PLAC Network

NETWORK FOR PENSIONS IN LATIN AMERICA AND THE CARIBBEAN

Technical Assistance Document Series 10

HAITI PENSION SYSTEM: RECOMMENDATIONS TO IMPROVE THE REGULATION

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Foreword

The Labor Markets Division of the Inter-American Development Bank (IDB) supports countries in Latin America and the Caribbean in building stronger pension systems by seeking to increase their coverage (support for the vast majority of the population in old age), sufficiency (pension benefits that facilitate a dignified life in old age) and sustainability (pension benefits financed in the present and in the future). To advance these objectives, in 2015, the IDB created the Network for Pensions in Latin America and the Caribbean (PLAC Network), a regional public good that serves as a platform for dialogue and learning among pension institutions and experts. It is one of the mechanisms through which the IDB supports the efforts of countries in the region to improve the institutional and technical capacity of their pension entities.

The PLAC Network funds many activities aimed at helping the region's pension institutions learn best practices from other countries not only within Latin America and the Caribbean, but also worldwide. In this context, during the period 2016-2017, the PLAC Network held three calls for proposals on technical assistance for its members. As a result, the Network supported 13 countries through nine technical assistance projects in areas such as pension supervision and regulation, coverage, financial sustainability, and non-contributory pillars. As a result of this effort, we have created the **PLAC Network Technical Assistance Document Series.**

This tenth document in the series entitled **"Haiti pension system - Recommendations to improve the regulation"** provides general recommendations for the regulatory framework of the pension system in Haiti and tries to identify broad key policy options to improve the performance of the pension system. The policies are directed to strengthen and harmonize the rules of governance for the *Office Nationale d´Assurance-Vieillesse* – ONA (covering private salaried workers) – and the Plan de *Retraite de l´Administration Publique* – PRAP – and to increase their capacity to manage risks, facilitate supervision of pension funds, improve sustainability, adequacy and equity and establish guidelines for investments policies.

This document is the result of the technical assistance funds assigned to Haiti in May 2017. It was prepared by Edgar Robles (external consultant), whose work was supervised by Carolina Cabrita Felix, consultant of the Labor Markets Division of the IDB and coordinator of the PLAC Network, and Waldo Tapia, lead specialist of the Labor Markets Division of the IDB and team leader of the PLAC Network. We also invite you to review the other documents in the series.

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1 Introduction

The purpose of this report is to provide general recommendations for the regulatory framework of the pension system in Haiti. This system is composed primarily by the Office Nationale d'Assurance-Vieillesse (ONA), covering private salaried workers, and the Plan de Retraite de l'Administration Publique (PRAP) for public servants. Both regimes are defined-contribution plans, public and mandatory. There are also alternative specific pension regimes for workers of some state-owned firms, which are also mandatory and of a defined-benefit nature. Finally, some private firms have their own voluntary defined-contribution pension regimes for their labourers, although those are closer to savings accounts than to pension plans.

Currently, a specialized pension authority does not supervise these regimes. In addition, the pension coverage under the ONA and the replacement rates of the two main regimes in Haiti are among the lowest in Latin America and the Caribbean. One reason for these low indicators is a lack of inflation compensation for the benefits offered by these regimes.

Therefore, this document tries to identify broad key policy options to improve the performance of the pension system in Haiti. The policies are directed to strengthen and harmonize the rules of governance for the ONA and PRAP and increase their capacity to manage risks, facilitate supervision of pension funds, improve sustainability, adequacy and equity and establish guidelines for investments policies.

To prepare this report, there was a field visit to Haiti in January of 2018 to meet with the ONA, the PRAP and other pension funds stakeholders. In the appendix is a list of the meetings made and the institutions visited during the field visit.

This report is divided into four additional sections. In the second section is a description of the pension regimes with a special emphasis on the ONA and PRAP regimes. The third section reviews the main international principles or good practices of pension fund regulation. The fourth segment gives general recommendations to improve the pension regulation framework of Haiti. The document finalizes with the main conclusions and findings of the study and the field visit.

This report is part of the technical assistance of the Network for Pensions in Latin America and the Caribbean (PLAC Network) of the Labor Market Division of the Inter-American Development Bank. The PLAC Network's main objective is to improve the institutional and technical capacity of pension institutions in the Latin America and Caribbean region. This Network provides technical support for member countries with the following specific activities: (i) supporting the areas of regulation and supervision of pension systems; (ii) providing technical support to pension policies with an emphasis on coverage, sustainability, adequacy, equity and efficiency of pension systems and (iii) fostering experience exchanges between countries in and outside the region. The PLAC Network provides technical support for policies and regulations with a long-term horizon, focusing on strengthening human capital and governance.

2 The Haitian Pension System

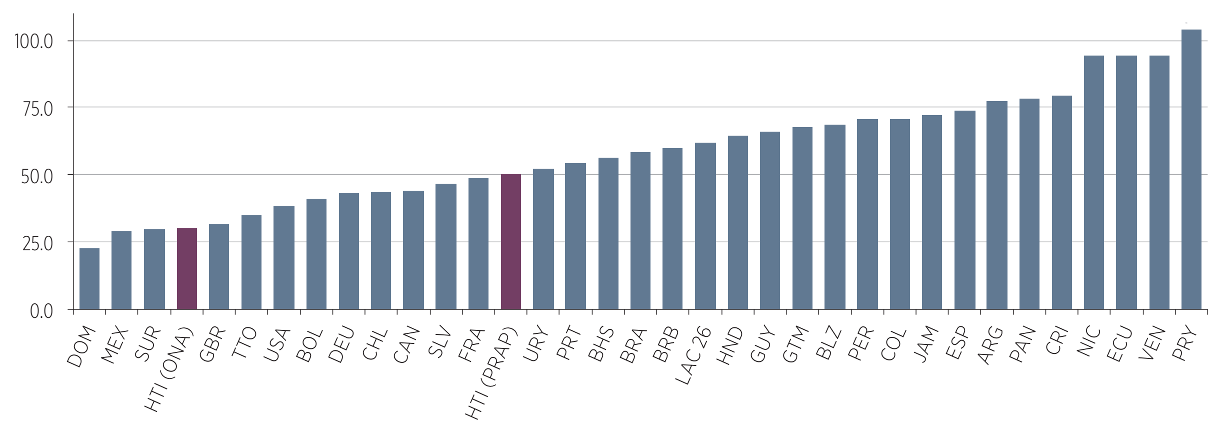
The pension system of Haiti consists of a regime for private workers, called the Office Nationale d'Assurance-Vieillesse (ONA), and a regime covering the public servants named the Plan de Retraite de l'Administration Publique (PRAP). Both regimes are defined-contribution plans, publicly managed and mandatory.

In addition, there are alternative specific pension regimes for workers of some state-owned firms, which are also mandatory and of a defined-benefit nature. Finally, some private firms have their own voluntary pension regimes for their labourers. These private plans are defined-contribution regimes with tax advantages over the contributions, and according to the IMF (2008), the pension funds are means to grant credit access to the participants at advantageous interest rates. The private plans are more closely related to savings plans than to pension plans, since the affiliated workers are able to take the money as a lump sum when the working relationship ends.

None of the pension regimes in Haiti are regulated by a specialized institution, and in the case of the private pension funds, there is no regulation at all. This paper performs an analysis of the two main pension regimes in Haiti (ONA and PRAP) with the intent to advise the government on how to establish pension regulation in the pension system of Haiti.

According to the OECD (2014), one distinctive feature of the Haitian pension system is the low replacement rate of the ONA regime when compared with other countries in Latin America and the Caribbean. Meanwhile, the PRAP regime provides a replacement rate, which is below the average of the region. **Graph 1** shows this comparison.

GRAPH 1 ▪ **GROSS PENSION REPLACEMENT RATES FOR AVERAGE EARNERS**



Source: OECD (2014) and own calculation for Haiti's PRAP, based on an affiliate contributong 25 years and receiving adjustment in wage equal to the inflation rate plus 1%.

Another characteristic of the pension system in Haiti is the low coverage. Rofman (2011) shows there is a highly negative correlation between old-age pension coverage and old-age poverty. In fact, Haiti shows both the lowest pension coverage and the highest poverty rate among its population of those 65 years old and older. Therefore, it is important to strengthen the pension system through regulation to improve the access to and adequacy of pensions over time.

2.1 ▸ The Office Nationale d'Assurance-Vieillesse (ONA)

ONA was created in 1965 by the Decree of November 8 as a substitution for the Institut d'Assurances Sociales d'Haiti (IDASH), which had been in place since 1949. The regime was reformed in 1967, 1968, 1971, 1974, 1976 and 1983 to transform it from a pure pension plan to a loan and savings plan.

Since 1965, the ONA has been a division of the Ministère des Affaires Sociales et du Travail (Ministry of Social Affairs and Labor). It is an autonomous institution with its own jurisdiction and financial autonomy. The Board of Directors, called Conseil d'Administration des Organismes de Sécurité Sociale (CAOSS), governs the regime, and the president of the republic appoints the members of the Board. CAOSS is also in charge of three other social security regimes.

According to law, the ONA covers all private workers and those public servants who do not contribute to the public servants' regime, the PRAP. All salaried workers are obliged to contribute to the ONA, while it is voluntary for autonomous or self-employed workers. Due to the extension of the informal sector in the country and the scarce efforts to inscribe and collect the pension contributions, according to the World Bank, the coverage of the ONA in 2007 was around 8.6% of the working population, one of the lowest percentages in Latin America and the Caribbean.

The contribution rate for the ONA is 6 per cent for the worker and 6 per cent for the employer, for a total of 12 per cent. As stated, self-employed workers may enrol in the ONA voluntarily, but they must cover the 12 per cent contribution of the reported income.

The retirement age is 55 years for both men and women. The pension benefit depends on the number of contribution years. If a worker has more than 20 years in the system, the replacement rate is 1/3 of the average salary of the last 10 years. When the worker reports between 10 and 20 years of contributions at age 55, the replacement rate is 1.6 per cent times the number of years in the system multiplied by the same salary of reference. Finally, if the worker does not consolidate 10 years of contributions, said person gets back all contributions from the worker and the employer as a lump-sum amount. All these formulas are calculated on a nominal basis, and pensions are not indexed to inflation. Data from the IMF shows an average annual inflation rate in Haiti of 11.7 per cent over the last 20 years, which translates to a rapid decrease in the real value of a pension from the ONA over time.

The ONA also pays disability pensions for workers who have contributed between 10 and 20 years to the system. The pension amount is equal to 1/60 times the number of contribution years multiplied by the same reference wage (nominal average of the last 10 years).

A pension to dependents is paid to the unmarried partner of a deceased affiliate and their underage children – or adult children who are students. This pension is equal to 50 per cent of the original payment.

All affiliates have the option of asking for a personal or mortgage loan from the ONA at special, lower-than-market interest rates. In the case of personal loans, the affiliate may request up to 50 per cent of his contributions at a rate of 15 per cent per annum for a period between 6 and 18 months. For a mortgage loan, the affiliate may apply for a credit of up to 70 per cent of the value of a house or land they wish to buy or develop, with a repayment period that is up to 300 months and based on the payment capacity of the debtor.

During the interviews made in the field visit, there was a general concern from the banking sector and other pension stakeholders about the sustainability and the use of the reserves of the ONA pension fund. There were questions about the transparency in the management of the pension fund as well as preoccupations about the possibility of using the reserves to give benefits other than pensions to affiliates, following political criteria.

These potential risks are the result of lack of regulation of the pension fund, including conducting regular actuarial studies and prudential rules to invest the funds according to international standards. In addition, it is a priority to establish minimum corporate governance requirements to assure a risk-based management of the pension fund.

2.2 ▸ The Plan de Retraite de l'Administration Publique (PRAP)

The pension regime for public servants started with the promulgation of a law on March 15, 1975. This law has been amended more than 20 times, and the current conditions of PRAP were approved in the Decree of October 9, 2015.

PRAP covers all public employees with the exception of those from autonomous institutions with their own pension plans. It is part of the Ministère de l'Economie et des Finances (Ministry of the Economy and Finances), where it is administered by the Direction de la Pension Civile (the Office of Civil Pensions). There is a separate pension fund for the Armed Forces.

It is mandatory to pertain to PRAP. A public servant has access to a pension after 5 years of contributions. The replacement rate is equal to 2.5 per cent times the number of contribution years. The reference wage is the average of the best 60 monthly salaries of the public servant.

The current pension age is 58 years. However, it is possible to anticipate the pension at as low as 55 years of age if the servant pays a penalty equal to 1 per cent, over the replacement rate, per annum of anticipation. PRAP also covers disability pensions, and the benefits are calculated using the same formula for elderly pensions.

The contribution rate is equal to 8 per cent of the wage for the public servant and 8 per cent for the State as the employer. In addition, employees who start working in the public sector for the first time make an additional contribution equal to 1/12 of their annual salary payable during the first 4 months of employment. Finally, the employees have to make an additional contribution of 1/12th of the annual wage adjustments.

There are exceptions in the pension age for people employed in some specific activities. Teachers and nurses can obtain a pension equal to 100% of the best salary at age 50 if they have contributed for at least 25 years to the PRAP. Police officers can also retire at age 50 if they have contributed a minimum of 25 years; nonetheless, their pension is calculated according to the general formula.

Similarly to the ONA, pensions are not revalued by inflation. Retirees are not allowed to work again in the public sector unless they renounce the pension, and pensions cannot be recalculated if someone decides to work again in the public sector. All pensioners are covered by health and life insurance costed by the State.

In case of death of a pensioner, 50 per cent of the decedent's pension is inherited by the surviving members of the family – that is, by the widow(er) and their children, whether underage or, if they are students, adult (up to 25 years of age). The beneficiaries of a pension by succession have the option of receiving an annuity over the complete period if they comply with conditions or of receiving a lump-sum equivalent of 5 years of benefits.

2.3 ▸ Retirement plans of public institutions

Some public institutions in Haiti have their own pension fund for their employees. During the field visit, meetings were scheduled with representatives of the National Bank of Credit, the Bank of the Republic, the National Port Authority and Electricity of Haiti to discuss the structure and management of the pension funds offered by these institutions.

These systems are defined-benefit regimes with an important amount of accumulated assets under management. A board of each firm's employees administers each pension fund, and they do not receive an extra stipend for participating in such activity. The sponsoring institution takes care of the operating expenses of the fund.

Since there is no regulation of these pension funds, there are not any standards set to conduct regular actuarial studies. Therefore, it is uncertain whether these regimes are sustainable. In addition, it is not clear if the State has a solidary guarantee if the fund runs into a deficit in the future, in which case any mismanagement could translate into a fiscal contingency.

During the interviews conducted in the field visit, there was a reluctance to disclose basic information about the assets being managed by the pension funds. Therefore, minimum transparency policies should be set via regulation to ensure good management practices. These rules need to be extended to the way in which the resources are invested to avoid liquidity problems in the future and promote parametric reforms well ahead of problems arising.

The contribution rates are high compared to those of other pension funds in the Caribbean and Latin America, ranging from 12 per cent in the pension fund of the Electricity of Haiti to 25 per cent in the pension fund of the employees of the Bank of the Republic. These contributions are borne by both the employee and the employer.

The access to benefits starts at 55 years of age in some institutions, which goes up to 65 years of age in the case of the Bank of Haiti. Some regimes have announced adjustments in the pension age and the contribution rate in accordance with recommendations from actuarial studies.

It is customary for the pension funds to give loans to the participants. They see this as an additional incentive for the employees to retain them in the institution. Besides loans, the pension funds invest most of the administered resources in certificates of deposits of banks and some of them in housing projects for the employees.

Despite the lack of regulation, better corporate governance practices in these funds when compared to the ONA and PRAP was observed in these interviews. However, it is necessary to develop regulation and supervision to ensure minimum administration standards and the control of conflicts of interests.

3 International Principles of Pension Regulation

Few individuals act rationally when they have to decide how much to save for a pension. At the beginning of their working lives, most people do not realize the importance of saving for a pension since they cannot see themselves as old people. In fact, they have other priorities, such as raising their children, investing for an education or saving for a house. Therefore, people will not save for a pension voluntarily or will start saving for one too late in their lives.

Moreover, people tend to underestimate their life expectancy. This means that even when people make the correct decision to start saving early for a pension, they will not accumulate enough resources to finance their needs in old age. More people, then, will live under poverty in old age, turn to governmental help or depend on their families to provide income.

These reasons explain why most countries around the world have established compulsory pension systems to force their citizens to save for a pension. Such savings are not an ordinary financial product, since most people will entrust the administration of their money for 30 or more years, hoping to get a stable source of income when they retire.

Therefore, it is necessary to set the rules to manage these savings responsibly, and there is a function of the State to maintain minimum standards among the administrators of pension funds. Like any financial product, pension funds face a number of risks, and regulation needs to be put in place to assure these risks are assessed and managed properly.

The list of potential risks the pension sector could face is great. The magnitude and materialization likelihood of these risks can vary from one jurisdiction to another. However, it is possible to mention the most common risks that all pension systems must face, such as the following:

- **Longevity risk:** This is the risk that the resources in the pension fund will not be sufficient to cover the benefits promised by the pension regime. In defined-benefit regimes, such happens when the benefits paid are untied from the contributions made to the fund. In pay-as-you-go (PAYGO) regimes, this risk becomes evident when there is demographic change as the fertility rate of the population decreases and life expectancy improves. To avoid the occurrence of longevity risk, the pension fund administration should have to introduce reforms with the use of frequent actuarial studies. The main assumptions and parameters used in these studies need to be regulated by a competent authority.
- **Political risk:** This risk relates to political decisions affecting the affiliates or their resources, the sustainability of the fund or the scope of the regulation. Pension funds call for a prudent and technical administration. However, a pension fund may be subject to political influences when it is sponsored by the State. These influences relate to decisions taken within the fund that do not represent the real interests of the owners of the fund – that is, the individuals saving for a pension. Political risk materializes in many forms. For example,

the administrator of a pension fund could be forced to buy public bonds in excess; the government may deny paying the right contributions to the fund, with no prosecution for such action; the fund may yield to pressures to pay benefits unrightfully to some people; and the pension funds could be diverted to other activities not related to paying pensions.

- **Corporate governance risk:** Corporate governance is the set of relations and the adequate assignment of powers and responsibilities among the actors in an organization. Governance of a pension fund should respond to the interests of its owners – that is, the affiliates. However, the affiliates generally do not have knowledge of how to manage a pension fund and how important it is from a social security perspective. Therefore, the administrators of a pension fund need to protect the rights of the affiliates. However, this delegation of power is a source of all kinds of conflicts, from inadequate administration of risks to appointing people to the board of directors or administration of the fund who do not have the right aptitudes.
- **Investment risks:** These are the most studied risks of all and refer to faults in managing an investment portfolio in a technical manner. Pension funds are financial products for the long run. There are all sorts of different risks within the investment risk category, such as the following:
  - Concentration risk: for example, an excessive concentration in public bonds in the short run, in local bonds or in local currency
  - Liquidity risk: for example, an excessive concentration of the portfolio in the short run (or in cash) or the long run, depending on the schedule of payments of the fund
  - Market risk arising from changes in the value of assets held by the pension fund: for example, changes in interest rates, changes in the credit rating of the bond issuer or credit risk ensuing when the pension fund develops a credit activity to its affiliates.
- **Operational risks:** These risks relate to the operation of the pension fund, especially due to the lack of definition of working procedures and faulty supervision auxiliaries, such as internal and external audits. The risk materializes as fraud, incorrect accounting, incorrect assignment of benefits, wrong assignment of contributions, faults in technology infrastructure (loss of data or lack of backups) and danger to the continuity of business given the lack of alternate sites or recovery plans.

The Organization for Economic Co-operation and Development (OECD) and the International Organisation of Pension Supervisors (IOPS), which is part of the OECD, are the leading institutions in the world, setting good practices or principles of pension funds regulation. Besides these two institutions, and for the case of corporate governance, the European Parliament has produced a group of principles known as Institutions for Occupational Retirement Provision II (IORP II). The Association of Investment Firms of Pensions in Canada, the National Association of Pension Funds in the United Kingdom and the Stanford Institutional Investment Forum in the United States have all developed similar corporate governance principles on applying for pension funds.

OECD (2016) defines ten core principles of private pension regulation. Although these principles are designed for fully funded private pension systems (i.e., not public social security pension regimes), the first six principles, called general principles, apply for both defined-contribution and defined-benefit pension fund regulation, whether in public or in private systems. Below is a presentation of these six principles.

- **Core Principle 1: Conditions for effective regulation.** Pension systems should have clear and well-defined objectives regarding coverage, adequacy, security, efficiency and sustainability. The achievement of these objectives should be regularly monitored. An effective legal framework, a robust institutional and financial market infrastructure and a sound regulatory and supervisory system for pensions should be in place to support these objectives.

  Well-functioning capital markets and financial institutions should be in place to ensure productive and diversified investment of retirement savings and the efficient management of risks. The development of pension systems should go hand in hand with the strengthening of the financial markets, based on a sound and integrated regulatory framework for the financial sector and a stable macroeconomic environment conducive to longer-term investment.

- **Core Principle 2: Establishment of pension plans, pension funds and pension entities.** Pension plans, pension funds and pension entities, jointly or separately, should be subject to an adequate, transparent and coherent set of legal, accounting, technical, financial, managerial and governance requirements, without imposing an excessive administrative burden. Pension fund assets should be legally separate from the assets of those involved in managing the pension plan assets.

- **Core Principle 3: Governance.** Regulations on pension governance should be guided by the overriding purpose of serving the best interests of plan members and beneficiaries and ensuring the soundness of pension plans, pension funds and pension entities. The governance structure of pension funds and pension entities should ensure an appropriate division of operational and oversight responsibilities as well as the accountability and suitability of those with such responsibilities. Pension funds and pension entities should have appropriate control, communication and structures that encourage good decision-making, proper and timely execution, transparency and regular review and assessment. The governing body of a pension fund or pension entity should ensure that the investment strategy follows a prudent approach and, where applicable, takes into account the profile and duration of its liabilities.

- **Core Principle 4: Investment and risk management.** Investment by pension funds and pension entities should be adequately regulated. Investments should be aligned with the specific attributes and liabilities of the pension plan and the institutional and market environment in which it operates. Investment regulations should take into consideration principles related to risk diversification, dispersion and asset liability management. Pension funds and pension entities should be required to act in line with the investment horizon and risk return objectives of the plan and take into account the long-term nature of saving for retirement and of eventual liabilities.

  Quantitative requirements and prudent-person principles for investment should be carefully assessed with regard to the security, liquidity and profitability objectives of the pension fund or pension entity. Self-dealing should be strictly controlled to ensure that transactions are made in the best interest of members. Investment abroad by pension funds and pension entities should be permitted if they are subject to prudent management principles.

Increased reliance on modern and effective risk management techniques and industry-wide risk management standards for pension funds and pension entities should be promoted. The development of asset-liability management techniques should be given proper consideration.

- **Core Principle 5: Plan design, pension benefits, disclosure and redress.** Proper design of pension plans should be promoted, especially when these schemes play a public role. Factors to be taken into consideration include degree of risk sharing, protection of the value of benefits, entitlements, accruals, contributions, coverage and financial and market risks. Overall benefit adequacy should be evaluated by taking into account the various sources of retirement income (tax-and-transfer systems, advance-funded systems, savings and earnings).

  Appropriate disclosure and education should be promoted regarding benefits and members' rights and responsibilities. Plan members and beneficiaries should be informed on the impact of plan participation and contributions on overall retirement income and the potential misuse of retirement benefits (particularly in cases associated with lump-sum payments and early withdrawal of benefits and accumulations). Pension plan members should have access to appropriate mechanisms for handling and redress of complaints that are accessible, affordable, independent, fair, accountable, timely and efficient.

- **Core Principle 6: Supervision.** Pension supervision should promote the stability, security and good governance of pension funds and pension entities with the aim of protecting the interests of plan members and beneficiaries. Effective supervision of pension funds must be set up and focused on legal compliance, financial control, actuarial examination and supervision of those with the responsibility for operating or managing the plan. Appropriate supervisory bodies, properly staffed and funded, should be established to conduct, when relevant, off- and on-site supervision, particularly when problems are reported or identified. Supervisory bodies should be endowed with appropriate regulatory and supervisory powers over pension funds and pension entities, including powers over functions that are outsourced.

4 General recommendations for improving the pension regulatory framework in Haiti

This section of the document describes the main recommendations to improve the regulatory framework to oversee the pension funds in Haiti, with a special emphasis on the PRAP and ONA, the two most important pension regimes in Haiti. These recommendations take into account the structure of the pension system in Haiti, the results of the field visit interviews and the six international guidelines of pension regulation explained in the prior section.

Currently, the PRAP and ONA pension regimes seem sustainable according to basic actuarial calculations, which means these funds will be able to deliver the promised benefits if they follow a technical management and the contributions are collected according to schedule for both workers and their employees.

Graph 2, **Graph 3** and **Graph 4** compare the replacement rates paid by the PRAP and ONA regimes to the replacement rate affiliates would get if they were to auto-finance their pension. These calculations are basic in the sense that they do not consider the existence of beneficiaries or health and disability insurances. Therefore, the intention to present these calculations here is to propose better policies and regulations; however, formal actuarial studies are needed to calculate exact sustainability of these pension regimes.

The replacement rate is defined as the ratio of the pension earned to the last salary received prior to retirement. In the case of the PRAP, pensions are calculated by multiplying the number of contribution years by 2.5 per cent. Then, this calculation is multiplied by the average wage of the last 5 years of contributions. For example, if a public servant has worked 20 years, the pension will be equal to 50 per cent of the person's average wage for the last five years. Since wages increase over time1, the average wage will always be lower than the last wage received prior to retirement. Therefore, the replacement rate for someone who has worked 20 years will be lower than 50 per cent; in fact, it is 41 per cent, according to the assumptions used in this report.

The replacement rates presented in theses graphs assume that the employer and the affiliate make on-time contributions based on a wage of 15.000 gourdes per month at the time of retirement. In addition, an average inflation rate of 10 per cent per year is assumed, as well as a real wage increase of 1 per cent per year and a real return rate on investment of 3 per cent per year. Finally, the calculations assume a life expectancy of 21 years and 4 months at 55 years of age and of 19 years and 1 month at 58 years of age, according to the data for Haiti of the World Health Organization of the United Nations.

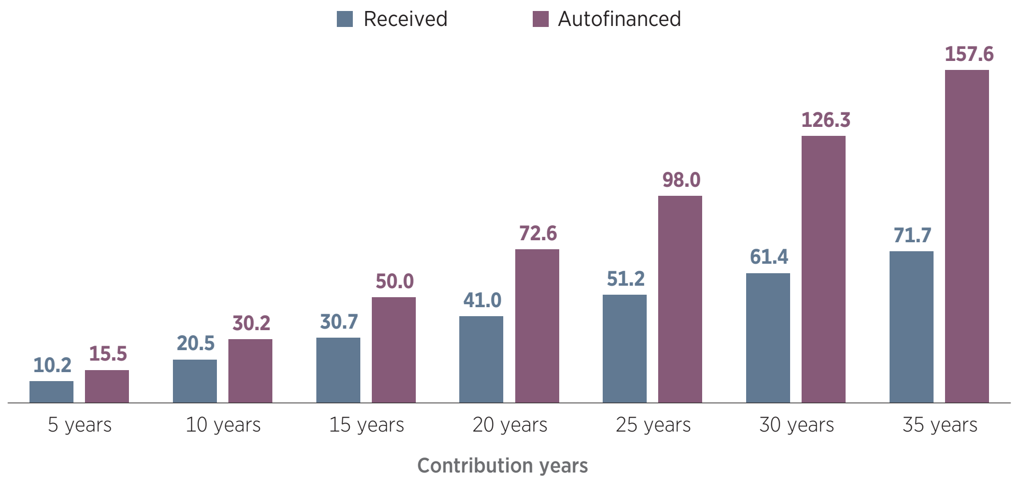
In general, for the benefits being paid, all affiliates receive a low replacement rate for the contribution paid, independently of their contribution time to the regime. Under the PRAP regime, affiliates get on average

1. It is assumed that wages are adjusted by inflation once a year and a real increase of 1% is paid to workers every year.

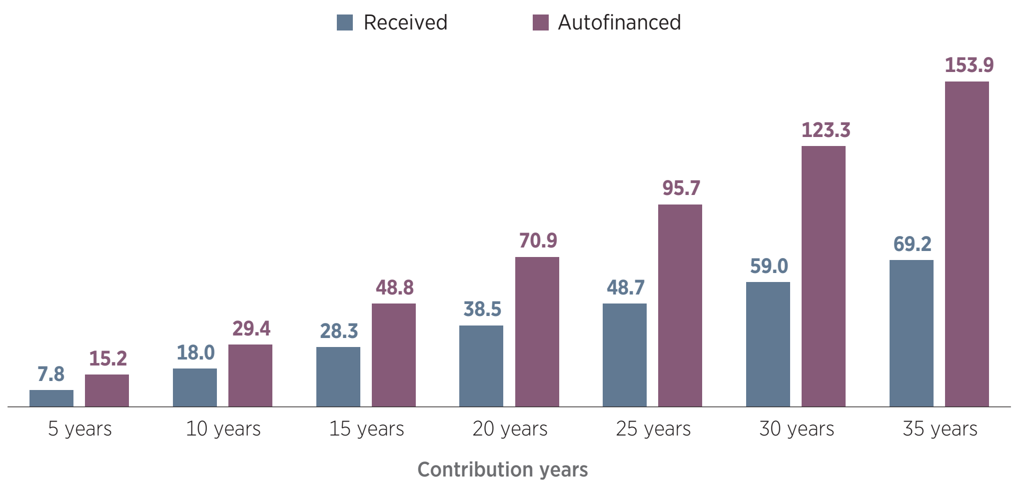
around 50 per cent of what they would get under an auto-financed regime. Under the ONA, an affiliate gets between 43 and 24 per cent of an auto-financed pension.

The difference between the pension received and the auto-financed pension grows as an affiliate contributes more time to the regime. This constitutes a disincentive for contributing to the regime and promotes retiring as soon as the affiliate reaches the requisites to obtain a pension. In the case of the ONA, these low replacement rates also incentivize the informal economy, so it operates against the coverage objective of a social security regime.

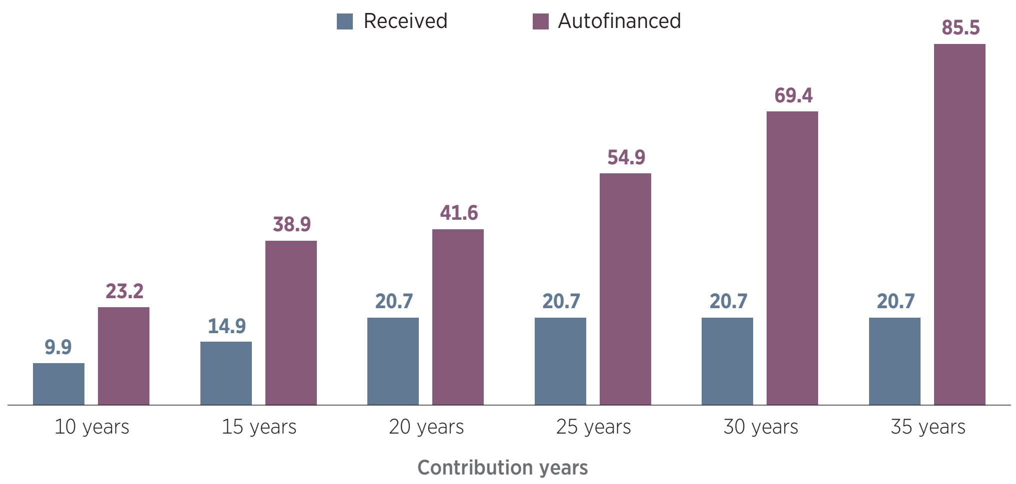
GRAPH 2 ▪ **REPLACEMENT RATE OF AN AFFILIATE RETIRING AT 58 YEARS OF AGE IN THE PRAP REGIME**



GRAPH 3 ▪ **REPLACEMENT RATE OF AN AFFILIATE RETIRING IN ADVANCE AT 55 YEARS OF AGE IN THE PRAP REGIME**

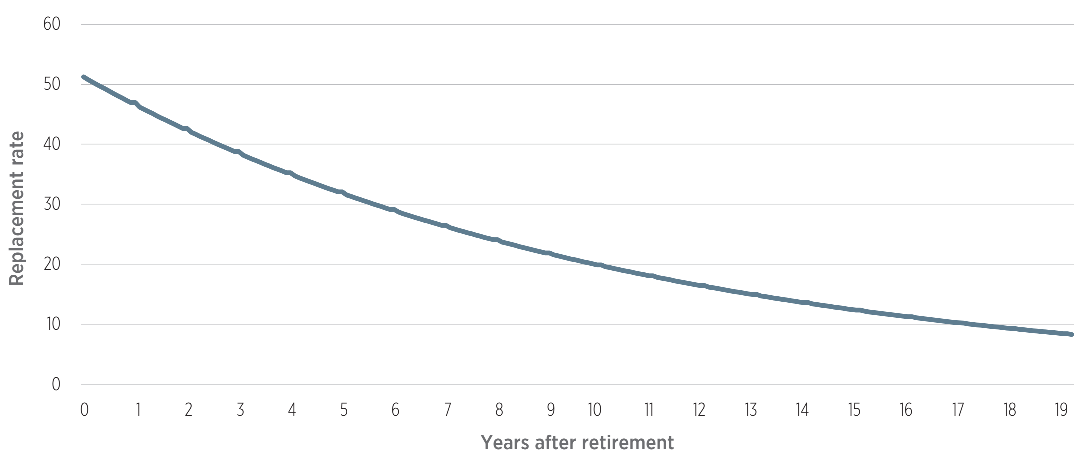


GRAPH 4 ▪ **REPLACEMENT RATE OF AN AFFILIATE RETIRING AT 55 YEARS OF AGE IN THE ONA REGIME**



However, the sustainability of the PRAP and ONA regimes is a consequence of the lack of inflation correction for the pensions paid. In other words, the sustainability of the regimes is attained at the expense of the benefits' adequacy. As a result, given the moderate inflation of Haiti in the few decades, the real value of a pension decreases rapidly.

GRAPH 5 ▪ **REPLACEMENT RATE EVOLUTION FOR A PRAP PENSIONER NOT RECEIVING INFLATION COMPENSATION**



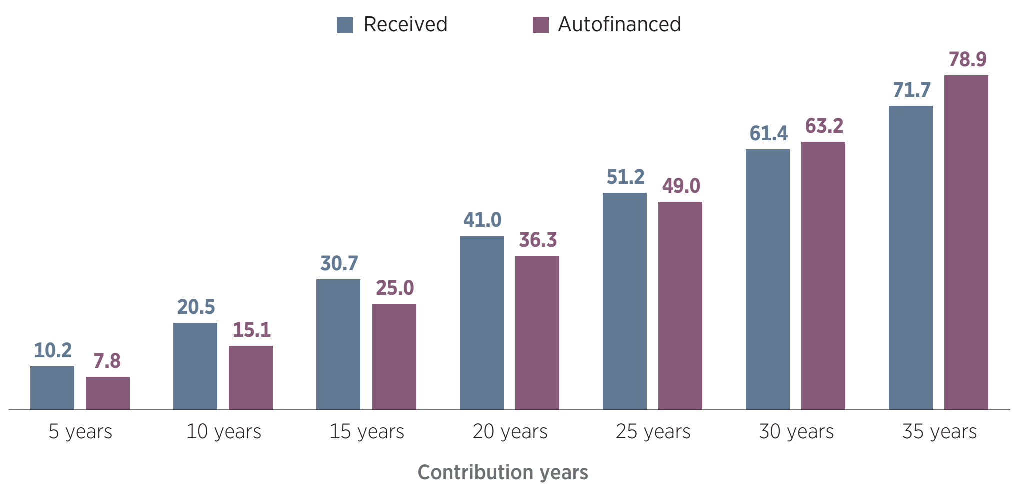
Graph 5 presents the evolution of the replacement rate for an individual earning 15.000 gourdes at the time of retirement under the PRAP system. These calculations assume an annual inflation rate of 10 per cent, 25 years of contributions and a retirement age of 55 years. The results show the replacement rate falling from

51.2 to 38.8 per cent just three years after retirement. Moreover, ten years after retirement, the replacement rate drops to 19.9 per cent, a whopping decrease of more than 41 per cent in a time when individuals are more vulnerable to falling into elderly poverty.

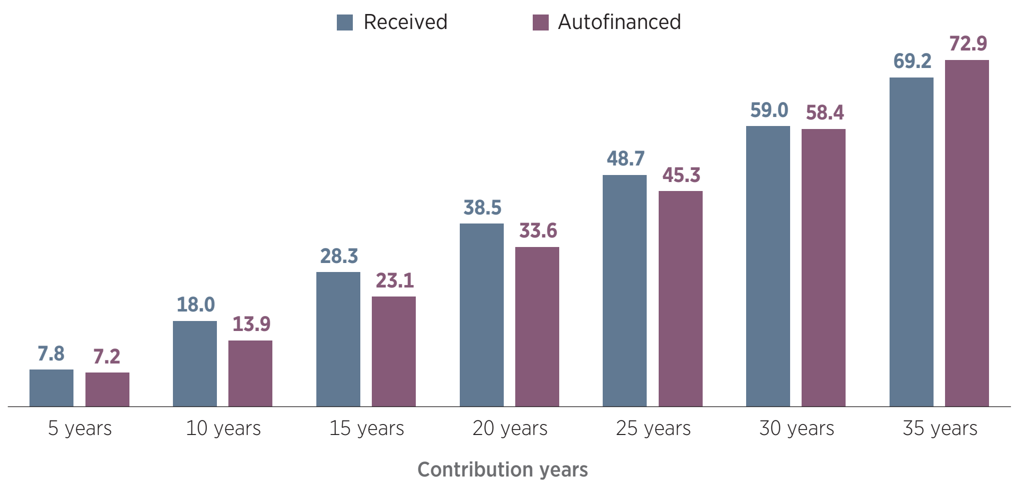
Organizations such as the International Labor Organization indicate that social security pensions should provide a retirement income of around 50 per cent of the last wages received. Although the PRAP regime reaches this adequacy threshold among public employees who have contributed at least 25 years, if pensions are not adjusted by inflation, the PRAP regime will give an insufficient amount just a few years into retirement. In the case of the ONA regime, the replacement rate offered is very far from this 50 per cent adequacy objective.

One solution is to index the PRAP and ONA pensions to inflation so that the replacement rate does not change over time. This measure would improve the adequacy of these pension regimes but would make both regimes unsustainable. **Graph 6**, **Graph 7** and **Graph 8** compare the replacement rates with inflation correction of these regimes to an auto-financed pension also indexed to inflation. These calculations use the same assumption of Graphs 3, 4 and 5, with the addition of a benefit indexation equal to the inflation rate assumed.

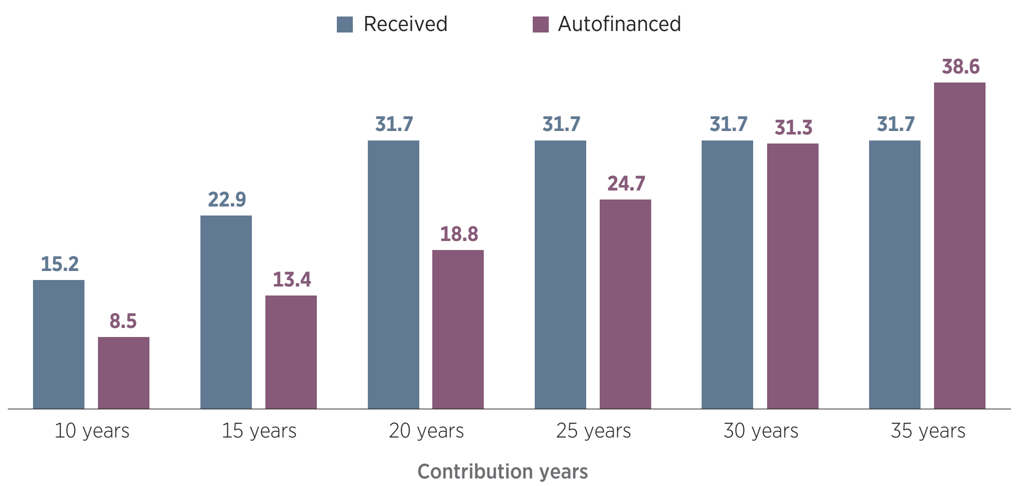
GRAPH 6 ▪ **REPLACEMENT RATE OF AN AFFILIATE RETIRING AT 58 YEARS OF AGE IN THE PRAP REGIME WITH INFLATION CORRECTION OF BENEFITS**



GRAPH 7 ▪ **REPLACEMENT RATE OF AN AFFILIATE RETIRING AT 55 YEARS OF AGE IN THE PRAP REGIME WITH INFLATION CORRECTION OF BENEFITS**



GRAPH 8 ▪ **REPLACEMENT RATE OF AN AFFILIATE RETIRING AT 55 YEARS OF AGE IN THE ONA REGIME WITH INFLATION CORRECTION OF BENEFITS**



If pensions under the PRAP and ONA regimes are indexed to inflation, these graphs show that these regimes will be sustainable only if people contribute for more than 30 years. Therefore, to reach the sustainability and adequacy principles of the Haitian pension system at the same time, benefits, contribution times and pension age would have to be reviewed. To conduct this revision, it is necessary to conduct actuarial studies.

It is worth mentioning that the Haitian Constitution proposes adopting an adjustment in pensions each time there is an increase of salary in the public administration. Such is the approach the PRAP has adopted in recent years.

The general policies to improve the regulation of the ONA and PRAP regimes are presented below. These policies come from the six basic principles of pension regulation of the OECD (2016) and their adaptation to the experience of regimes of this kind in Latin America and the Caribbean.

4.1 Conditions for effective regulation

The first set of recommendations aims at achieving clear objectives of coverage, adequacy, security, efficiency and sustainability of the pension system. Today, the institutions in charge of the pension funds administration, in particular the ONA and PRAP, have not defined or attained these objectives.

a. **Actuarial studies should be performed on a regular basis.** These studies would help to establish clear objectives for the role of the regimes in providing retirement income in terms of coverage, adequacy, security, efficiency and sustainability. The ONA and PRAP regimes need to offer an inflation adjustment to the benefits offered. The same applies to some of the pension funds offered to the employees of public institutions. The lack of inflation adjustment today menaces the adequacy of the pension in the future and, in the case of the ONA regime, affects the coverage because it acts as a disincentive to contribute given the uncertainty of the future pension's real value. Currently, the social security coverage of the ONA regime is among the lowest in Latin America and the Caribbean.

However, to index the benefits to inflation, the regimes will need adjustments, most likely in the minimum years of contribution and not in the contribution rate, as the latter is high when compared to those of other countries in the region. These changes can only be determined with regular actuarial studies.

b. **Regulation should request a funding policy.** This funding policy should specify the sources of funding, the actuarial method to be used and the mechanisms for fulfilling legal funding requirements. The funding policy should specify the funding objective, the level of target funding, and the sources and mechanisms for fulfilling the target funding, including potential risks to employer contribution levels, legal funding requirements and how quickly target funding is projected to be achieved. The policy should be communicated to plan members and other concerned parties.

c. **International financial standards should be set in place.** Accounting, auditing and actuarial standards for pension funds and pension entities should be comprehensive, documented, transparent and consistent with international standards.

d. **Legal provisions should allow for developing regulation to keep track of the objectives of the pension regimes.** The regulatory and supervisory system, institutional and financial market structure and conduct of the different actors should be coherent so that each may play a supportive and complementary role in achieving the overall objectives for the system.

e. **Capital markets should be regulated effectively.** The development of well-functioning and transparent capital markets and financial institutions should be promoted to enable the development of new financial instruments and markets to support pension provision – for example, inflation-indexed instruments and long-term financial assets for investment.

4.2 ▸ Establishment of pension plans, pension funds and pension entities

The second set of principles of good practices calls for an adequate, transparent and coherent set of legal, accounting, technical, financial, managerial and governance requirements. In addition, pension fund assets should be legally separate from the assets of the entity in charge of administrating the regime – that is, the ONA or PRAP.

In Haiti, the ONA and the PRAP are in charge of a division of the Ministry of Social Affairs and Labor and of the Ministry of Finance and the Economy, respectively. This structure increases the risks of these pension regimes since these institutions are subject to political risks and conflicts of interests.

Pension fund administrators have a fiduciary responsibility for their owners – that is, the affiliates. When the administrators do not have legal independence, they can respond to pressures and act not in the best interest of the participants.

For example, in the past, both the ONA and PRAP were institutions that centered their activities only on managing the qualification of benefits. However, they were not active institutions seeking for contributions to be paid on time and prosecuting debtors, the government the most important among them. Therefore, although it is early for Haiti to face demographic issues, these regimes have not been able to amass pension funds to guarantee future pension benefits, so they have to rely on the public budget to pay benefits.

a. **The ONA and PRAP regimes should operate as independent legal institutions.** This is necessary to isolate these regimes from political risks. These institutions also should be given legal powers to collect all the contributions from private participants and the government, to impose fees on late payments and to prosecute delinquency of nonpayers.

b. **The ONA and PRAP should have their own budgets.** Pension administrators need to rely on an income endowment allowing them to manage the pension fund in a technical manner and to hire skilled people. Once these institutions have their own budgets, it is critical to measure their efficiency in terms of the objectives set for these pension regimes. The independent pension entities should have formal, written documents describing their objectives and setting out the regime's parameters and governance structure and the rights of members and beneficiaries.

c. **Assets of pension funds should be separated from those of the administrators.** This is a basic rule of transparency and permits measuring the performance of the pension fund and the effectiveness of the administration of risks. This separation of assets also permits using the pension funds only for paying pension benefits.

d. **Regulations should be in place to manage the exposure of pension funds to risks.** Pension funds and entities should have adequate risk control mechanisms in place to address investment, operational and governance risks as well as internal reporting and auditing mechanisms.

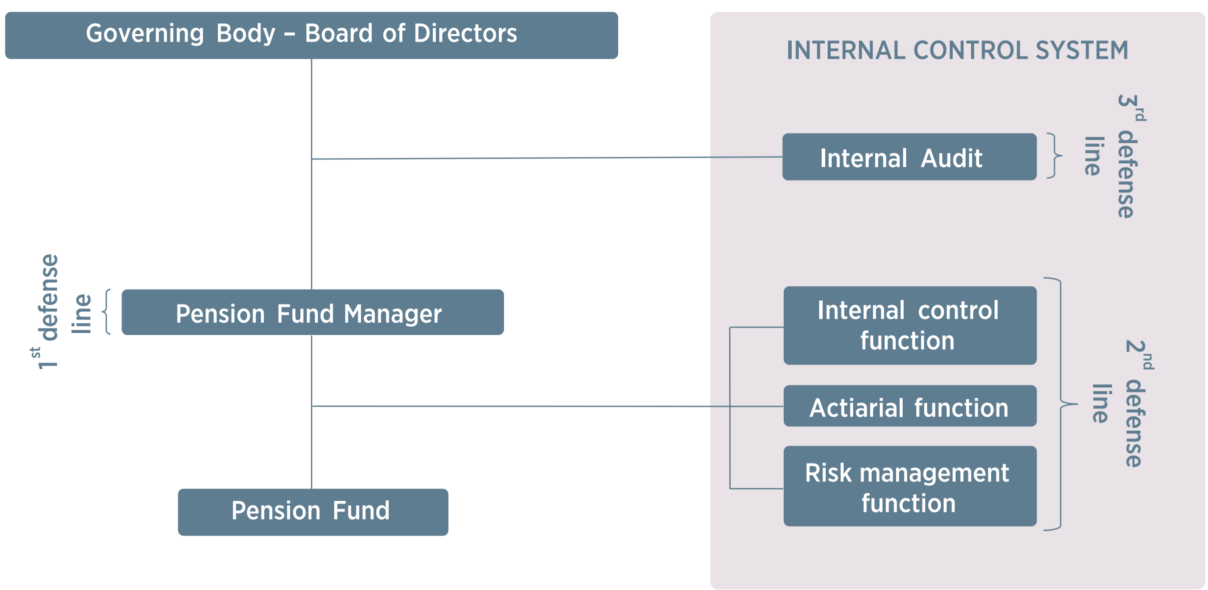
4.3 Governance

The third group of good practices relates to regulations on pension governance. These regulations would serve to guide pension funds and pension entities to serve the best interests of the affiliates and beneficiaries and ensure the soundness of the pension funds.

The governance regulation should set out guidelines to steer the governance process, such as the division of responsibilities and the establishment of internal processes. Good governance helps reduce the materialization and severity of other risks, such as operational and investment risks. Good governance also reduces the need for prescriptive regulation, facilitates supervision and lowers the costs of compliance.

a. **Governance regulation must be a cornerstone of pension administration.** Regulation must encourage pension fund administrators to set out a structure where there is a clear identification of responsibilities and a separation of operational (managerial) and oversight (board of directors) functions. The management structure of a pension regime, the legal form of the operating entities, the internal governance structure of these entities and the main objectives should be clearly stated in the pension entity's statutes. It is usual for a pension fund to have the structure shown in Figure 1 with its variants.

FIGURE 1 ▪ **GOVERNANCE STRUCTURE OF A PENSION FUND**



The governing body or board of directors of the pension fund administrator is the ultimate party responsible for ensuring adherence to the terms of the arrangement and the protection of the best interests of the affiliates and their beneficiaries. This governing body should be independent and vested with all the legal power to administer the pension fund. If so, the governing body is responsible for delivering the present and future pension benefits, taking into account the profile of the pension plan.

The governing body is responsible for setting out the mission of the pension fund, identifying the main risks and laying out the main policies of the fund. These include the investment policy to allocate the assets of the pension fund, the remuneration policy, the risk management policy and the funding policy.

b. **Regulation should include accountability principles for the governing body members.** The members of the governing body of the pension funds, in particular at the ONA and PRAP, should be accountable to the affiliates and beneficiaries of benefits. This accountability needs to be guaranteed through legal liabilities for the members of the governing body for any actions taken against the best interests of the affiliates and their beneficiaries.

c. **Regulation should include fit and proper standards for the members of the governing body.** The governing bodies of pension funds – especially at the ONA and PRAP – must ensure that their members, individually and collectively, have the necessary skills and knowledge to oversee all the functions that an effective pension fund administration needs. Therefore, the regulation must require members of the governing body of the pension funds to comply with a minimum fit and proper standards to ensure a high level of integrity, competence, experience and professionalism in the governance of the pension fund. This regulation also should request pension fund entities to seek relevant regular training of the governing body members to enhance their competences and knowledge. The regulation should clearly lay out any criteria that may disqualify an individual from appointment to the governing body.

d. **Regulation should require pension fund entities to set out a minimum of three lines of defence.** As shown in **Figure 1**, the first line of defence is the managerial team of the pension fund entity. The appointment of this team should be based on technical criteria, and continuation in members' posts subject to achieving performance objectives set out by the governing body.

The second line of defence is a group of committees that give support to the governing body of the pension fund administrator. There at least should be a minimum of three supporting committees overseeing the following:

i. **The actuarial function:** The objective of this function is to provide advice to management regarding, at a minimum, the calculation of liabilities, funding levels and compliance with related actuarial requirements. Actuaries should inform the government body when they realize the fund is unlikely to comply with applicable legal requirements. If the governing body does not take appropriate actions, actuaries should report as much to the regulator or competent authority.

ii. **The risk management function:** This function helps to recognize the nature of the risks faced by the pension plan and to cover all organizational and administrative procedures. These controls include investments performance (which could be evaluated by a separate investment subcommittee), compensation mechanisms, information systems and processes and risk management procedures.

iii. **The internal control system for regulation compliance:** This function ensures that adequate internal controls are in place to ensure that all persons with operational and oversight responsibilities act according to the objectives set out by laws, regulations and internal procedures.

The third line of defence is the internal audit. The governing body of the pension fund is responsible for appointing an independent internal auditor to carry out a periodic audit. This auditor oversees the management of the pension fund and reports only to the governing body when there are facts that may have a significant negative effect on the financial situation – the administrative or accounting organization of a pension fund or administrator. The auditor should inform the regulator or the competent authority when the governing body of a pension fund does not take appropriate measures to solve the negative facts detected.

e. **Regulation should require the governing body to develop a code of conduct and a policy on conflicts of interest.** These policies apply for both the members of the governing body and the staff of the pension administrator. The code should include clauses to ensure the confidentiality of sensitive information and prevent the improper use of confidential or privileged information.

4.4 ▸ Investment and risk management

One of the most important duties of a pension administrator is the investment of the pension funds. The fourth set of international principles aims at establishing minimum standards to develop this activity properly through the management of investment risks. Therefore, there is a need to regulate the investment of pension funds to help the governing body reach the targeted return, according to the nature of the liabilities and liquidity needs of the pension regime.

Pension fund regulation pursues two simultaneous objectives: the performance and the financial security of the pension regime. Regulation usually develops norms to control the exposure of pension funds with the use of quantitative limits on investment and of the prudent-person rule. In the latter case, the pension fund manager acts in the best interests of the affiliates and beneficiaries rather than their own best interest when conducting investment transactions.

a. **Regulation should promote an alignment of investment management with the target pension income and the liabilities of the pension fund.** Investment regulation should force pension administrators to invest funds in a way that is prudential and based on principles of security, profitability and liquidity. Such includes the use of a well-diversified portfolio and asset-liability matching. In addition, regulation should require portfolio managers to evaluate the risk characteristics of less liquid assets, such as long-term investments in infrastructure bonds or assets.

b. **Pension fund managers have to be subject to the prudent-person standard.** This means that the investment of assets should be performed with care, the skill of an expert, prudence and due diligence. Therefore, regulation should require the governing body of the pension fund to establish a rigorous investment process with appropriate internal controls and procedures to implement and monitor the process.

c. **Regulation should require pension funds administrators to invest on the basis of a written investment policy.** The governing body of the pension fund must approve this investment policy, which should include, at a minimum, an asset allocation strategy of the pension fund, its performance objectives, monitoring procedures and what to do when there is a deviation from the policy.

The investment policy should follow the prudent-person standard, taking into account the objectives of the fund, the need for proper diversification and risk management, the maturity of the obligations, the liquidity needs of the pension fund, balancing of long-term risks and returns and all regulatory limitations of the portfolio allocation.

Regulation should request the governing body of the pension fund to review the investment policy periodically. This review should include evaluation of the effectiveness of the investment policy and of the need to change it.

d. **Regulation should include portfolio limits and other quantitative restrictions.** When domestic capital markets are incipient and pension fund managers are relatively unskilled, as in the case of most Latin American and Caribbean countries, including Haiti, it is necessary for regulation to set up quantitative restrictions to promote prudential investment principles such as security, profitability, liquidity and diversification of the investing pension portfolio. These restrictions should stipulate maximum levels of investment by categories of assets and should avoid permanent minimum levels of investment. The regulation should describe the procedure pension fund managers should follow when there is a breach in the quantitative limits. Given the underdevelopment of the capital market of Haiti and the absence of a stock market, investment abroad should not be prohibited in order to promote a better diversification of pension funds, although rigorous analyses are needed to control additional risks such as currency risks and creditworthiness of the asset issuers.

e. **Pension fund assets should be valued with the use of transparent mechanisms.** Regulation should establish a proper, transparent and disclosed basis for valuing pension assets. The valuation methodologies should ideally be based on the market value of the assets or any other fair valuation if the former is not available. Regulation should require a valuation methodology for accounting, reporting, actuarial and funding purposes. Transparency requires these methodologies to be publicly available.

f. **Custody of pension fund assets should be separate from the pension fund manager.** The governing body of the pension fund administrator should appoint an independent custodian for the pension fund assets to ensure their safekeeping. The pension fund assets should be legally separated from those of the custodian. If no custodian service is offered in the country, the central bank should provide this service.

4.5 ▸ Plan design, pension benefits, disclosure and redress

The fifth group of good practices directs attention toward the suitability and practicality of the design of the pension design, the nature and scope of the rights of members and beneficiaries and the protection mechanisms to preserve said rights. On this point, it is crucial that participants have a basic knowledge of the pension design and that information is transmitted on a regular basis to promote the public confidence in the pension regime and encourage participation. In addition, participants should have legal instruments to make complaints, claims and appeals in relation to the payment of benefits.

a. **A good plan design is necessary to encourage participation.** Sufficient protection for plan members is key for building public confidence and thereby encouraging participation in the pension regime. This requires the following:

   i. A regular check of the suitability of the regime's parameters (benefits, contributions, pension age, contribution time etc.) to review the adequacy of the pension regime.

   ii. A protection of the real value of pension benefits over time.

   iii. An expeditious transfer of members' contributions to the fund and on-time enrolment of new members in the regime.

b. **Regulation should require the disclosure of basic information by the pension funds, with an emphasis on the ONA and PRAP.** The intention of this principle is to increase the confidence in the pension system and encourage participation. The minimum information to be disclosed to affiliates and beneficiaries includes the rights of access and waiting periods, anticipated contribution and benefit accrual rates, vesting schedules, investment policy, names and means of contacting the parties responsible for the plan administration and governance, claims processes or procedures and annual financial and actuarial reports. This information should be written in an way easy to understand for members and beneficiaries of the pension regime.

Pension funds should send actualized annual statements to the participants that indicate the current benefit accruals and the benefits they are likely to obtain at retirement under specific and reasonable assumptions. In addition, it should be a regular practice to timely notify members and beneficiaries when the required contributions are not received.

c. **Personal information should be protected by the ONA, the PRAP and the other pension funds.** Regulation should seek for pension fund administrators to develop mechanisms to protect confidential information of affiliates and beneficiaries. These mechanisms include the purposes for which the data is collected, processed, held, used and disclosed.

d. **Regulation should require the establishment of mechanisms for complaints and redress.** These procedures should be expeditious and transparent to allow affiliates and beneficiaries to be entitled to a fair and timely process in which their entitlements, rights and benefits may be claimed or asserted. The process should include independent administrative or judicial recourse if the pension plan administrator denies the initial claim.

4.6 Supervision

International evidence is overwhelming with examples of failed public pension funds that tried to auto-regulate their actions. This means that public pension funds need independent supervision and regulation by a specialized institution. Auto-regulation yields positive results if it is overseen by a supervisor following internationally accepted norms.

Pension supervision promotes stability, security and good governance of pension funds. Supervision centres attention on legal compliance, financial control and actuarial examination. In addition, a well-functioning pension sector helps with the stability of the financial sector as a whole and promotes economic growth.

In particular, supervision is critical in the pension sector because of the characteristics of the financial products being offered. These products are mandatory for consumers (affiliates), representing a long-term contract with individuals who are not willing to save voluntarily during their working life, and they are difficult to understand for consumers because they involve matters such as tax issues, projection of future salaries and longevity assumptions, among others. Finally, financial literacy is very limited among the general population, making participants vulnerable to the financial sector's nature of asymmetric information.

Therefore, the six groups of good practices of the OECD (2016) favour the establishment of a specialized supervisor for the pension sector. These principles are universal. They apply for all types of pension regimes: public or private, defined-benefit or defined-contribution and way of management. The institution in charge of the supervision of the pension system should comply with the following principles.

a. **The laws should assign clear and explicit objectives to pension supervisory authorities.** The pension supervisor should have specific duties and clear and objective responsibilities. The focus should be the protection of the interests of pension affiliates and their beneficiaries. The objectives should include the stability, security and sustainability of pension funds and the promotion of good governance of pension administrators.

b. **The pension supervisor should have operational independence.** This would isolate the supervisor from political and commercial interference. The appointment and removal of the head of the supervisory authority should follow an explicit and transparent procedure. This appointment should be for a fixed term, with subsequent reappointment being allowed. The directors and the head of the supervisor should be suitably qualified, with sufficient education, experience, capacity and reputation. Supervisory acts, the use of enforcement and sanction powers should be overruled only by a judicial decision.

c. **The pension supervisor should have adequate financial and human resources.** The pension supervisor should have its own budget with sufficient resources to conduct proportionate, effective and independent supervision and to hire, train and maintain sufficient staff with high professional standards and expertise.

   The structure of a pension supervisor and the source to finance its expenses is not a simple matter. There is no unique model, and the solution depends on the size of the pension sector, the number of participants and the institutional capacity of the country to conduct regulation and supervision. Table 1 shows the structure and the funding source of pension supervisors of most countries in Latin America and the Caribbean, especially where defined-contribution pension schemes are in place.

   First, the regulator is usually vested with independent powers to fulfil its chores. However, it is also common for the regulator to be not a separate institution but a part of a ministry or central bank. In fact, this is the case in six out of the ten countries covered in Table 1. Some reasons to follow this organizational arrangement is to take advantage of the institutional structure of a ministry or central bank in terms of internal controls, wage structure and control of costs in general.

A second decision to face is whether to create a specialized supervisor covering only pensions or an integrated supervisor overseeing also the complete financial system. Again, the answer is not unique, and there is not a consolidated opinion on what scheme is superior. People in favour of an integrated supervisor mention advantages such as lower costs and the possibility to follow a consolidated supervision approach, covering aspects such as systemic risks. However, those who oppose this approach mention that such institutions centre attention on bigger sectors such as banking and lessen the supervision intensity on smaller sectors such as pensions. In the case of Table 1, the supervisor is specialized in pensions in five cases and integrated in six cases. It is common that as the pension sector gets bigger, such as in Chile, Peru and Mexico, the supervisor tends more often to be specialized.

TABLE 1 ▪ **STRUCTURE OF PENSION SUPERVISORS AND FUNDING SOURCES IN LATIN AMERICA AND THE CARIBBEAN**

Country	Supervisor name	Specialized	Supervision of DB	Supervision of DC	Dependence of	Budget
Chile	Superintendencia de Pensiones	Yes	Yes	Yes	Ministry of Labor	100% on regulated entities
Colombia	Superintendencia Financiera	No	Yes	Yes	Ministry of Finance	100% on regulated entities
Costa Rica	SUPEN	Yes	Yes	Yes	Central Bank	80% on Central Bank 20% on regulated entities
Dominican Republic	SIPEN	Yes	n.a.	Yes	Independent	100% on afilliates, based on a 0,1% charge on salaries
El Salvador	Superintendencia del Sistema Financiero	No	n.a.	Yes	Central Bank	up to 10% on Central Bank at least 90% on regulated entities
Honduras	Comisión Nacional de Banca y Seguros	No	Yes	Yes	Independent	50% on Central Bank 50% on regulated entities
Mexico	CONSAR	Yes	No	Yes	Ministry of Finance	100% on regulated entities
Panamá (SIACAP)	SIACAP	Yes	No	Yes	Independent	100% from National Budget
Panama (SMV)	Superintendencia del Mercado de Valores	No	No	Yes	Independent	100% on regulated entities
Peru	Superintendencia de Banca, Seguros y AFP	No	No	Yes	Independent	100% on regulated entities
Uruguay	Central Bank	No	No	Yes	Central Bank	100% on Central Bank

A third aspect relates to the type of pension regimes subject to supervision. Pension supervision is a recent development, as before the 1980s, pension funds were exceptionally supervised in Latin America and the Caribbean. Most of these pension funds were defined-benefit public regimes where benefits were guaranteed by the State. As defined-benefit regimes started to falter and defined-contribution regimes emerged after the experience of Chile in 1981, pension regulators became the rule rather than the exception. However, in many countries, pension supervision only covers defined-contribution regimes. In fact, only in four countries in the region (Chile, Colombia, Costa Rica and Honduras) does the pension regulator oversee the public regimes, and in many cases the regulator has limited powers to perform its duties.

Finally, a fourth element to consider is the source of funding to cover the expenses of the regulator. It is regular to find a full financing of the expenses by the regulated entities in countries where the pension system is bigger. This happens in all countries in Latin America with the exception of Costa Rica (the central bank covers 80 per cent), the Dominican Republic (the affiliates pay for the supervision), El Salvador (the central bank may cover up to 10 per cent), Honduras (the central bank finances 50 per cent), SIACAP (public servants' regime) in Panama (expenses are covered via general taxes) and Uruguay (all expenses are paid by the central bank).

In the case of Haiti, there is a law project initiative to create an independent regulator for the insurance sector, given the problems encountered with insurance companies after the earthquake of 2010. During the field visit to the country, there was an interview with the representative of the Ministry of Economy in charge of following up the progress of this law bill. The components of the proposal having been reviewed, most of the issues mentioned in the prior paragraphs are well considered in this bill. Therefore, it would be an opportunity to take advantage of the work done to promote this law bill and expand the regulation to the pension sector in the same institution being proposed for the insurance sector.

d. **Supervisors should be endowed with the necessary investigatory and enforcement powers to fulfil their functions and achieve their objectives.** Pension supervisory authorities should have full investigatory and enforcement powers when a problem is detected. The legal framework should allow the supervisor the flexibility to intervene and undertake preventative, protective or punitive actions, including fines and referring matters for criminal prosecution when the pension fund administrator does not comply with the regulation. The supervisor should have sufficient gradation of powers to tailor its response according to the breach detected or the action it wishes to deter.

e. **The pension supervisor should adopt a risk-based approach.** This methodology allows the regulator to use the limited supervision resources in an efficient manner to oversee those risks that have the greatest probability of occurrence and pose the greatest impacts over the pension system and the financial sector. Therefore, the emphasis of the supervision moves from a compliance basis towards a function of risks.

   To implement a risk-based approach, a legal framework allowing the supervisor to have suitable discretion in terms of interpretation and exercise of supervisory powers would be necessary. The staff of the supervisor would have to be reorganized and trained to follow the philosophy and processes behind risk-based supervision.

f. **The regulator should adhere to its own good governance practices.** This includes the management of confidential information, the development of a code of conduct for the staff and a policy to control conflict of interests. The operations of the supervisor should be transparent, including divulgence of remuneration of all employees of the regulator. These practices would maintain the credibility and moral authority to promulgate good practices in the entities under supervision.

A governing board should oversee the regulator, and an internal audit control should be put in place to revise the regulator in reaching its objectives and using the endowed resources properly. The regulator should clearly document the procedures for all its duties.

The regulator should be accountable for its general conduct and activity through accountability arrangements, although individual staff members should have protection against civil prosecution for acting according to their mandates.

5 Conclusions

a. There are two main pension systems in Haiti, providing benefits to public servants under the Plan de Retraite de l'Administration Publique (PRAP) regime and to private workers through the Office Nationale d'Assurance-Vieillesse (ONA). These are defined-contribution regimes and are publically managed. In addition, there are pension funds available for employees of specific public institutions. These funds are also defined-contribution regimes.

b. The PRAP starts providing benefits to affiliates after 5 years of contributions and at 55 years of age. The ONA pays benefits after 10 years of contribution and at 55 years of age. In the case of the PRAP, the retirement income is on average close to 50 per cent of the last wage, and the replacement rate in the ONA is close to 33 per cent. However, none of these regimes complies with adequacy principles since pensions are not adjusted by inflation. Therefore, the replacement rate has declined rapidly, as the average inflation rate in Haiti has been above 10 per cent for the last decade. Pension coverage and replacement rates of ONA are among the lowest in Latin America and the Caribbean.

c. The PRAP and ONA seem sustainable according to basic actuarial calculations. However, this sustainability is reached at the expense of sacrificing adequacy due to an absence of inflation compensation. If pensions were to be adjusted for the cost of living, the PRAP and ONA would be unsustainable in the absence of the affiliate contributing for more than 30 years.

d. Pension funds are not supervised or regulated in Haiti. However, pension regulation is essential to assure that pension administrators manage the risks pension funds usually face. At minimum, pension funds need to manage longevity, political, corporate government, investment and operational risks.

e. The OECD and IOPS define the best practices or principles for pension supervision. Following these principles, it is recommended that the Haitian government put in place reforms to regulate the pension funds. The regulation should do the following:

i. Define the objectives of the pension regimes in terms of coverage, adequacy, security, efficiency and sustainability, where the PRAP, the ONA and other pension funds become independent and technical institutions freed from political interference.

ii. Define an adequate, transparent and coherent set of legal, accounting, technical, financial and managerial requirements for pension funds' administrators, including the separation of assets between pension funds and their managers.

iii. Develop corporate government practices to set the right responsibilities within the pension funds' structures to encourage good decision-making, proper and timely execution, transparency and regular review and assessment.

iv. Establish investment and risk management principles to promote a good diversification and dispersion of pension funds to minimize investment risks and improve asset-liability management.

v. Improve the design of the PRAP and ONA regimes to protect the value of benefits for the affiliates over time, protect the rights of the affiliates and beneficiaries and expand the pension regimes' coverage and credibility.

vi. Create a specialized pension supervisor to guarantee the stability, security and good governance of pension funds. It is recommended to take advantage of the current initiative to create a regulator for the insurance sector and expand the scope of this institution to include the regulation of the pension sector.

f. Once the pension regulator is set in place, the country should promote the creation of a pillar of voluntary defined-contribution pension funds. This would encourage private savings, deepen the local financial market and promote economic growth.

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7 Appendix

CALENDAR OF VISITS (JANUARY 29TH – 31ST)
REGULATORY FRAMEWORK OF THE RETIREMENT SYSTEM – HAITI /PLAC

INSTITUTION	DAY	HOURS	DISCUSSION TOPICS
Direction of Civil Pension (DPC)	1/29	8:30-10:00	· Scope of the field visit: general description of the pension system of Haiti. · Description of the retirement plan of civil servants. · Institutions to visit. · Questions on the pension funds and information to be gathered.
Professional Association of Banks (APB)	1/29	10:00-12:00	· Scope of the study and the PLAC Network. · General comments about the pension system of Haiti with special attention to OPAs regime. · Prior studies conducted by IADB for pensions in Haiti. · Description of the current retirement plans in public and private banks. It was concluded that these plans are savings plans and not pension plans.
National Bank of Credit (BNC)	1/29	13:30-15:30	· Scope of the study and the PLAC Network. · Description of the retirement plan of BNC, the regulation, transparency and investments. · Discussion about the problems with the ONA and lack of transparency. · Discussion of the problem with portability of benefits between the ONA and PRAP.
Ministry of Economy	1/30	8:30 - 10:30	· Meeting with Raoul Tribié to discuss the current law bill to regulate the insurance market and the possibilities to extend this regulation to pension funds. This project is trying to regulate the insurance companies and establish an independent and autonomous regulation entity. · Discussion about the general political conditions in Haiti to approve a regulation law.
National Office of Insurance (ONA)	1/30	11:00-12:00	· General description of the ONA regime. · General data of the regime. · Governance of the pension fund. · Investment of pension funds.
Bank of the Republic (BRH)	1/30	13:00-14:00	· Scope of the study and the PLAC Network. · General description of the regime. · General data of the regime. · Governance of the pension fund. · Investment of pension funds. · Regulation of the pension fund. · Information disclosure to participants.
National Port Authority (APN)	1/30	14:30-15:30	· General description of the regime. · General data of the regime. · Governance of the pension fund. · Investment of pension funds.
Electricity of Haiti (EDH)	1/30	15:30-17:00	· Scope of the study and the PLAC Network. · General description of the regime. · General data of the regime. · Governance of the pension fund. · Investment of pension funds, investment in real estate and loans to participants. · Regulation of the pension fund. · Information disclosure to participants. · Revision of actuarial studies.
Ministry of Economy and Finance (MEF)	1/31	9:00 -11:30	· Meeting with the general manager of the Ministry of Economy, the director of economic studies and consultants from the Unit of Studies and Programming of the ministry to present the preliminary report and the results of the visit. · Discussion of the different retirement plans of Haiti. · Design of a road map of the most important steps for improving pension regulation in Haiti.

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