review of the warrant ordering his extradition issued by Antigua Prime Minister Baldwin Spencer. King is wanted in the US to face trial on several charges related to the Allen Stanford US\$7 billion Ponzi scheme (Carib360 12 Apr)

### CARIBBEAN

- Hoteliers have been told to seek funding from other sources, like private equity funds, in the face of reduced levels of bank financing as, due to the economic slowdown, available financing to the hospitality sector has dwindled, particularly for new construction projects (BN 29 Mar)
- People still see The Bahamas as a difficult place

to do business, and this is reflected in data released in a report by the Global Financial Centres Index, according to accountant Philip Galanis. He noted that The Bahamas needs to embark on an aggressive marketing campaign so that jurisdictions around the world know that The Bahamas is open for business (CNnow 29 Mar)

- Three financial agreements designed to boost the Caribbean Region's ability to deliver tangible results of integration to its populace have been signed by the Caribbean Forum of African Caribbean and Pacific States and the European Commission (GCO 29 Mar)
- The IDB is ramping up lending for private sector projects related to renewable energy and energy efficiency to help bridge the gap for long-term financing for green investments in Latin America and the Caribbean (TG 29 Mar)
- The European Union has lambasted regional governments for their failure to take on ownership of the CARIFORUM-EU Economic Partnership Agreement (EPA), which was signed here in Barbados on October 15, 2008 (BAAdv 2 Apr)
- The first trans-border financial services venture between Guyana and Suriname has been realised with the launch of two services of Assuria NV, the leading and largest insurance company in Suriname (CNnow 2 Apr)
- Through the prudent management of Guyana's economy, government has been able to double the income tax threshold over the last 5 years, taking it from \$300,000 in 2006, to \$600,000 in 2012 (GCO 2 Apr)
- Trinidad and Tobago, through TTSEC, has been elected as the third representative of the Inter-American Regional Committee of the International Organisation of Securities Commissions (Newsd 3 Apr)
- Over the last three years, bilateral trade between the members state of CARICOM and the US has grown from US\$15.7 to US\$21.8 billion, an increase of 39% (TG 3 Apr)
- Spirits conglomerate Lascelles deMercado and Company Limited is seeking buyers for its general insurance outfit, Globe Insurance Company of Jamaica, listed among the company's most notable subsidiaries (JG 4 Apr)



## REGIONAL NEWS SUMMARY CONT'D

- Housing mortgage lender, New Building Society has recorded \$772 million in profits last year, an increase of 34% over the previous year, the bank's chairman, Dr Nanda Kishore Gopaul said (GuyTim 4 Apr)
- Guyana's mining and quarrying sector is booming, recording growth of 19.2% in 2011 with a 17.7% increase in raw gold declarations, according to a government report (Carib360 5 Apr)
- The RUSAL-owned bauxite company in Guyana is now poised for the expansion of its local operations with the deployment of US\$21M worth of vehicles and equipment from its business in Jamaica. The equipment will also play a pivotal part in maintaining the access road from Linden to Aroaima (SN 5 Apr)
- Corporate Barbados, the regional banking sector and private citizens continue to invest generously at the undergraduate level of the University of the West Indies, Cave Hill campus, according to Chairman of the Campus Council, Paul Altman (BAdv 5 Apr)
- China's economic might has rolled up to America's doorstep in the Caribbean, with a flurry of loans from state banks, investments by companies and outright gifts from the government in the form of new stadiums, roads, official buildings, ports and resorts in a region where the United States has long been a prime benefactor (NY Times 8 Apr)
- The US Commodity Futures Trading Commission has filed a legal suit against RBC, Canada's biggest bank by assets, accusing it of carrying out hundreds of millions of dollars of "wash trades" in the Caribbean, among other offices, in a bid to claim dividend tax credits from Canada's Revenue Agency (TG 9 Apr)
- The former Central Bank of the Netherlands Antilles BNA, now the Central Bank of Curaçao and St. Maarten, kept insufficient supervision on Dutch wealthy oil trader John Deuss and his First Curaçao International Bank (Caribseek 11 Apr)
- The IDB has approved a \$2 million subordinated loan to Alternative Insurance Company (AIC), the leading locally based insurer in Haiti. The financing will catalyze resources for the Haitian-owned AIC to carry out a visionary strategic growth plan that will expand its services to low-income clients (CNnow 11 Apr)
- The Barbados Dairy Industries Limited (the Pine Hill Dairy) will be delisting its stock from the Barbados Stock Exchange come the end of May (BAdv 11 Apr)
- The Jamaican Ministry of Finance has approved a licence for a new company called CRIF NM Credit Assure Limited to operate a credit bureau in Jamaica (JG 11 Apr)
- Jamaican visitor arrivals by air and sea hit a record 3.07 million in 2011, an 8.4% hike year-on-year, which beat the previous record set six years ago (JG 11 Apr)
- Latin America and the Caribbean can overcome external threats stemming from the eurozone debt crisis, slow recovery in the U. S. and China's deceleration, to make this the region's decade, leading multilateral lending institutions have said (GuyTim 11 Apr)
- Trinidad and Tobago has started negotiations with Guatemala for a partial scope trade agreement, in the hope of widening economic opportunities beyond regional and traditional markets (TE 12 Apr)
- In recent years, several technical papers from the IMF have pointed to the enormous debt burden of Caricom countries and identified poor fiscal management as a major contributing factor. The empirical evidence suggests that the governments in the region need to do more to improve their fiscal management. Jamaica is a vivid example, but is not alone (JO Apr 12)
- Twenty-two leading women entrepreneurs from 10 Caribbean countries came together to launch The Caribbean Women Entrepreneurs Network at the close of the recently concluded Caribbean Women Entrepreneurs Forum in Washington, DC (Carib360 13 Apr)
- The US has agreed to consider granting unilateral trade benefits for Caribbean Basin countries and dependent territories that currently do not receive those benefits (TG 15 Apr)
- The value of goods exported from Latin America and the Caribbean grew by nearly 27% in 2011,

## REGIONAL NEWS SUMMARY CONT'D

- paving the way for long-term economic development and strengthened regional cooperation, according to the International Economic Forum of the Americas (Caribseek 16 Apr)
- Bahamian companies have been awarded more than \$110 million in contracts since the multi-billion dollar Baha Mar resort broke ground just over one year ago (CNnow 16 Apr)
  - A clear and profound message from the chairman of the Caribbean Tourism Organisation that it is vital that the Caribbean region becomes truly dedicated to sustainable tourism practices in order to maximize the economic benefits for all stakeholders (CNnow 16 Apr)
  - Inflation in Jamaica was recorded at 0.5% during the month of March, which resulted in a 7.3% inflation rate for the fiscal year (JO 17 Apr)
  - Just over a year after giving Barbados a failing grade for not fully complying with international tax standards, the OECD now says the country is up to scratch (BN 18 Apr)
  - Minister of Finance, Dr. Ashni Singh announced a further increase in the old age pension to G\$10,000 (GCO 19 Apr)
  - Twenty-four hours after Caribbean Airlines dropped the words 'Air Jamaica' from all its airport flight announcements, carrier has made its 75 Jamaican pilots redundant. While the airline has tagged the redundancy as an 'Integration into the Caribbean Airlines Network', sources close to the carrier said all 75 pilots would have to reapply, expressing interest in their former positions (JG 20 Apr)
  - The price of natural gas dropped to the lowest level in more than a decade as US supplies continue to grow. Natural gas futures gave up 4.4 cents to finish at \$1.9070 per 1,000 cu ft in New York (TG 20 Apr)
  - Curaçao has closed off its financial year 2011 with a deficit. And because creating debt is against the agreement with The Netherlands, Curaçao will have to adjust its 2012 budget (Caribseek 20 Apr)
  - Local tourism authorities are being advised by this country's Ambassador to China, Sir Lloyd Erskine Sandiford, to capitalise on Chinese tourists (BAdv 23 Apr)
  - Dr Don Marshall, Senior Research Fellow at the UWI, is part of an international nine-member team that has won a US\$1.2 million bid to undertake research on systems of tax evasion in the Caribbean and across the world (BN 23 Apr)
  - The announced closure of Almond Beach Village at the end of this month will take the tally of Barbadian hotels that have shut their doors over the last 20 years to a staggering 33 properties (BN 24 Apr)
  - The latest Labour Force Bulletin released by the Central Statistical Office said the unemployment rate decreased from 5.8% per cent in the second quarter, 2011 to 5.2% per cent in the third quarter, 2011, a decrease of 0.6 percentage points (TE 25 Apr)
  - The Securities and Exchange Commission will revoke the licence of any market actor caught facilitating money laundering, chairman Patrick Watson said at the launch of the commission's Guidelines on Anti-Money Laundering and Combating the Financing of Terrorism (TG 25 Apr)

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