The 11th Actuarial Review of the National Insurance Fund in Brief

The National Insurance Services (NIS) of St. Vincent and the Grenadines commenced operations in January 1987 and is the principal safety net for workers and their dependents. It covers all employed and self-employed persons for short-term benefits, long-term benefits or pensions, and employment injury benefits. Given the long-term nature of pensions, which account for almost 70% of benefit costs, the NIS' goal is to cover the social security needs of both former and current workers over the age of 60.

The Actuarial Review is conducted every three years, in keeping with the NIS Act. The reviews provide a comprehensive assessment of the current and projected state of the Fund, including policy recommendations for guaranteeing a sustainable balance between the adequacy of benefits, affordability of contributions, and financial sustainability to support our present and future generations.

The Caribbean Experience

Our NIS experience closely matches the trends of our Caribbean neighbors that all have maturing schemes: aging populations (resulting in a higher ratio of pensioners to contributors and a high level of current pensions), labor market disruptions (high unemployment, and migration), and the need for legislation (to strengthen the schemes' ability to enforce collections).

For example, between 2001 and 2019, the number of contributors or insured persons increased by 27% (33,400 to 42,400), whereas the number of pensioners almost tripled (3,100 to 8,100). The ratio of contributors per pensioner has fallen from 10.7 to 5.2 during that period. As a result, expenditure has increased more quickly than contributions and in 2019 stood at 12% of insurable wages, 2% more than the 10% contribution rate. Therefore, with expenditure increasing faster than income every year, reserves have been decreasing relative to annual expenditure.

The NIS Experience during the Review Period

Over the three-year period of 2017 to 2019, total expenditure exceeded contribution income each year. However, with investment income included, the Fund experienced a combined net surplus of $10 million.

At the end of 2019 total reserves were $488.5 million, approximately six times the 2019 expenditure and down from seven times the expenditure reported at the end of 2016. In terms of investments, 24% were held in the Bank of St. Vincent and the Grenadines. Investments in government and quasi-government securities stood at 50%. As well, 60% of the Fund's assets were invested domestically, 21% regionally, 15% internationally, and 4% in the OECS Member Sates. Our diverse investment portfolio spanned real estate (7%), loans (19%), equity (24%), cash and money markets (25%), and bonds (25%).

Findings and Projections

The assessment of NIS policy and design indicators suggest the following:

1. Current contribution and benefit provisions provide a fairly good level of benefit adequacy and income protection to most workers and pensioners.
2. The periodic adjustment of pensions has been effective in replacing most of the price inflation experienced by pensioners.
3. The wage ceiling, although not increased since 2006, is still at an appropriate level because only 6% of insureds earn more than $4,333 per month.
4. Participation rates among self-employed persons and informal sector workers, which are still voluntary, continues to be very low.
5. Although there remains a heavy concentration of investments in short-term deposits, the investment portfolio is otherwise fairly well diversified.

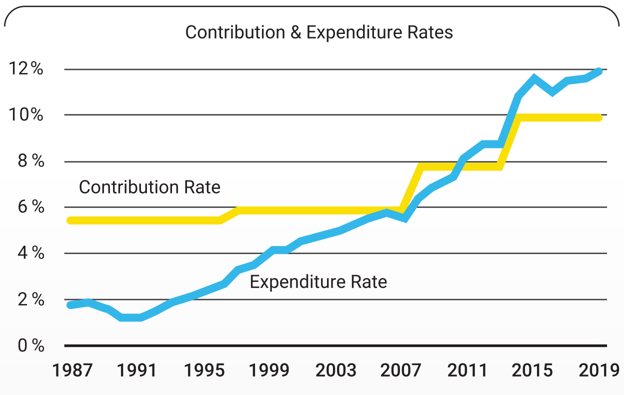
Projection Results

Given the long-term nature of pensions, 60-year projections of NIS income, expenditure, and reserves under three distinct population and economic growth scenarios were made. Highlights of those projections, assuming the contribution rate and benefit rules remain unchanged, are as follows:

1. Total expenditure will exceed contribution income each year.
2. Total expenditure will exceed total income each year from 2021.
3. Reserves will be depleted between 2033 and 2036.
4. The pay-as-you-go rate during the mid-2030s, when Fund depletion is projected, will be around 18% of insurable wages.
5. At the current stage of Fund finances, higher investment returns will have little material impact on overall reserves.

It was noted in the report that when reserves are exhausted there will only be two possible sources of additional income to meet benefit payments, which include higher contributions from employers and workers and special transfers from the government. If there is insufficient cash on hand, some benefits will have to be delayed or reduced.

These results are similar to those of the 10th Actuarial Review, which revealed the Fund fragility over the medium- and long-terms at the current benefit provisions and contribution rate. Reform scenarios modeled suggest Fund depletion can be extended to 2050 with urgent strategic changes.



Recommendations

Following are the key recommendations made in the report of the 11th Actuarial Review:

1. Prepare a Funding Policy and a Benefits Policy that will provide explicit documentation of what the NIS seeks to accomplish, what circumstances it wishes to avoid, and identify where objectives conflict as well as what takes priority.
2. Gradually increase the contribution rate to 15%.
3. Hasten the increase in pensionable age so age 65 is reached in 2026 instead of 2028.
4. Change the Age pension to a Retirement pension so prior to age 65 the pension is only awarded if the insured person is retired.
5. Gradually increase the age at which reduced Age pensions are awarded from 60 to 62.
6. Reduce the maximum Age pension percentage rate from 60% to 55%.
7. Increase the reduction factors that apply to Early Age pensions from ½% per month to as much as ¾% per month.
8. Consider allowing those in receipt of an Age/Invalidity pension to also receive a portion of a Survivors pension if they meet the eligibility conditions for both pensions.
9. For Sickness, Maternity, and Injury benefits, revise the days for which benefits are paid to exclude one day, instead of Sunday in every case.
10. Make NIS registration and payment of contributions mandatory for all self-employed and informal sector workers.
11. Implement new technologies that will allow self-employed persons and informal sector workers to easily pay contributions to and receive benefits from the NIS.
12. Improve contribution compliance through effective linkages with government departments that issue permits to businesses and self-employed persons.
13. Reduce administrative costs.
14. Revise the composition of the Investment Committee so two of the three Board members are replaced by two non-Board members who have investment or financial experience.
15. Share openly with the public this report of the 11th Actuarial Review and recent financial audited financial statements, along with the Board's plan to ensure the long-term sustainability of the National Insurance Fund. This report should be placed on the NIS website.

Summary

The NIS, like all agencies and businesses, operates within the economic framework of St Vincent and The Grenadines. Because the Fund's sustainability is closely linked to population changes and local economic performance, a strong economy is critical to a buoyant, sustainable NIS. The other three ingredients required for long-term sustainability over which policymakers have greater control include good design (a system that provides relevant, equitable, and affordable benefits consistent with prevailing socioeconomic and labor market conditions, other employment linked benefits, and available technology), efficient and effective administrative systems (high contribution compliance, timely claims processing and benefit payments, and excellent customer service at a low cost), and good governance (proactive and prudent decision-making in the best long-term interest of SVG at all governance levels).

Social security schemes around the world and the region face similar challenges to those of the St. Vincent and the Grenadines' Fund. In Barbados, the contribution rate is 18 ¼%, and recently it was announced by that government that the pensionable age will increase from 67 to 68 in two steps during 2028 and 2034. Contribution rates in many OECS Member States are gradually increasing to 15%, with 16% in Antigua and Barbuda and Grenada. Given their nature and complexity, social security schemes are susceptible to several environmental, social, economic and governance factors that contribute to the schemes' fragility. However, to ensure the NIS will be able to fulfill its obligations to future generations, further reforms are required.

The 12th Actuarial Review is currently underway, and the Board expects to submit the report to the Minister before the end of 2023.