

## **Pensions and Investments 2002**

### **Caribbean Centre for Monetary Studies Presentation**

By Wendell Mottley

On Friday, May 03, 2002

At Hilton Hotel

First, let me say how happy I am to be participating in this very commendable policy seminar organized by CCMS on Pensions and Investments. It is only through this process of continued consultations among stakeholders that the best ideas and practices for pension reform and development will emerge in the Caribbean region.

In reviewing the objectives of this seminar, I particularly draw your attention to objectives 1 and 3: "To sensitize and inform the general public on future pension benefits, management and investment in the Caribbean" and "To increase dialogue fostering collaboration among the many stakeholders". I draw this distinguished audience's attention to these objectives because the voice of one of the primary stakeholders in pension reform seems, judging from the scheduled list of speakers, to be absent from this gathering---the pensioner him or herself.

One of the primary reasons that we lack equity in our solutions to many of our problems in this region is that we do not take the time to truly listen to the voices of the people who are the subjects of our discussions and policy prescriptions. So if this august gathering is going to make recommendations to the CARICOM Heads, the Central Bank Governors and the various relevant regional councils, then we need to start listening not only to experts and investment professionals but also to the older people that are our co-citizens in the region.

Keeping this in mind, let me introduce you to my friend Mr. Grant. Mr. Grant is 87 years old and lives in Woodbrook. Grant started working in the colonial service at the age of 18 and continued working until the age of 53, retiring at the level of senior assistant secretary, one grade below permanent secretary. Mr. Grant earned about \$40 a month when he first started and finished his career in the public service in 1968 earning about \$600 per month. He has contributed much to our country by his integrity and

fastidiousness in his work. Mr. Grant has a government pension of \$1781, to which is added another \$900 from his services in Grenada and St. Vincent when we were all a part of the British Empire. So Mr. Grant today gets \$2600, which includes the increases in 2000 and 2001. As you know before that date, pensioners had not had an increase in many years.

Mr. Grant has been actively involved in the Government Pensioners Association trying to convince the very same policy makers to whom we will be addressing the recommendations of this conference that his pension is not equitable given his years of service to his country and his very modest needs.

Remember that Mr. Grant is 87! He has been retired for 34 years, which is 1 year more than the 33 years he actually contributed to the pension fund. The two years before his 20th birthday did not count although he worked just the same.

I want to use Mr. Grant's voice as we reflect on all the interventions made by the participants in this seminar. I want to emphasize that it is Mr. Grant we are talking about and all those Mr. and Mrs. Grants, Singhs, Lees and Abouds who have indeed, much to our surprise, become octogenarians and even centenarians, remaining in good health (for their ages) and still lucid and filled with the love of life. Many of them still have contributions to make to our country given their breadth of experience. Let me cite in this context, Louise Horne, former teacher, social worker and former colleague as a Senator who is currently seeking a publisher for her book entitled *"The Development of Modern Trinidad and Tobago"*. Ms. Horne entered the Government Teaching Service in 1932! And because women may be ticklish about their ages, I will let you venture a guess.

Let me also cite Miss Singh, a retired school principal who is universally recognized and admired for her 32 years of excellent service in the making of a great teaching institution and who defined so many young women's lives. She too receives a pension of under \$3000 per month. Had her brothers not insisted on her making some direct investments in property along the way, she too would be living today in "genteel poverty".

Indeed the West Indian propensity towards real estate investment has been the salvation of so many older folk. Real property has stood the test of time - and done far better than Government pensions and private savings and investment plans. Property is revered because Caribbean people will never forget their experience in the collapse of the Jamaican financial system. Also in Trinidad, there are many bitter pensioners who lost everything in Southern Finance, Trade Confirmers and the money so many trusted with Mr. Ram. Thus, financial quality is a big issue in Caribbean pensions.

Indeed, it is significant that trust in the T& T Unit Trust was initially developed only on the bedrock foundation of a Central Bank guarantee.

Let us return to Mr. Grant, whom you recall, departed senior public service in 1968 earning \$600 month. What with inflation and so many devaluations, I have calculated that Mr. Grant would have to be earning \$28,000 per month today to enjoy the standard of living that he enjoyed in 1968. But his pension is \$2600 per month! Government service job security and unfunded Government pensions have over the long term proven to be bait and a trap that spring when, as pensioners, Government employees are most defenseless.

Of course, we are not only talking here about the current pensioners but also about ourselves and the 60,000 people in the government service as well as the hundreds of thousands of salaried, occasional, and self-employed workers. All of us deserve a decent retirement, free from the fear of catastrophic illness wiping us out financially, and where we can continue to contribute to our societies.

Too many elderly live in another country, one of fear and diminishment and one that is sometimes not unlike a kind of emotional solitary confinement. Their condition is extreme enough that sometimes even the fear of death becomes secondary to the fear of not having the means to live - long before it is time to go. That is the scenery in the lives of many in our aged and aging population that should inform our discussions.

Now in the remaining time, let me put on the economist's hat for which I am known, and offer some observations and suggestions concerning pension reform and investment in our region.

First, we need to make social equity a fundamental goal of pension reform. And I really do mean this. I have given several speeches in the Caribbean over the past several years where I have illustrated what happens when economic growth is delinked from a country's social and political objectives. The rampant runaway capitalism that results in an Enron as well as jobless growth is not what we need or want in our region. And therefore every private fund manager, government technocrat, or public fund manager must understand that along with other important national and regional goals --like creating long term savings, development of bond and equity markets, and innovation, pension funds must adhere to a standard of social responsibility that promotes and fosters equity.

Truncated and unrealistic planning horizons and overemphasis on the "bottom line" have led us all into the current global economic quagmire. Predications of recovery have not yet materialized and we are, need I remind you, in a very unstable chaotic world.

Second, we need to think regionally about pension reform. The small size of our countries can be a disadvantage if we are only pooling funds from our nationals. CARICOM Heads must strategize seriously to accelerate the movement of people and goods in our region. If the total number of Caribbean workers paid into a regional fund, private fund managers might be enticed and eager to offer us better portfolio returns and risk management strategies. Given the difficulties we have in T& T in granting Caricom nationals work permits, I don't know that we can take the lead in this area.

Third, we need to remember Mr. Grant, Ms. Horne, Ms. Singh and their peers. Pensioners are a critical resource for the development of our country. We have to get a handle on what real life expectancies are in our region. I do not believe that we can afford to let these people, who are clearly so patriotic and interested in the well-being of their country, retire from life with half of their life yet in front of them.

Let's talk about the big numbers that have everyone salivating. Trinidad and Tobago could have oil and gas revenues of \$8.5 billion from 2004 and could rise to \$12 billion by 2010. My fork and ladle simile has been widely reported so I can simply reemphasize that

in any pension reform that has social equity as its fundamental goal, there should be only a miniscule portion of T& T's citizens with forks.

If because of greed, shortsightedness or mismanagement, we squander this wealth . . . well let me remain optimistic which I am. I know that those of you here understand the oil and gas are depleting resources and that we need to plan for the post-boom era as well as unanticipated and cyclical downturns caused by events beyond our control.

I would recommend that a stipulated percentage of revenues derived from the petroleum sector be used to establish a legislatively constructed fund. Yes, you may say, we already have an Oil Price Stabilization Fund, but my vision calls for a larger fund that is not just a footnote in the annual budget but one that will, actually inform the national budget exercise!

This fund will represent our national savings with depletions or withdrawals used as budgetary support during price declines and increased beyond stipulations during periods of price increases. Such a fund must, of course, have investment guidelines and risk management strategies. But what we can do with such a fund is to segregate and dedicate a part of this fund to meaningful pension reform that will:

1. Unify the disparate strands of the existing public sector pension system
2. Provide decent and adequate pensions for beneficiaries and specifically, be available to citizens for draw down under well regulated terms to acquire assets such as education or home ownership

Let me conclude by making a suggestion about pension fund investments gleaned from my recent experience in working as a banker on Wall Street with Credit Suisse First Boston.

Caribbean sovereign issues and T& T energy sector bond issues currently make up ideal pension fund investments. Too often these investments are not readily available to local pension funds, at least not in the primary market. This is so because Governments often stipulate that local investors be excluded. The governments want to be assured of maximum net foreign exchange accumulations to build reserves. In any event, because of

the large size of these issues, it is the NY capital market that dictates the terms and primary placement of these issues. However, because it is so important that local pension funds acquire quality and liquid assets such as these bonds and because I can give you the assurance of Wall Street's capacity to accommodate local pension purchases, I strongly urge Governments to cajole or incentivize issuers through withholding tax concessions to set aside a portion of these new issues for Caribbean pension funds.

I believe such a move would immediately and continue to strengthen the pool of quality Caribbean pension fund investments.

Thank you.