Belize Pension System

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Abstract

The primary goal of a pension system should be to provide adequate, affordable, sustainable, and robust retirement income. Belize, like many other countries in the Caribbean, faces the challenge to both expand the pension coverage and guarantee its financial sustainability. In the last few years, the issue of social security reform has been a rising concern in Belize, as well as throughout the region. In this context, Belize has undertaken actuarial forecasts to examine the prospective state of its social security scheme. This document describes the Belizean pension system in terms of three critical issues. The most important issue is financial sustainability and its fiscal implications. The second is coverage, since Belize has one of the lowest coverage rates of workers among English-speaking Caribbean countries. The third issue is the institutional framework of the pension system. In addition, the document offers the main options for reforming a typical publicly managed, unfunded defined-benefit scheme such as the Belize pension system.

**JEL Codes:** G18, G22, J26, J32  
**Keywords:** pension system, Belize, Caribbean, English-speaking Caribbean
1. Justification

In the last few years, Caribbean policymakers, like their counterparts around the world, have come to view social security reform as an issue of concern. The maturing of the schemes, the demographic transition stemming from population aging, and the adverse future fiscal implications of non-reform are undermining the sustainability of social security systems in many countries. Fortunately, many Caribbean governments are now rising to the challenge, recognizing that doing nothing about their schemes is not an option.

Three issues appear to be particularly critical in the Belizean pension system. The most important one is financial sustainability and its fiscal implications. Actuarial assessments of the social security scheme show that long-term financial sustainability is threatened by changes in the demographic structure of the population, informality, and the inclusion of new benefits for participants that were not considered in the system’s original design and that have not been accompanied by increases in the respective employer or employee contribution rates. The situation in the Pension Plans for Public Officials (PPPO) is particularly critical. This scheme shows significant and persistent deficits, given that it has no contributions. These deficits indicate that the pension scheme for public officials represents the main fiscal threat.

The second critical issue is low coverage. Belize has one of the lowest coverage rates of workers among English-speaking Caribbean countries, mainly among people working in the formal sector. Although voluntary participation of self-employed workers has been allowed since 2003, three-quarters of registered self-employed workers do not contribute.

The third critical issue is the institutional framework of the pension system. On the one hand, Belize’s pension system is fragmented and complex, with a wide variety of schemes. Separate schemes are an important source of inequity and additional financial pressures. On the other, the administrative costs of the social security system are high. High operating expenses can be partially explained by the well-developed infrastructure and national reach, but also reflect the lack of economies of scale due to the small size of Belize’s population and the fragmentation of the pension system.
2. Analysis of the Pension System

2.1. A Relatively Young Pension System
Compared to most countries in Latin America, the countries of the English-speaking Caribbean were latecomers in enacting social insurance programs. Whereas most Latin American and Caribbean countries initiated social security before 1950, such programs in the English-speaking Caribbean began only in the 1970s. Belize enacted a Social Security Ordinance in 1979. It was the penultimate country in the region to do so, followed only by Grenada in 1983.

The 1979 ordinance created the General Social Security Scheme (GSSS), which began operations in 1981. The GSSS is a national system to which formal employees and their employers must contribute. Participation in the GSSS is mandatory for all employers and salaried public and private sector employees between the ages of 14 and 65. Contributions paid into the Social Security Fund are used to pay for benefits, administrative expenditures, investments that earn income for future expenditures, and pensions. The Social Security Board (SSB) manages the Social Security Fund.

The GSSS consists of three benefit branches or funds: short-term, long-term, and employment injury. The short-term branch comprises sickness and maternity benefits; the long-term branch comprises retirement, invalidity, and survivors’ benefits, and the employment injury branch covers medical care, temporary employment injury benefits, and grants or pensions in the event of permanent disability or death due to employment injury. Approximately 8 percent of contributors’ average weekly earnings go toward financing these three branches of the system.

2.2. A Complex and Fragmented Pension System
The pension system in Belize is composed of the long-term branch of the GSSS as a first pillar of pension protection, the Pension Plans for Public Officials (PPPO), and a limited number of complementary schemes, as a second pillar. The complementary schemes include the School Teachers’ Pensions (STP), the National Assembly Pensions (NAP), and the Central Bank of Belize Pension Scheme. Diagram 1 provides a detailed comparison of the main characteristics of the five pension institutions, reflecting the existing disparity in parameters relating to requirements and contributions.
The long-term branch of the GSSS is the most important pension scheme in Belize. It is a contributory, partially funded, defined benefit scheme that is based on a scaled premium system of finance.\textsuperscript{1} The PPPO is non-contributory and unfunded, with payments made from current revenues.

The fragmentation of the Belizean pension system prevents the government from being able to take advantage of economies of scale. Lack of scale means higher operating costs, resulting too often in low-quality pensions. The operating expenses of the GSSS long-term branch appear to be high. By the end of 2011, administrative expenditures represented 27 percent of total expenditures (36 percent in 2006) and 3.7 percent of total assets. High operating expenditures are a common characteristic of social security systems throughout the region. Still, compared to other Latin American and Caribbean (LAC) systems, the SSB’s operating expenses are extremely high. For example, in Chile, operating costs as a share of total assets amount to 0.6 percent. High operating expenses in Belize can be partially explained by the well-developed infrastructure and national reach, but also reflect the lack of economies of scale inherent in Belize’s small population size and the fragmentation of the pension system.

Regulation in terms of investment and governance is weak. Pension scheme investments are not regulated. Reserves are invested according to the Social Security Act (Chapter 44) of Belize, which provides a general structure for the investment process, defining categories of investment, benchmarks, and investment limits. However, the investment policy is not specific enough to make the investment process clear. At the same time, the investment regulation does

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\textsuperscript{1} Contributions are adjusted periodically to ensure that expected premium and investment income does not fall short of the cost of benefits and administration.
not include a protocol establishing how investment decisions should be made. Additionally, a summary analysis of investments by asset class shows that investments are highly concentrated in short-term assets, reflecting a mismatch between short-term investments of the SSB Reserve Fund and long-term payments of pension benefits.

An important shortcoming in terms of governance is the SSB’s lack of autonomy. This is a critical issue, considering that the SSB is in charge of managing the short- and long-term benefit programs and the injury benefits associated with the GSSS. As the board has some discretionary power, such as managing Reserve Fund investments and defining non-contributory pensions, its dependence on the political body could affect governance incentives.

The PPPO, for its part, lacks any institution in charge of the governance and financial issues. The PPPO has no resources of its own. Benefits under the PPPO scheme are conditional on the availability of fiscal resources. Therefore, pensions may be at risk under extreme conditions, such as a debt crisis. A direct consequence of the PPPO’s having no resources of its own is that there is less of a need to properly calculate future pension liabilities: it is assumed that the government will provide, so there is no obligation to make periodic actuarial calculations that would allow the government to make provisions for disbursement of these pensions. Additionally, the lack of past and present contributions implies that the government’s current pension liabilities can only be financed with resources approved yearly in the national budget. Other fiscal needs and political priorities are, however, competing for those resources. This represents a potential threat to public officials’ pensions.

The contribution rate to the pension system is low. Total contribution to the GSSS represents 8 percent of a person’s average weekly earnings. All contributions are distributed among the different benefit branches. Thus, out of the total contribution, 1.54 percent finances the short-term benefits branch, 1.96 percent finances the employment injury benefits branch, and the remaining 4.50 percent finances the long-term benefits branch (pension system). Self-employed workers contribute 7 percent of their average weekly earnings. According to Paddison (2006), Belize and Jamaica’s contribution rates to the pension system are among the lowest in the Caribbean.

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2 Lack of autonomy here refers to the government’s ability to appoint board members, with obvious incentives to implement the policies of the present administration.
The salary ceiling for contributions is low. The contribution rate is payable up to a maximum of BZ$320 per week (approximately US$160)\(^3\), which is low by international standards. This policy has resulted in sharply reduced pensions. The proportion of insured persons with earnings above the ceiling has almost doubled to one-third of total contributors.

Contributions are still based on a system of wage bands. Such a system has been phased out by most social security schemes. Contributions are based on placing all participants into one of eight wage categories, depending on weekly salaries. However, unlike schemes elsewhere in the region where contributions are calculated as a percentage of the insured’s wage, the GSSS computes contributions as a percentage of a salary ceiling or wage cap (weekly insurable earnings). The wage cap ranges from 20 to 30 percent below the ceiling within each wage category, except for the highest category. For the lowest category, the employer pays 6.50 percent and the employee 1.50 percent, while for the highest category, the employer pays 5.02 percent and the employee pays 2.98 percent.

Coverage of the pension system is low. Participation in the pension system is one of the lowest in the English-speaking Caribbean. In principle, all employers and salaried public and private sector employees are required to participate in the GSSS. In practice, however, many workers are left out, especially those employed in the informal sector. It is difficult to establish the extent of informality in Belize because there is little reliable information on this issue. According to the SSB (2012), the participation rate in the pension system has decreased steadily in recent years. In terms of the labor force, the participation rate decreased from 70.0 percent in 2006 to 60.3 percent in 2009 (Figure 1). Social security systems in the Bahamas, Barbados, and Jamaica cover approximately 90 percent of the labor force. As in Belize, these schemes cover old age, employment injury, and salary replacement for sickness and maternity. Unlike in Belize, however, these programs partly or fully cover the self-employed and domestic workers (ECLAC, 2003).

Participation of self-employed workers is minimal. As of November 2003, in response to a specific request by self-employed workers and after extensive countrywide consultations, formal provisions allowing self-employed workers to become insured on a voluntary basis were introduced. However, data from the SSB (2012) show that participation of the self-employed is relatively low.

\(^3\) 1 USD = 1.99489 BZD.
Since the inception of the self-employed scheme, the number of active self-employed contributors has remained stable at about 1.1 percent of the total active insured persons. As a percentage of total self-employed registered, the coverage rate has been decreasing steadily, from 36 percent in 2008 to 25 percent in 2011 (Figure 2). The low level of affiliation could be explained, among other factors, by the myopia of large sectors of the populations, many of who do not attach enough importance to the reduction in income in old age.

**Figure 1: Number of Active Contributors and its Participation as a Percentage of the Labor Force, 2010**

**Figure 2: Number of Active Self-Employed and their Participation as Percentage of Total Self-Employed, 2010**

<table>
<thead>
<tr>
<th>Year</th>
<th>Active contributors</th>
<th>As % of labor force</th>
<th>Year</th>
<th>Active self employed</th>
<th>As % of total self-employed</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>70,000</td>
<td>50%</td>
<td>2008</td>
<td>85,000</td>
<td>60%</td>
</tr>
<tr>
<td>2008</td>
<td>80,000</td>
<td>55%</td>
<td>2009</td>
<td>90,000</td>
<td>65%</td>
</tr>
<tr>
<td>2009</td>
<td>85,000</td>
<td>60%</td>
<td>2010</td>
<td>85,000</td>
<td>65%</td>
</tr>
<tr>
<td>2010</td>
<td>90,000</td>
<td>65%</td>
<td>2011</td>
<td>80,000</td>
<td>60%</td>
</tr>
</tbody>
</table>

Source: Author’s calculation based on SSB Financial Statement 2011.

Participation is heavily concentrated among men. In 2010, 63 percent of active contributors to the GSSS were men, and they are almost double the number of female contributors. This difference remained stable over the past five years. A different situation occurs with self-employed workers, 54 percent of who are female and the remaining 46 percent are male. This situation might be due to the inclusion of housewives as self-employed; in most legislation, housewives are not considered as part of that category (Figure 3).

The preponderance of younger contributors has increased in recent years. This trend is reflected in the fact that the 25–34 age cohort is the largest. This distribution is consistent with the population trend, in which the median age of the population is 22 years according to the 2010 Census. Among active self-employed workers, 17 percent are 50 and over, as compared to only 7 percent in the general scheme, a possible indicator of adverse selection by many self-employed people in order to obtain a financial gain by participating in the self-employed scheme (Figure 4). If registered self-employed people who have ceased to make contributions re-activate their participation before reaching the normal retirement age and qualify for a pension, the number of
potential future self-employed age pensioners might be substantially higher than the expected number based on the active contributions.

<table>
<thead>
<tr>
<th>Figure 3: Distribution of Active Insured Persons by Age, 2010</th>
<th>Figure 4: Distribution of Active Insured Persons by Gender, 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="chart1.png" alt="Chart" /></td>
<td><img src="chart2.png" alt="Chart" /></td>
</tr>
</tbody>
</table>

Source: Author’s calculation based on SSB Financial Statement 2011.

Participation is heavily skewed towards the middle-income segment. In 2011, participants with weakly earnings between BZ$111 and BZ$299 represented 50 percent of total active contributors. Only 17 percent of total active contributors declared earning below BZ$160 per week (low-income range), while the remaining 33 percent declared earnings of BZ$300 per week and over (Figure 5). The high proportion in the high-income range means that many are paying the maximum amount.

Participation of self-employed persons is weighted toward the low- and middle-income ranges, while coverage of active employed persons is weighted toward the middle- and high-income ranges. This difference might be due either to the self-employed having a lower income distribution curve than employed persons or to the fact that a high proportion of active self-employed persons have opted to declare unrealistically low notional earnings, in the expectation of obtaining a minimum life pension of BZ$47 per week plus short-term benefits, with contributions of only BZ$4 to BZ$6 per week, resulting in a negative incidence on the actuarial situation of the scheme.

Participation is concentrated among private sector employees. In 2010, the sectoral distribution of active insured persons showed that the private sector accounts for 86 percent of insured workers and employees of the public sector account for remaining 15 percent. However, females in the public sector account for 19 percent of all active females, as compared to only 12 percent of males (Figure 6).
The PPPO scheme covers the public sector labor force, which has 9,585 employees, 58 percent of whom are male and 42 percent female. The distribution of public employees by age shows that 5.1 percent are over 55, which is the normal retirement age for public officials (Figure 7). The highest concentration of public employees is between 25 and 45 years of age, accounting for 65.2 percent of the total. The average age of public employees is 37—36.2 for men and 38.1 for women (Figure 8).

Coverage among the elderly is low. In Belize, the common coverage ratio shows that a significant percentage of the elderly population is not covered by the GSSS. While these figures have increased in recent years, in 2010 the percentage of the elderly population accessing the
pension system was still limited. By the end of 2010, only 14.6 percent of the population over 60 was covered by the contributory scheme of the GSSS (only retirement pensions). Nevertheless, non-contributory pensions (NCPs) play a role in increasing this ratio. When NCPs are considered, 31.3 percent of the elderly population is covered by the system (Figure 9).

Non-contributory pension provisions were enacted in 2003 as part of the government’s strategy to address and alleviate poverty in Belize. Initially, the NCP program covered only women age 65 or older. However, in 2007, the NCP program was extended to include men age 67 or older, and the monthly payment was increased from BZ$75 for women to BZ$100 for both men and women. Only one person per household can receive a NCP. If there is entitlement to a contributory long-term grant from the SSB, the pensioner may opt to receive a NCP instead, but not both. NCPs are funded with resources from the GSSS rather than with general fiscal revenues, impacting negatively on the actuarial situation of the long-term branch. In 2011, there were 7,511 pensioners, 3,800 of whom were contributory pensioners (51 percent) and 3,711 were non-contributory pensioners (49 percent) (Figure 10).

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**Figure 9: Percentage of Population over 60 Receiving Pensions from the GSSS, 2010**

- Retirement pensions: 14.6%
- NCP: 16.8%
- No pension from SSB: 68.6%

**Figure 10: Distribution of Beneficiaries between Contributory and Non-contributory Pensions, 2010**

<table>
<thead>
<tr>
<th>Year</th>
<th>Contributory Pensions</th>
<th>NCP</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>58%</td>
<td>42%</td>
</tr>
<tr>
<td>2010</td>
<td>54%</td>
<td>46%</td>
</tr>
<tr>
<td>2011</td>
<td>49%</td>
<td>51%</td>
</tr>
</tbody>
</table>

Source: Author’s calculation based on SSB Financial Statement 2011 and National Council on Aging Belize.

Note: Contributory pensions include only retirement pensions. Invalidity, survivors, disablement, and death pensions are not included.
Source: Author’s calculation based on SSB Financial Statement 2011.

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4 The qualifying conditions to become a non-contributory pensioner are: (i) possession of a valid Social Security Board card; (ii) citizenship or permanent residency in Belize and living in Belize; (iii) living in poverty, with no source of income or adequate means of support; (iv) not be receiving or having received any type of pension.
IDB (2013) shows that NCPs in Latin American countries have been effective in increasing the number of people with access to income in old age. In fact, they are the only tool able to provide coverage for elderly people who are currently without social insurance as well as for long-term informal workers who will retire in the coming decades. However, depending on their design, NCPs could significantly affect the decision to participate in the labor market and in the contributory systems. Advances in coverage achieved through non-contributory pillars are very important, but the design of these pillars must include not only proposals for financial sustainability, but also the possible effect of non-contributory pensions on the labor market and, in particular, on the incentives for participating in the contributory systems.

IDB (2013) shows that NCPs are only part of the solution to low coverage. Although they can alleviate or even eliminate poverty in old age, they are not effective in ensuring that people, particularly those in the middle class, maintain their standard of living in old age. To generate adequate levels of future pensions, pension savings for today’s workers need to be urgently increased by expanding both the number of contributors and the frequency of their contributions.

2.3. System with Weak Financial Sustainability

2.3.1. Aging Population
The population of Belize is rapidly aging. Demographically, Belize is still young. However, the aging of the population is creating upward pressure on spending and lowering income, so that financing the system is becoming more difficult. In this context, the window of opportunity, which now favors political approval of the reforms, will gradually close as the population ages, and reform will become more urgent and more costly.

Belize’s demographic profile is similar to that of many other countries at the same level of economic development. Historically, the population has been predominantly made up of children and younger adults, with a relatively small elderly population. In recent years, however, this profile has started to shift. According the United Nations Population Division, life expectancy at birth has risen from 58 years in 1950 to 76 years today. The population age 60 and over accounted for 7.1 percent of the total population in 2009, while in 2040 it is projected to account for more than 18 percent of the total population. At the same time, increased life expectancy at 60 has been rising since 2000 and is projected to continue to rise in the coming decades, which will have a clear impact on pension expenditures. The demographic ratio
(number of pensioners to active insured) will increase noticeably from 3.7 pensioners per each active insured in 2010 to 9.2 in 2015 and to 25.8 in 2050. This puts the system at increasing risk, since each new participant creates pension obligations much greater than the total contributions from new participants.

2.3.2. Uneven and Overly Generous Benefits

The legal retirement age is low. The legal retirement age in the GSSS is 65, similar to other countries around the Caribbean. However, the GSSS also provides benefits from age 60 for those with contributions of at least 10 years. Figure 11 shows that most workers (50 percent) are retired as soon as the 60 years minimum legal retirement age is reached, which portends a longer periods of pension to be funded by the SSB. This is particular relevant in the case of female pensioners, of which 60 percent retired at 60.

The problem with the legal retirement age is that as life expectancy increases, the GSSS reserve must have enough funding to finance a longer retirement period. When the Social Security Act came into force in 1980, life expectancy was 64.7 years for both genders, and now it is 73.2 years for women and 67.2 years for men. Nevertheless, the retirement age has not been changed since 1980. By failing to link the legal retirement age with actual life expectancy, pensions either need to become smaller or they will become increasingly dependent on political will to finance a high deficit with public spending.

The situation in the PPPO scheme is even worse. The mandatory retirement age is 55. There are at least two problems related to the legal retirement age of the PPPO. On the one side, government has to pay on average pensions for more than 13 years for each retired public official. This creates an excessive burden. On the other hand, retiring under the PPPO is not a right; it is a duty. So when the government needs a public official to stay in his or her position after the retirement age, e.g., because of their particular and unique skills, the official must retire, get the pension, and continue working under a new contract. This involves huge costs for the Belizean government, including paying more for the same output. In this context, public officials, whose positions could be filled after retiring, have no incentive to devote time to prepare their replacements.

The age distribution of beneficiaries in the PPPO in 2011 shows that 19.7 percent are under 55 years old, which is the normal retirement age for public officials. This significant
percentage is a sign of early retirement. Another 48.5 percent are between 55 and 65 years old, which is the GSSS’s legal retirement age. This means that a high percentage of public employees retire before what is considered to be the legal retirement age for nonpublic employees. In fact, the highest concentration of pensioners from the PPPO is between 55 and 65 years old.

Benefits in the GSSS are lower than the expected replacement ratio. Even though the maximum replacement ratios in the GSSS by law can be up to 60 percent of pensionable salary, the observed values are far lower, (40.8 percent in 2010). The GSSS’s maximum replacement rate is not low compared to the relevant benchmarks, but given that the maximum insurable earnings are low, actual pensions are low as well.

<table>
<thead>
<tr>
<th>Figure 11: Distributions of Beneficiaries by Normal Retirement Age, 2010</th>
<th>Figure 12: Average Replacement Ratio, 2010</th>
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<tbody>
<tr>
<td><img src="chart11.png" alt="Graph of Beneficiaries by Normal Retirement Age" /></td>
<td><img src="chart12.png" alt="Graph of Average Replacement Ratio" /></td>
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</tbody>
</table>

Source: Author’s calculation based on SSB Financial Statement 2011.

Source: Author’s calculation based on SSB Financial Statement 2011.

Required years of service could be an incentive for evasion and non-compliance. A pay-as-you-go (PAYG) system such as the GSSS is based on financing pensions to retirees out of contributions made by active workers. The contribution conditions to qualify for a pension are equivalent to 500 weekly contributions (10 years). This qualifying condition could be an incentive for evasion and non-compliance, and penalizes, rather than rewards, specific groups of workers with contributions above the minimum. On the other side, the accumulation rate for some workers can be excessively high in view of the minimum pension. This implies that the present minimum pension may cause an anomalous distortion in the accumulation rate in favor of low-income workers with a reduced number of contributions. Finally, there is no incentive to retire at 65, because the qualifying conditions and the retirement benefits are the same for early retirement.
Benefits in the PPPO scheme are higher than the GSSS scheme. Benefits from the PPPO are additional to the GSSS, therefore public officers may obtain combined replacement rates of more than 100 percent of their average salary. According to Rodríguez and Larraín (2011), the average pension from the PPPO represents 60.4 percent of the average salary (61.9 percent for male pensioners and 60.8 percent for female pensioners). Beneficiaries amount to 2,622 employees, 58 percent of them males and 42 percent females.

The actuarial situation is weak. Total expenditures increased at a faster pace than total contributions. During the period 2006–2011, total expenditures of GSSS’s Long-Term branch (total benefits plus total expenditure) increased over 50 percent, while total contributions increased by only 21 percent. As a result, total expenditure started to exceed contributions after 2008. By the end of 2011, contributions covered only 86 percent of total expenditure (107 percent in 2006), with the gap having to be covered by a wider share of investment income. By the end of 2011, the current deficit (total expenditures less contribution) amounted to B$5.6 million (equivalent to 1.8 percent of total reserves).

If investment income is considered, the situation improves moderately and the operational balance (total income minus total expenditure) still shows a surplus. However, the surplus decreased from B$17.3 million in 2006 to B$7.0 million in 2011. An operational surplus is expected for a few more years, due exclusively to the incidence of investment income, extending temporarily the growth of reserves until total expenditures exceeds total income. Net investment income has decreased steadily relative to total income, from 36 percent in 2006 to nearly 27 percent in 2011 (Figure 13).

Benefits have increased in the last five years. Much of the increase of total expenditures has been due to increases in pension payments, which increased by 70 percent in the period 2006–2011, while operating expenses increased only by 12 percent. As a result, benefit payments rose from 62 percent of total expenditures in 2006 to around 72 percent by the end of 2011, while operating expenses declined from 38 percent of total expenditures in 2006 to 28 percent in 2011.

The largest pension payment is for retirement pension benefits, which represent 58 percent of total benefits, and 42 percent of expenditures associated with paying benefits. The second largest expenditure is survivor’s benefits, representing 15 percent of total benefits and 11
percent of total expenditures. Non-contributory pensions represented around 14 percent of total benefits and 10 percent of expenditures.

The growth of reserves has slowed. The long-term branch continues to accumulate reserves, but at a slower pace than in previous years, a normal process as the maturity of the branch advances and the period of equilibrium is shortened. Total reserves have increased steadily from B$231 million in 2006 to B$304 million in 2011, equivalent to an average annual growth rate of 2.5 percent. During this period reserves have increased at a faster rate than GDP, resulting in an increase of the reserves as a percent of GDP of 10.7 percent in 2011, as compared to 9.4 percent in 2006. Reserves of the long-term branch represent 74 percent of total reserves of the GSSS (including short term branch and Employment Injury branch).

The rate of return on investment has fluctuated significantly in recent years but is insufficient. The nominal return rose from 6.21 percent in 2009, to 6.45 percent in 2010, but declined to only 3.96 percent in 2011. This caused a real return of 2.42 percent, below the 3 percent actuarial rate. Due to the importance of the amount of reserves and of the investment return, it is imperative that a strategy be developed to ensure a prudent investment policy aimed at maximizing a return compatible with the safety of the capital, the latter being the primary consideration.
The GSSS does not face an immediate fiscal threat; however, parameters need to be adjusted in the medium term. The GSSS did not exhibit significant financial difficulties in its early years thanks to a young and growing population. However, the current projections show that the GSSS’s long-term financial sustainability is threatened by changes in the demographic structure of the population, informality and the inclusion of new benefits for participants that were not considered in the system’s original design and have not been accompanied by increases in the respective employer or employee contribution rates.

Larrain and Rodriguez (2011) carried out an actuarial analysis for the GSSS and PPPO considering four different scenarios in terms of the level of benefits and GDP growth. Specifically, they assumed in a positive scenario a GDP growth of 3 percent and in a negative scenario a value of 1 percent. Additionally, they evaluated the actuarial situation with a constant level of benefits and with an increase 0.5 percent.

According to the results of this study, in the absence of further reforms of the GSSS, the preset value of the deficit (revenues minus expenditures) represents approximately between -1.4 percent (constant benefits and 3 percent GDP growth) and -6.8 percent of GDP (increasing benefits and 1 percent GDP growth). Under these assumptions, the scheme would have reserves for at least 24 more years (exhausted in 2034), but in the long run reserves would disappear. The main factors contributing to the operational deficit included the formation of non-contributory pensions for males, the increase in value of non-contributory pensions from BZ$75 to BZ$100 per month, a frozen ceiling on insurable earnings, and higher than expected administrative expenditures. Even though the system does not face an immediate fiscal threat, the system converges to an undesirable equilibrium of low benefits and low coverage. This result ratifies previous actuarial analysis assessments of the GSSS completed in 2007, 2009, and 2011.

The situation of the PPPO is much more critical since it has no contributions. In all scenarios, the PPPO shows significant and persistent deficits, given that it has no contributions. These deficits are much higher in NPV than those expected for the GSSS, indicating that the PPPO is the pension scheme that represents the main fiscal threat. According to Larrain and Rodriguez (2011), the amount expended on pension expenditures and actuarial liabilities has grown considerably as a percentage of GDP in recent years. Projections indicate that these figures are likely to increase in the next 30 years, which the authors see as a common feature of an unfunded pension scheme. In this context, the present value of the deficit represents
approximately between 23 and 28 percent of GDP. This is not just a long-term problem for Belize. Table 1 summarizes the results of the four scenarios, both for the GSSS and the PPPO.

<table>
<thead>
<tr>
<th>Table 1: Results of the Actuarial Assessment for the GSSS and PPPO</th>
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<td><strong>Source:</strong> Rodríguez and Larrain (2011).</td>
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Additional conclusions from the actuarial assessment show that the low-growth scenario portends a worse situation for social security, with increasing deficits and lower support ratios. Similarly, the increasing benefit scenario has a negative impact on the financial performance of both the GSSS and the PPPO, but a positive effect in terms of replacement rates. Nevertheless, an increase in benefits without an increase in some source of funding seems unsustainable. Finally, replacement ratios in the high growth scenarios are lower than in the low-growth scenarios because in the former wages grow faster than in the latter, while pensions do not adjust automatically.

### 3. Recent Changes

Belize has undertaken actuarial forecasts to examine the prospective state of its social security scheme. Coming out of the analysis, Belize has gone the route of parametric, rather than structural, reform. Parametric reforms have largely entailed a combination of raising contribution rates and insurable ceilings. The scheme commenced operations on June 1, 1981, and, except for marginal amendments to the benefit regulations, the level of benefits and contributions were not updated until January 1, 2001, when a comprehensive improvement in benefit provisions took place.
In 2001, with the aim of making higher-income workers contribute more to social security, the earnings ceiling was raised from BZ$130 per week to BZ$320 per week. Since then, this ceiling has remained unchanged.

In 2003, a number of reform proposals were advanced to strengthen the sustainability and equity of the scheme. In January a voluntary self-employed scheme was introduced. According to this regulation, self-employed insured persons (ages 18 to 60) are responsible for their entire payments, which amount to 7 percent of their declared weekly earnings, up to a maximum of BZ$320 per week. In May, as part of a poverty alleviation plan, the government initiated the Non-Contributory Pension Program for women over 65. Initially, this program was enacted without a compensatory transfer of funds, negatively impacting on the actuarial situation of the long-term branch. In July, the contribution rate was increased by 1 percent of insurable earnings and assigned in its entirety to the long-term branch. However, such an increase has been recommended in previous actuarial valuations as part of the scaled-premium system of finance, to guarantee the long-term solvency of the long-term branch, and not specifically to finance the NCP scheme.

In December 2007, the NCP program was expanded to include men 67 years and older. Additionally, the amount of non-contributory pensions was increased from BZ$75 per month for women to BZ$100 per month for both men and women, impacting negatively on the actuarial situation of the long-term branch.

4. **Policy Options**

The primary goal of a pension system should be to provide adequate, affordable, sustainable, and robust retirement income. Belize, like many other countries in the region, faces the dual challenge of expanding pension coverage and to guarantee the financial sustainability of the pension system.

4.1. **Objectives and Motivation for Pension Reforms**

In the past two decades, Latin America and the Caribbean implemented an ambitious agenda of social security reforms largely aimed at restoring financial sustainability to pension systems, and simultaneously building a clear link between contributions and benefits. It was expected that this
would contribute to a gradual increase in the percentage of workers who contribute, and eventually, in the percentage of elderly with a pension.

The effects of these reforms have been many and varied, and a large amount of research has addressed the merits and problems of introducing defined contribution and individually funded systems (usually known as “private systems”) compared with public PAYG systems. However, much less analyzed and discussed has been the fact that, irrespective of the pension systems involved, pension coverage depends on the capacity of labor markets to create jobs in which workers and firms contribute to the pension systems, in other words, formal jobs. Despite the reforms, coverage is still generally low.

Regarding the financial unsustainability of pension systems, public PAYG systems in various LAC countries were facing severe disequilibria both in terms of their current balances as in terms of their long-run sustainability which put a lot of pressure on the fiscal budget and deficit. Deficits within the pension system can be huge relative to overall gross domestic product and the overall deficits of a country.

These large deficits have huge distributional implications, particularly in countries with low labor force coverage. If only a reduced percentage of the labor force is part of the pension system, and the system is running deficits that need to be financed from general revenue, then money from all individuals who contribute to the general revenue is being transferred to this reduced percentage of the labor force that is covered by the pension system, making even a progressively designed system potentially regressive. In most LAC countries, coverage among the working-age population is below 50 percent; deficits in these pension systems clearly lead to regressive outcomes. Given the already huge intergenerational transfers that occur in these defined-benefit systems, the low coverage, combined with the financing of deficits from general revenue, pushes the cost of providing pensions not only on to younger cohorts covered under the system, but on to younger cohorts, who are not even covered by the system, making the impact more regressive. As a result, much of the focus of pension reform is on reducing the fiscal deficits so that the pension system, if limited in coverage, is financed through contributions from that same limited population rather than through transfers from the broader population.

In terms of the low contributory coverage, pension reform literature has been consistently critical of the low coverage level of purely public PAYG systems and the distortions they introduce to labor market. Pension benefits in defined-benefit PAYG systems often have little
relationship to mandatory contributions (i.e., there is a weak link between contributions made and benefits received). Both workers and employers can view contributions to these systems as a tax rather than as saving. In developing countries with dual labor markets, this perceived tax creates incentives for evasion, thereby reducing participation in the pension system and lowering coverage levels. Furthermore, the high contribution rate (payroll tax rate) required in the formal sector to keep the system solvent restrains labor demand, while the incentive for early retirement in many PAYG systems reduces labor supply.

The lack of coverage has a significant impact not only on the ability to provide protection for the elderly, but in many other areas as well. In terms of social impact, longer life expectancy and smaller family size mean that families will need to devote greater effort and resources to the care of the elderly, which will compete with the investments that families must make in health, education, or even housing for future generations. Regarding the political impact, in the coming decades, adults aged 65 and older will make up between 20 percent and 30 percent of the potential electorate of the region, so their needs will be decisive in electing governments. In this context, achieving adequate pension coverage will be a central demand from future governments.

The lack of coverage has also an important impact on the functioning of labor markets, investment decisions, and long-term productivity growth (economic impact). Finally, the lack of coverage is a latent fiscal cost in the region. Because democratic governments in Latin America and the Caribbean are not going to ignore the demands of a growing percentage of the population, countries will have to allocate more resources to compensate for this inadequate pension coverage (fiscal impact). In this context, pensions are destined to become one of the cornerstones of economic and social policy of Belize in the coming decades.

4.2. Types of Pension Reforms

There are essentially two main options for reforming a typical publicly managed, unfunded defined-benefit scheme such as the Belize pension system. These are a subset of a potentially larger set of options resulting from different combinations of benefit type (defined benefit or defined contribution), administration (public or private), and funding (unfunded, fully funded, or prefunded). The relevant subset comprises: (a) parametric reforms that keep the benefit structure, public administration, and unfunded nature of the scheme and merely change the system’s parameters; and (b) structural reforms, which involve introducing a new type of pension system.
that provides fully funded defined-contribution or defined-benefit arrangements under primarily private management (especially the investment of assets).

There is an additional policy option related to partially delinking the pension system from the labor market. The objective of this proposal is to achieve an integrated social security system in which basic coverage of risks is universal, income smoothing in old age is assured for formal workers, and incentives to participate in the formal labor market are increased. Although this policy option implies a structural reform, it is important to evaluate this alternative as an independent pension reform.

4.2.1. Parametric Reforms

Parametric reforms leave the existing structure unchanged but adjust the parameters of the scheme to improve the delivery of social and economic objectives. With PAYG systems such as the one in Belize, a parametric reform would consider changing the basic parameters, such as the contribution rate, the retirement age, the amount of benefits and the conditions to access them. These reforms are intended to achieve financial and actuarial sustainability for the pension system, modifying the parameters that determine its revenues and expenditures.

In almost all cases, parametric reforms, particularly in defined-benefit systems, will reduce the level of pensions and thus potentially push more elderly into poverty or require greater contributions from workers, also putting people at risk of poverty. These measures are nonetheless essential for maintaining the affordability and sustainability of the pension system. Without them, the pension system will pass its fiscal stress on to other sectors (squeezing out spending in other areas), encourage the use of inflation to cover deficit spending, or begin to accumulate arrears. None of these possibilities has positive social consequences. The accumulation of arrears is particularly detrimental since individuals who have reached old age and suddenly find themselves without pension benefits have few alternative means of support. Sustainability becomes even more of a social issue when coverage under the pension system is not complete and fiscal resources must be drawn from a broader population to cover pensions for the few, usually the higher-income few.

4.2.2. Structural Reforms

Structural pension reforms change, most importantly, the manner of funding (from unfunded defined benefits to prefunded defined contributions) and can also involve a move from public to
private administration. Many countries in the past 15 years have shifted from reliance on pure defined-benefit systems to defined-contribution systems or to a mixed system with both a defined-benefit component and a defined-contribution component. In the long run, the defined-contribution systems involve less redistribution, both positive and negative, than was inherent in the defined-benefit systems. They are also more able to contain the costs of the pension system, so that those individuals who pay will ultimately be beneficiaries of the system, and to reinstate the initial aim of smoothing consumption among individuals during their lifetimes. Since much of the redistribution within defined-benefit systems was often regressive, these changes should be positive. However, pure defined-contribution systems that are not accompanied by a safety net do not prevent the elderly, even those elderly who were middle-income during their working years, from falling into poverty. Governments must provide a safety net, such as a minimum-pension guarantee, to protect workers against excessive fluctuations in capital markets. Governments that use both a defined-benefit component and a defined-contribution component normally allow the defined-benefit component to function as the safety net. However, the minimum-pension guarantee reintroduces an element of redistribution into the system, usually from the whole population to the covered minority, and breaks the link between contributions and benefits. Therefore, it needs to be designed to provide protection for workers, but not to be so generous that it distorts incentives or causes large-scale redistribution.

It should also be noted that a shift to a funded system involves transition costs since the government must continue to pay pensions to current pensioners and acquired rights to current workers when they retire even as workers begin to put part or all of their contributions into individual defined-contribution accounts. During this transition period, there is an increase in the regressiveness of the system because the government, through general revenue drawn from the whole population, pays pensions for the covered minority. However, this increase in regressiveness needs to be viewed as a temporary cost to eventually eliminate it in the system over the medium and longer term.

4.2.3. Delink the Pension System from the Labor Market
The primary motivation behind the proposal for social security reform in IDB (2013) is that the design of the social security system should take into account the labor market challenges faced in countries with high levels of informality. A contributory pension system, for example, will face
serious problems of both coverage and sufficiency in labor markets with high levels of informality and low contribution densities. Furthermore, the pension system itself may be an important cause of labor informality and low contribution densities, since workers and firms may have the incentive to evade mandatory pension contributions.

An additional motivation for the proposal is the recent trend throughout Latin America and the Caribbean towards the introduction of parallel, non-contributory benefits that likely compete with the contributory social security system. To the extent to which informal workers have access to increasingly generous non-contributory health and pension benefits, the incentives to participate in the contributory social security system are likely weakening over time.

For these reasons, Antón, Hernández, and Levy (2012) propose to partially delink the pension system from the labor market. One pillar of their pension proposal is a universal basic non-contributory pension available to all workers regardless of their participation in the formal labor market. The most innovative part of the proposal, however, is the way in which the non-contributory pillar is integrated with the contributory pillar. Since low-wage workers would receive a sufficiently high replacement rate from the universal pension, these workers are exempted from making pension contributions. Since the universal pension would not provide a sufficiently high replacement rate to middle-class workers, these workers are required to make pension contributions. However, middle-class workers do not have to finance their entire pensions; they only have to contribute enough so that the sum of the non-contributory and contributory pensions generates a sufficient replacement rate.

The final result of the proposal is the elimination of mandatory pension contributions for low-wage workers, a sharp reduction in contributions for middle-class workers, and a minimal reduction for high-wage workers. Additionally, they propose a similar partial delinking of disability insurance and life insurance as well as a complete delinking of healthcare from the formal labor market. The end result of their proposal is an integrated social-security system in which basic coverage of risks is universal, income smoothing in old age is assured for formal workers, and incentives to participate in the formal labor market are increased.
5. Reform Proposals

As in many other countries in the Caribbean, the viability and sustainability of the Belizean social security system is of concern to policymakers. Although the pension system in Belize remains relatively young, timely reform is necessary to prevent a crisis in the future. Reform is required to grapple with population aging, a fairly large informal (non-contributing) sector, high open unemployment, and the impact of new benefits for participants.

In most pension reforms in the world, there are two main challenges that any government seeks to confront. Governments attempt to manage financial risks to public finances arising from the projected increase in liabilities due to an aging population. At the same time, aging and economic development in general increase the demand for more comprehensive pension benefits compared to those currently being offered. These objectives must be addressed together. Any reform that reduces the generosity of the pension system strengthens fiscal sustainability but will reduce the incentives to participate in the system, which could limit its positive impact.

Although, it is not feasible or desirable to propose a single reform for all the countries in the region, IDB (2013) set out a series of key principles for any of the options chosen. The most important are: (i) globality: understand the interaction of the pension system with the labor market and tax system; (ii) integrality: understand the interactions between all the provisions of the social insurance system (contributory and non-contributory) from retirement, disability, and survivors’ pensions to health and unemployment insurance; (iii) efficiency: create good incentives for pension savings and participation in formal employment; (iv) transparency: simplify the rules so they are understood by citizens and firms; and (v) innovation: experiment with subsidy mechanisms for contributions and in the channels that facilitate contributions.

In this context, a pension reform in Belize must focus on consolidating a comprehensive pension system over the coming decades, acting simultaneously to align the contributions and performance of each individual, expanding pension coverage among low- and middle-income people (especially in their working lives, and temporarily after retirement), and strengthening the financial position.

Given the characteristics of the labor market and the financial sector, it is not feasible to promote a reform toward a funded pension scheme (structural reform). A change from the existing PAYG system to a fully funded system entails an important transition cost, that is, the
debt to the current generation of beneficiaries that must be provided for. This debt would have to be paid by the government from fiscal revenue. In this context, reform proposals are focused mainly in parametric reforms and changes in the governance structure of the pension system.

5.1. Parametric Reforms
Parametric reform should be carried out in order to ensure the fiscal sustainability of the pension system. However, there is no single parametric change that alone can yield the desired objectives. Many parametric reforms involve changes in three subgroups of parameters: contribution parameters, benefit parameters, and eligibility conditions for receiving pensions.

5.1.1. Postpone the Retirement Age (Normal Versus Mandatory Retirement Age)
In the case of GSSS, the proposal is to increase it from 65 to 67 at a speed of two months per year, covering a total period of 10 years and 4 months of transition. This slow path of convergence is needed because the labor market for private workers will have to adjust in terms of gradually creating the conditions for employment generation for workers between ages 65 and 67. This measure is estimated to generate savings of 0.5 percent of GDP in NPV terms.

In the case of PPPO, the proposal is to increase for new government employees the legal retirement age from 55 to 60 in 20 years, that is, three months per year. There are two reasons for the more aggressive path in the case of PPPO. First, the mismatch with longevity is larger and therefore it requires a steeper increase. Second, employment in the public sector is more stable than in the private sector. Thus, it is likely that those workers required, under the new rules, to work longer will be able to do so without risking losing their jobs. This measure is estimated to increase the PPPO fund by 5.8 percent of GDP in NPV terms.

Additionally, the mandatory retirement age of 65 years should be removed. Jointly with the elimination of the mandatory retirement age, subject to the concurrence of the employer, the scheme could provide incentives to defer retirement.

5.1.2. Wage Bands and Actual Earnings for Contributions and Pensionable Salary
Contributions and pensions are still based on a system of wage bands that has been phased out by most social security schemes. The SSB should formally adopt a system based on actual earnings, which would ease the administrative procedures of most employers and provide a pension
directly related to actual insurable earnings. A transition period for the formal introduction of the new system of, for example, 12 months, is advisable.

5.1.3. Increase the Contribution Ceiling
Raising the ceiling of the wages that are subject to contributions tends to be positively distributive in that higher-salaried workers pay more of their incomes into the pension fund, although, in the longer run, they will usually receive higher benefits, too. Thus, while there may be a positive redistributive effect in the short run, there will be little impact in the long run as benefits for higher-income individuals rise, particularly if the higher long-run benefits are not fiscally sustainable.

Contributions in Belize are capped at BZ$320, a level which is too low for Belize’s income levels. An increase in the ceiling would make higher-income workers contribute more to finance social security. Even though the estimation of how much could be collected from this source requires knowledge of the actual distribution of wages above the ceiling, a reasonable exercise suggests that increasing the ceiling from BZ$320 to BZ$480 as a weekly salary during a five-year period could imply an increase in the NPV of the GSSS by 5.5 percent of GDP.

5.1.4. Gradually Raise Contributions
According to the actuarial report on Belize’s social security system carried out by Rodríguez and Larraín (2011), the current contribution rate in the GSSS is insufficient to meet long-term benefit obligations. In this context, Belize should evaluate as a long term policy the possibility of increasing the contribution rate from the current 4.5 percent to 6.75 percent, which is half the total contribution rate in the highest Caribbean benchmark country.

The increase in contributions is by no means an easy task, especially because there is a perception that the tax burden is already too high and the political cost of rising contributions could be great. Additionally, raising contribution rates clearly lowers the take-home salaries of workers and the net benefits that workers receive from the pension system. In this context, one alternative could be to increase the contribution rate gradually over a ten-year period. This increase in contributions is estimated to generate as much as 17.7 percent of GDP in revenues in NPV.
5.2 Reforming the PPO

5.2.1. Create a Contributory PPPO for New Government Employees

The PPPO’s legal status is weak, as its benefits are derived from legal acts that take place yearly. The proposed fund would provide a pension that would augment whatever other benefits public officials may obtain. The PPPO Fund would be built with two-tier contributions, along the lines previously described. The government and the worker would each contribute 2.5 percent to the fund even though there would be a transition period (only for new government employees), as previously described. Launching the process would be easier if the government made a one-time contribution to the fund. The PPPO Fund would be managed as a separate legal entity by the new SSB. The SSB would have to establish procedures, such as granting independent management to the new fund. The PPPO Fund could belong to the complementary pension scheme mentioned above.

5.2.2. Merge the Administration of the GSSS and PPPO under the SSB

Independently of the PPPO Fund, it makes sense for a small economy such as Belize to take advantage of the economies of scale and scope that are present at the SSB. The refurbished SSB would have the capacities and governance to be able to manage the PPPO scheme.

This means that the SSB should manage the recordkeeping, the back office, and the payment of all public officials’ pensions. It may also play some financial role in investing unpaid pensions, unless the government periodically transfers the money that is needed to finance those payments. This merging would subject the PPPO to stricter and periodic actuarial analysis, it would provide retired public officials a more professional counterpart if needed, and it would permit the country to take full advantage of the SSB’s economies of scale and scope.

5.3. Institutional Framework

5.3.1. Clarify the Mandate of the SSB

Increasing attention is being placed on governance in the management of national insurance schemes. Governance of the SSB could be improved by clarifying its mandate and by making it more autonomous. Best practice is to limit social security schemes’ mandates to a narrow social security role and to avoid burdening the agency with extra responsibilities, such as developing the private sector or the home mortgage market. The SSB should assume a more passive,
conservative investment policy that is essentially wholesale, leaving retail or small-scale investments to other entities. The consequence of improving the autonomy of a body such as the SSB would be to make it more transparent and accountable. There are several areas in which this should take place.

5.3.2. Redesign the Investment Framework

Investment income is a vital source of revenue for social security systems in the region. Moreover, although reform entails raising contributions, it is crucial to invest these funds in financial instruments and activities with long-term, high-yielding returns. The current investment regime in Belize provides a general structure of the investment process, broadly defining categories of investment, benchmarks, and investment limits. It is possible to deepen the investment legislation by including more specific definitions on the topics named above, in order to make the investment process clearer. Also, the SSB should design and make public an investment policy protocol that clearly establishes how investment decisions are made. The protocol should consider clearly defined steps for such decisions to be recorded and audited.

Additionally, the SSB should manage the various funds under its control (short-term and long-term) as if they were separate legal entities. The funds should not be fungible, and no financial link should be allowed among them. Specifically, no lending should be allowed between any two branches.

5.3.3. Adopt a Strict, Clearer Public Policy on Conflicts of Interest

In small countries, personal or economic relationships often create conflicts of interest, which are to some extent unavoidable. The SSB should incorporate a conflict-of-interest policy into its internal procedures. Currently, the law provides that declarations of interest must be made by any person to whom it applies, and that person is barred from any involvement in the decision related to that matter, under threat of prosecution and penalties on summary conviction. In practice, since 2008, at every meeting, the SSB secretary requests a written declaration and the interested party leaves the room for the duration of the discussion and decision. These procedures can be improved by mandating that board members and members of the Investment Committee should disclose their interests to the board itself and do so in writing. If the perceived conflict is deemed not to be relevant, the board may allow the member to continue to vote on the issue, whereas if
the board deems the conflict to be too strong, it may require the member to abstain. The person may also exercise the abstention option unilaterally.

5.3.4. Increase Financial Supervision of the SSB

There is a need to improve financial supervision of the SSB in order to strengthen the public trust. Specialized financial supervision procedures should help make the investment process more transparent. Eventually, they should also help in improving returns.

The theoretically ideal supervisory agency is the Insurance Supervisor, under the Ministry of Finance. However, as it is today, it is too small and its capacity and personnel need strengthening. Additionally, strengthening the Insurance Supervisor should be a component of a larger reform of financial supervision.

In this respect, given that the Central Bank supervises the financial system, another option could be to transfer the Insurance Supervisor to the Central Bank, leaving all solvency supervision within it. Still another option could be to create an autonomous supervisor with a mandate to oversee the entire financial system, including the SSB.

When improving financial supervision of the SSB, it should be kept in mind that it performs other core functions, which may need other kinds of supervision. Among these are: registration and the provision of a national identity card of high security to citizens and residents of the entire country; payment of short-term and employment injury benefits; administration of the National Health Insurance Scheme, which is a non-contributory scheme; and monitoring and development of occupational health and safety standards.

5.3.5. Unify all Current Pension Regimes

As a medium- to long-term goal, Belize should move toward pension system unification, since the coexistence of separate schemes tends to become an important source of inequity and additional financial pressures. Separate systems absorb major resources and benefit relatively small portions of the population. A unified pension system should deliver similar pension benefits to all citizens.
5.4 Increasing Coverage

It is difficult to suggest or establish a single policy capable of correcting all the problems related to coverage given the diverse realities of the region. To achieve long-term solutions, governments will need to explore and make progress on several dimensions. Since the countries of the region are at very different starting points, emphasis on a particular dimension will depend on the specific challenges faced by each country.

The IDB (2013) presents a set of financial and non-financial instruments designed to expand coverage. The financial instruments, consistent with the two objectives of pension systems (poverty reduction and maintenance of the standard of living of workers after retirement), include the following.

5.4.1. An Anti-poverty NCP for all Citizens

The design of the NCP must include not only proposals for financial sustainability, but also the possible effect of non-contributory pensions on the labor market and, in particular, on the incentives for participating in the contributory systems. In this context, the NCP should be established with strict eligibility criteria in terms of age, and at a level sufficient to reduce poverty in old age. This type of pension should have a stable funding source, allow for receiving both non-contributory and contributory pension, and be supported by strong fiscal institutions.

5.4.2. Mechanisms to Promote Formal Employment

Among other options, subsidies can be offered to reduce contributions for wage and non-wage earners, favoring the incorporation of low- and middle-income workers into the formal system. In this respect, some countries are favoring significant reductions in non-wage labor costs as a mechanism for increasing formal employment and therefore pension savings.

5.4.3. Phasing-in of Non-wage Earners into Social Security

Mandating contribution for all workers, irrespective of their occupational category (wage earner or not), on financial conditions equal to those of wage earners. Recognition of the special characteristics of non-wage earners would be reflected in innovations in the ways of contributing.
5.4.4. Progress in Supervision, Information, and Financial Education

The experience in the region also suggests that the increase in formality (especially among small firms) requires greater supervision, but also an improvement in how firms and workers value the benefits of formality. Innovations in how the State, and social security agencies in particular, relate to citizens can constitute a low-cost policy for expanding pension coverage. These include financial education campaigns, and improvement in information and channels that facilitate contributions.
References


