

December 13th 2019

The State of the NIS

(Excerpt from the 2019 budget address)

Introduction

The National Insurance Services (NIS) continues to bolster the national social safety net by providing social security protection to approximately 48,433 insured persons – comprising 39,226 active employees, 7,705 pensioners, and the balance representing self-employed and voluntary contributors. These services were supported by a solid asset base of \$498 million, which represents over one-fifth of the country's GDP.

In 2018, the financial performance of the NIS remained sound, and is projected so to be on an ongoing basis. This was evidenced by the 10% growth in contribution income compared to previous financial year, moving from \$61.2 million to \$67.3 million. The increase in active employees' population from 37,415 to 39,226, coupled with the advancement in average annual wages from \$20,077.92 to \$21,652.81, supported the contribution growth. In the same period, the benefit expenditure escalated from \$60 million in 2017 to \$66 million in 2018. The upswing in benefit payments was mainly due to growth in pensions payments. The number of pensioners advanced from 7,493 to 7,705 and average pension for new awards grew by 6%.

The narrowing of the gap between contribution income and benefit expenses caused greater reliance on investment income to finance administrative expenses. The investment portfolio generated income of \$15.4 million in 2018, which was partially used to cover the administrative expenses of \$11.6 million. The resulting positive net income of \$5.6 million from operation financed the growth in the reserves.

Challenges

Notwithstanding the consistent credible financial performance of the National Insurance Fund, the Fund faces financial challenges as it matures. The Fund is financed on a Pay-as-You-Go and partially-funded basis, and it is a defined benefit structure. Consequently, the benefit increases year on-year as more people qualify for pensions at higher payment rates. The rate of growth of benefit typically outpaces that of contribution income, which causes financial pressure to the system. This challenge becomes more acute for systems that operate in a society experiencing population ageing and migration among the working population. In the case of Saint Vincent and the Grenadines, life expectancy is projected to increase, and the fertility rate is projected to decline from 2.16 to about 1.8 by 2025.

Additionally, the NIS is relatively generous, because the contribution rate is low relative to the benefit design, which includes a high replacement rate of 60%. The low coverage among the self-employed and informal sector workers and the non-compliance with the NIS Act by some employers add to the financial pressure on the Fund. It should be noted that the Government is fully compliant with its NIS contributions. It is not in arrears.

The NIS is approaching another inflection point in its social security life cycle: the end of the period of equilibrium where total expenditure exceeds total income. This clearly signals the need for the NIS to engage in further reform measures to strengthen the sustainability of the plan and mitigate the inter-generational risk, where the future contributors would be required to pay substantially more for equivalent benefits as current beneficiaries.

It is important to note that other regional systems, including Grenada, Saint Kitts and Nevis, Trinidad and Tobago, Antigua and Barbuda, Dominica, The Bahamas and Belize are all contemplating elements of pension reform to bolster their social security systems to meet similar challenges.

Options

Like our regional counterparts, the Board and management are considering the following reform options – along with greater administrative efficiencies – to enhance the financial sustainability of the NIS:

Consideration for a gradual increase of the contribution rate from 10% to 12% over a two-year period. The suggested increase is 1% in 2022 and another 1% in 2023. The increase

would be shared evenly between employers and employees.

An increase in the insurable wage ceiling from \$4,330.00 to \$5,1996.00 per month.

A reduction of the maximum replacement rate from 60% to 55%. This measure would have to take into account the Government's position on the reform of the Civil Service Pension Plan.

The NIS approaches 2020 with great hope and optimism to provide sustainable income protection to the people of Saint Vincent and the Grenadines whilst contributing to the social and economic development locally. The NIS anticipates growth in key areas of operations including contribution income, investments and reserves, whilst facing the ongoing sustainability challenges owing to the maturing nature of the Fund.

Pension reform

Pension reform is a very sensitive and complex issue. The main driving force is a reduction of the pension expenditure in the face of continuing fiscal challenges. We therefore strive to make the pension system more affordable, that is, one within the financing capacity of the society that does not unduly displace other national, social, or economic imperatives. Central Government's cost associated with payment of pensions and other retiring benefits has been increasing. In 2017, the cost of retiring benefits payments amounted to \$71.9 million, including \$12.5 million for employee's contribution to the NIS. This figure was

12.1% of current revenue for the year. As the wage bill increases and more persons retire from the public service, this expenditure on retiring benefits, will continue to rise. Indeed, as more persons retire from the public service, an unsustainable incongruity is manifesting itself: A retiree's pension plus NIS payments can be as much as 126% of their final salary. We simply cannot afford to pay people more in retirement than they earned as workers.

The Government must also grapple with the population demographics when considering reform. The life expectancy of the population (including public servants) is increasing and is now 74 years. Accordingly, the option of increasing the retirement age for the public servants from the current age of sixty 60, must be considered as part of the reform programme. This option takes on added significance now that the NIS has increased its pensionable age beyond sixty 60.

In 2020, the ULP administration will outline further proposals for pension reform in St. Vincent and the Grenadines.