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Building Resilient Safety Nets in the Caribbean: Future-Proofing Retirement Incomes

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Regional Overview - Building Resilient Safety Nets in the Caribbean: Future-proofing Retirement Incomes

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Introduction

Demographic transitions towards a larger share of elderly people in the population pose a challenge for many large economies around the world, including China, the European Union, and the United States. Declining birth rates and increasing longevity are the driving force behind this phenomenon. In the Caribbean context, these trends are further exacerbated by the specific conditions of small countries in the region. First, out-migration affects dependency ratios, as many of the emigrants are of working age. Second, the jobs and incomes of the working-age population in these countries are subject to idiosyncratic shocks, given the low level of economic diversification and exposure to severe weather events. Finally, small size creates fundamental administrative challenges. The lack of economies of scale, for example, can increase the administrative costs to manage pensions and elderly income-support programs, and can limit the investment opportunities for retirement savings.

This edition of the *Caribbean Economics Quarterly* provides an overview of the key design features of old-age pension programs in the Caribbean and lays out the key challenges and opportunities for reform.[1] The focus is on government-sponsored programs for the general population, including both national insurance contributory plans as well as non-contributory plans, rather than on special pensions for government or state-owned enterprise employees or plans sponsored by private businesses.

The main findings of this report cover the following areas:

- **Coverage.** In terms of the percentage of the elderly that receive some form of government assistance, coverage is relatively high in most of the Caribbean. Some countries have implemented social assistance programs to supplement contributory pensions, so that individuals who would not otherwise qualify for a pension still receive support. Considering both types of programs, coverage

[1] The *Caribbean Economics Quarterly* focuses on the six countries of the Caribbean Country Department at the Inter-American Development Bank: The Bahamas, Barbados, Guyana, Jamaica, Suriname, and Trinidad and Tobago.

ranges from just over 50% of the elderly in Jamaica to nearly 100% in Barbados and Guyana.

- **Adequacy.** Adequacy can be defined in terms of whether pension benefits are sufficient to, at a minimum, keep the elderly out of poverty, or, ideally, maintain a standard of living similar to that which the elderly had when they were still working. Currently, social assistance benefits for the elderly in the region cover anywhere from 17% to 353% of the income level required for an international poverty line of US$6.85 per day in purchasing power parity terms.

- **Sustainability.** For most government-mandated contributory pension funds in the region, annual contributions paid in are now less than benefits paid out, and reserve funds are either depleted or expected to be depleted in the next 10 to 15 years unless systems are reformed.

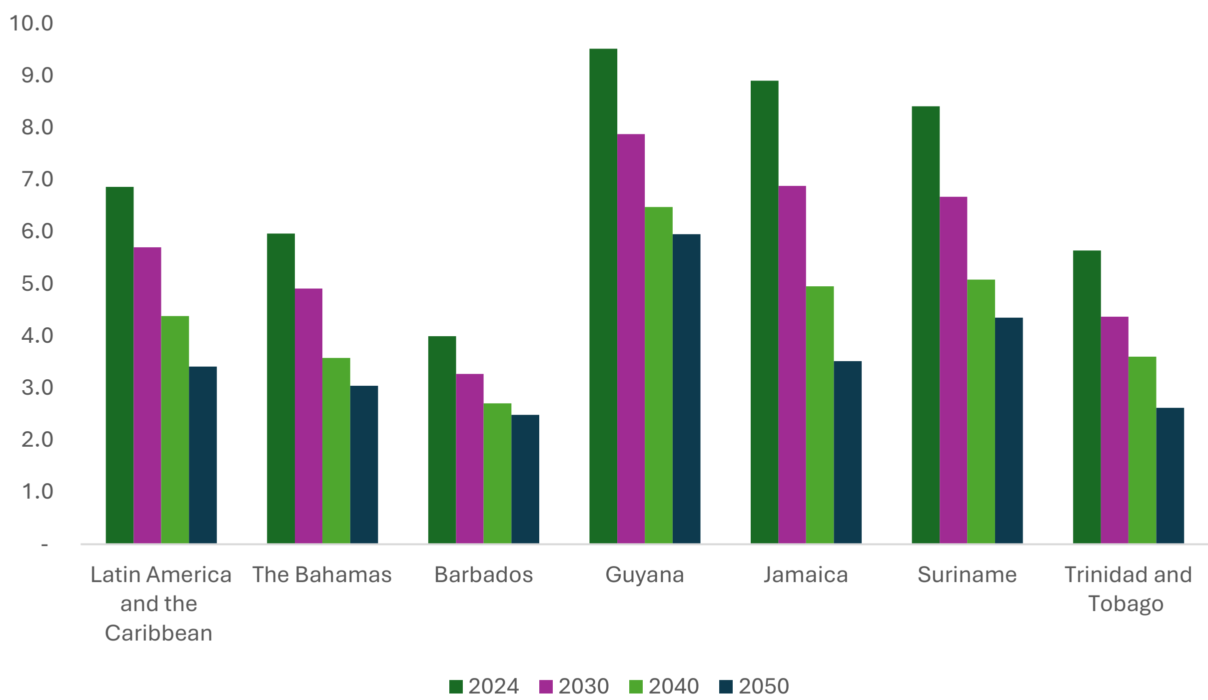
- **Challenges and opportunities for reform.** While administrative costs per beneficiary are naturally higher in countries with small populations, evidence shows that they are particularly high in the Caribbean. Lowering administrative costs would allow for more benefits out of every dollar contributed. Improved investment strategies could also increase the financial returns on pension fund reserves. Adjusting the retirement age and means-testing social pensions are other options that countries around the world have deployed to improve the financial sustainability of old-age income security programs.

While there are common challenges for all Caribbean countries, each country has its unique circumstances and its own design for pensions and other social support programs for the elderly. The country sections of this report analyze the main features for each country. Pension specialists at the IDB are currently working on more detailed analysis and quantitative simulations of changes in pension design. Those studies will provide more information on pension systems in the region, and readers are encouraged to stay tuned for the release of that work sometime next year.

Demographics: The Uncompromising Algebra of Aging Populations

Recent projections suggest that the ratio of the pool of the working-age population (defined as those between 15 and 64 years old) to the pool of the likely retired population (defined as those older than 64) will drop sharply in the next three decades (Figure 1). The sharpest contractions will be seen in wealthier Caribbean countries such as Barbados, which will have lower ratios than the average country in Latin America and the Caribbean. The Bahamas, despite having income and fertility levels similar to Barbados, is projected to have a support ratio that is in line with Jamaica and 50% higher than Barbados.

Figure 1. Current and Projected Support Ratio
(Ratio of those aged 15-64 to those over 65 years of age)



Source: United Nations Department of Economic and Social Affairs, Population Division, World Population Prospects 2024 (https://population.un.org/wpp/).

The three main drivers of the declining support ratios in the Caribbean are low fertility rates, high rates of out-migration, and increasing life expectancy.

1. Low fertility rates

One longstanding stylized fact of economic demography is that as countries become wealthier, women tend to have fewer children. There are several factors that contribute to this phenomenon, including more widespread use of contraceptives (sometimes spurred by changes in socio-cultural values), and the increasing opportunity and childrearing costs for each additional child. Unsurprisingly, as shown in Figure 2, countries with higher income per capita have much lower fertility rates than countries with lower income per capita, and higher-income countries also have fertility rates below the replacement rate needed to stabilize the size of population (without migration). Caribbean countries have particularly low fertility rates that are well below the replacement rate, with the exceptions of Guyana and Suriname.[2] Over time, a consequence of fewer children is fewer workers to support the economy and contribute to the social safety nets that support its retired residents.

Figure 2. Fertility Rates (Births per Woman) and GDP Per Capita, 2022 (in purchasing power parity international dollars)

Sources: United Nations Department of Economic and Social Affairs, Population Division, World Population Prospects 2024 (https://population.un.org/wpp/); and World Bank data.

2. High net out-migration

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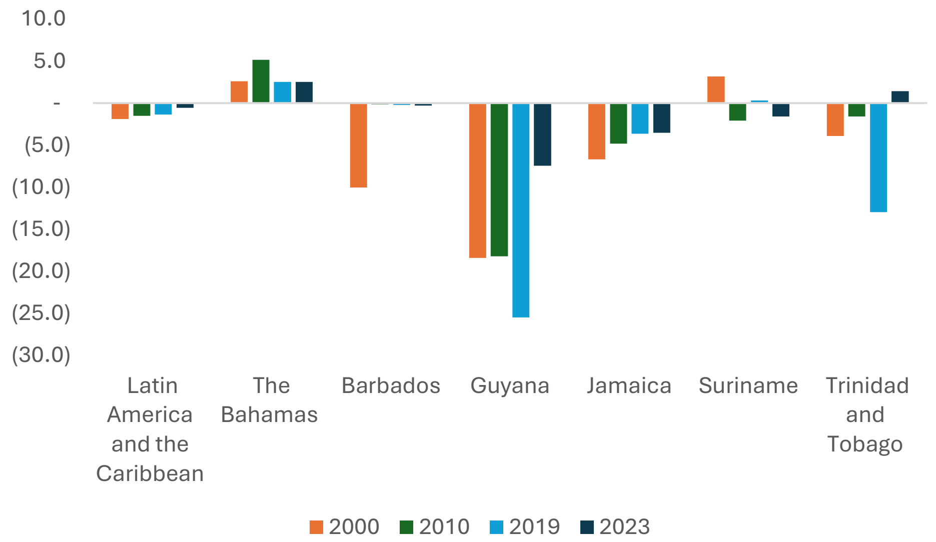
[2] However, this is likely to change in the future as a result of Guyana's rapid economic growth due to the oil boom.

Migration can either mitigate or aggravate the consequences of declining birth rates. Migrants tend to be young and thus can supplement the workforces of their recipient countries at the expense of their countries of origin. The Latin America and Caribbean region is a net provider of migrants to the rest of the world, and this is particularly true for the (historically) less wealthy Caribbean countries such as Guyana and Jamaica (Figure 3). Furthermore, there is evidence that these emigrants are more likely to be in their prime working years (18-64 years old). For example, more than three-quarters of Caribbean migrants are under the age of 64, and Caribbean migrants are more likely to be in their prime working years than U.S. born citizens (Lorenzi and Batalova 2022). The Bahamas is an outlier, as it has been a relatively high net receiver of migrants since at least the start of the 21st century. The closure of both borders and embassies during the height of the COVID-19 pandemic slowed emigration from the region, particularly from Guyana and Trinidad and Tobago. Up until 2019, Guyana had the region's highest net out-migration rate, but the recent oil bonanza has resulted in an influx of both returning residents and foreign workers. Guyana may become a net receiver of migrants in the future.

To provide a more intuitive understanding of Figure 3, consider a country with 1 million people and a net out-migration rate of 20 per 1,000 population. That would imply an annual net outflow of 20,000 people, or 2% of the population for that year.

Figure 3. Net Migration Rate (Per 1,000 population)

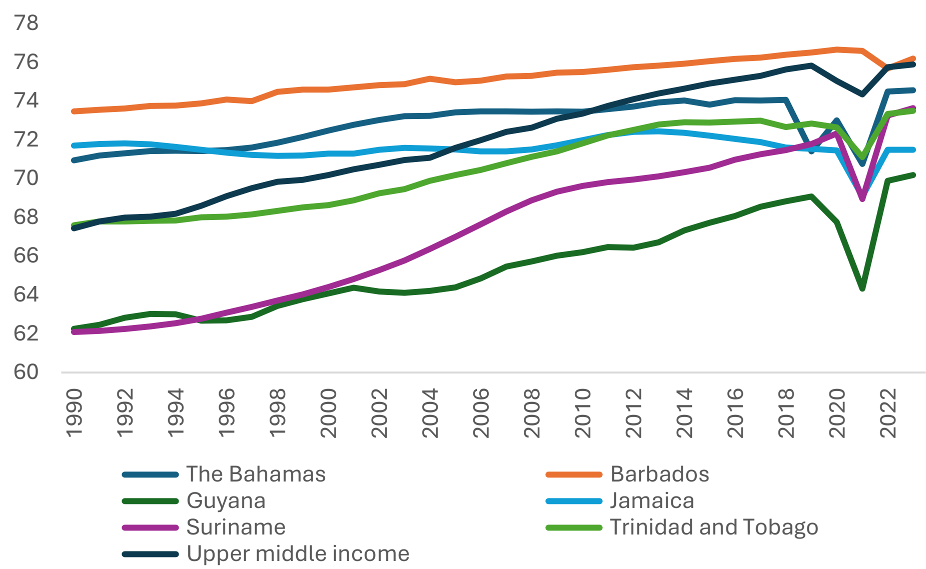


Source: United Nations Department of Economic and Social Affairs, Population Division, World Population Prospects 2024 (https://population.un.org/wpp/).

3. Increasing life expectancy

The last three decades have seen a gradual increase in life expectancy across upper-middle-income countries, including those in the Caribbean (Figure 4). As countries become wealthier and as access to information and healthcare increases, adult mortality falls and life expectancy rises. Although there was a noticeable drop between 2020 and 2021 due to the pandemic, life expectancy in the Caribbean is still significantly higher than it was in 1990. All else being equal, this implies that retirees will receive pension or elderly support benefits for a longer period, creating an additional financial burden on government support programs for the elderly.

Figure 4. Life Expectancy, 1990–2022 (Years)



Source: United Nations Department of Economic and Social Affairs, Population Division, World Population Prospects 2024 (https://population.un.org/wpp/).

In summary, the Caribbean has an aging population due to the emigration of young people, declining birth rates among women, and longer life expectancy. Pension systems play a vital role in addressing the challenges posed by aging populations. In general, these systems have two main objectives: first, to maintain a standard of living for retirees via a stable and predictable income; and second, to reduce the risk of poverty during old age.

National Pension Systems in the Caribbean

It is important to define certain concepts about pensions in general before discussing national pension systems in the Caribbean. Typically, pensions are divided into two

categories: contributory and non-contributory pensions. Contributory pensions are received by workers who have accrued enough contributions to the pension system, paid both by the employer and the employee, that in principle are designed to finance at least a significant share of the contributory pension benefits that are eventually paid. It can often be the case, however, that the employer-employee contributions fall far short of what would be necessary to finance the system, especially in light of the demographic changes mentioned earlier. Non-contributory pensions, sometimes called social assistance pensions, are not linked to prior contributions or labor market histories and are financed from the country's general budget.

While there are variations, pension systems in the Caribbean share common features aimed at achieving both objectives. The first objective of a pension system—to maintain a standard of living for retirees via a stable and predictable income—is met through a state-sponsored contributory system financed by contributions from employers and employees. These systems are defined-benefit in the Caribbean, meaning that benefits are determined based on a formula using the latest salaries of employees. These are administered by national insurance schemes that offer other benefits such as disability and survivor's pensions and maternity benefits in addition to old-age pensions. In many countries, national insurance systems are funded with contributions accumulating in pension funds and generating returns through investments.

Unfortunately, income from contributions has been insufficient for some time. Most Caribbean countries are expected to deplete their pension funds in the next decade, leading to a shift from funded models to pay-as-you-go systems. Pay-as-you-go systems rely on workers' contributions directly funding retirees' benefits. Given that financial equilibrium depends on demographic trends and productivity, in the context of aging and sluggish economic growth, benefits can rapidly become unsustainable.

It is important to highlight, however, that defined-benefit systems can be financially sustainable when the parameters are properly aligned with fiscal and demographic realities. These systems can be bolstered by reserve funds to finance future pension obligations, as seen in many Caribbean countries. The concern for the financial sustainability of the pension systems throughout Latin America and the Caribbean should not be construed as a preference for either defined-benefit or defined-contribution schemes.

The second pension system objective—to reduce the risk of poverty during old age—is addressed through a non-contributory regime often referred to as a social assistance pension. As discussed below, many countries in the Caribbean have these programs, which in some cases are targeted to the poor while in other cases are universal. Social assistance pensions provide a flat income that aims to mitigate the risk of old-age poverty. Given that eligibility or benefits are not based on contributions, the cost of these programs will invariably rise in a context of rapid aging and in the absence of economic growth or savings, unless there are adjustments. This observation is in no way a call to limit these non-contributory pensions. It is merely a call to take into account the long-term fiscal implications of the programs that are implemented in light of unfavorable demographic trends.

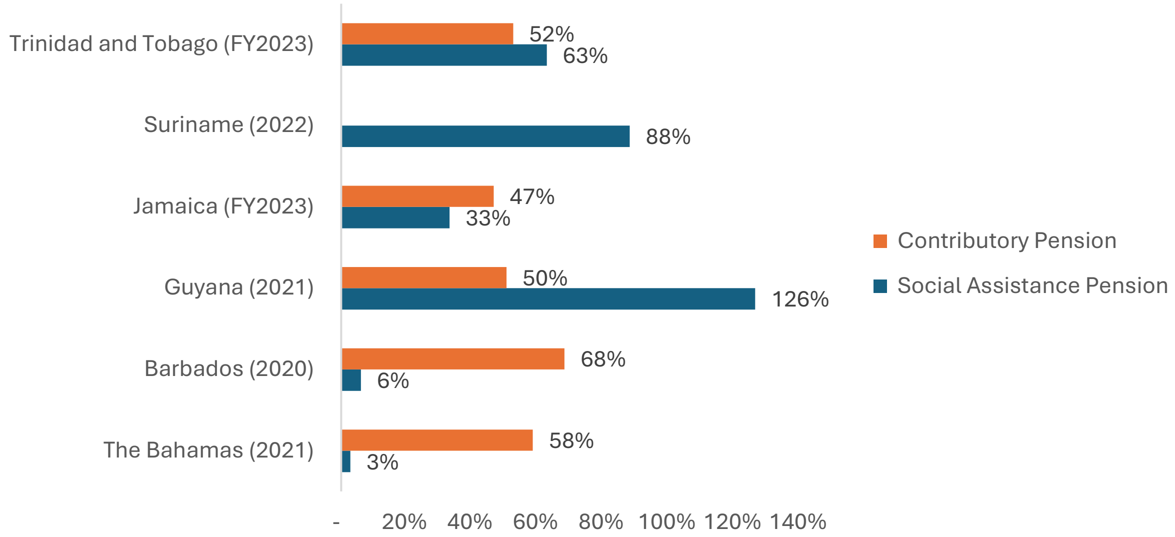
Social assistance and state-sponsored national insurance pensions form the foundation of the system in Caribbean countries. Nevertheless, these are not the only sources of retirement income in the Caribbean. There are also occupational or employer-sponsored pensions provided by employers or industry-specific organizations and public sector pensions for public sector employees. These supplementary pension plans complement state-sponsored retirement income and play a crucial role in ensuring income security, especially since public employment constitutes a significant portion of the workforce. Furthermore, occupational pension plans can accumulate substantial funds. However, for this quarterly discussion, the focus will primarily be on national insurance contributory plans and social assistance non-contributory pensions.

Coverage: Do Most of the Elderly Receive a Pension or Other Income Support?

In the Caribbean, contributory pension coverage, calculated as the percentage of pension-aged residents, is generally high (Figure 5). The exception is Jamaica, which has a large informal sector and recently introduced a non-contributory pension program for those older than 75 without any pension income or who are not residents in a public care facility.[3] Currently, Guyana, Jamaica, and Trinidad and Tobago pay for their non-contributory pensions using the national budget, while Suriname pays for it through a mix of pension fund contributions (collected from formal sector workers) and budget transfers.

[3] See Judith A. Hunter, 2021, "30,000 Persons to Benefit from New Social Pension Programme," Jamaica Information Service (July 11), https://jis.gov.jm/30000-persons-to-benefit-from-new-social-pension-programme/.

Figure 5. Coverage of Pension-age Residents (Percent)



Sources: National Insurance Board of The Bahamas (Annual Report 2021); National Insurance Board of Barbados (17th Actuarial Review); Guyana National Insurance Scheme (2021 Annual Report); Ministry of Labour and Social Security of Jamaica (MLSS Sectoral Presentation 2024; MLSS Annual Report 2022/23); National Statistics Institute of Suriname (Statistical Yearbook, Dec 2023); and National Insurance Office of Trinidad and Tobago (Annual Report 2022/23).
Note: For Jamaica, the Social Assistance Pension is composed of the elderly component of the Programme of Advancement through Health and Education, which is open to applicants between the ages of 60 and 75, while the Social Pension Programme is open to those 75 and older. Note that Suriname is listed as having a social assistance pension, since there are no employment eligibility requirements. However, there are payroll contributions to the program. Coverage is defined as recipients of old-age pension benefits divided by the eligible population by age, and does not include those receiving survivorship benefits. Figures include non-residents. For Barbados, the non-contributory coverage only reflects contributions by the National Insurance and Social Security Service and does not include recipients below 75 years old. The responsibility for the non-contributory pension in Barbados has been gradually transitioned to the national budget. (For more information see the Barbados country section.) Guyana's statutory retirement age is 60, but the social assistance pension is open to those older than 65. To account for early retirees, the percentage of pensioners below the statutory pension age was assumed to be 14.5% for The Bahamas (ILO 2022) and 31% for Trinidad and Tobago (ILO 2018).

Adequacy

In the context of pension systems, adequacy serves two primary purposes. The first is to ensure that the elderly do not fall into poverty during retirement. This may be attained via sufficiently generous social assistance benefits that act as a crucial safety net. Many older adults—in particular those who had been employed in the informal sector—will rely exclusively on this program for their income and sometimes to support dependents as well.

One direct way to measure the achievement of this first adequacy objective is to compare benefit levels with an international poverty line (Table 1). While payment levels in The Bahamas, Barbados, and Guyana exceed the poverty line twice over, programs in Jamaica and Suriname fall significantly below it. In Trinidad and Tobago, the Senior Citizens Program provides a range of benefits that can go above or beyond the poverty line, since the benefit varies depending on existing sources of income of the prospective beneficiary.[4]

Table 1. Social Assistance Pension Benefits in Caribbean Countries, 2023

	The Bahamas	Barbados	Guyana	Jamaica (PATH)[2]	Jamaica (SCP)[2]	Suriname	Trinidad and Tobago
Benefit (LCU, monthly)	287	920	33,000	3,300	6,000	1750	[500-3,500]
Benefit (U.S. dollars, monthly)	287	460	158	21	39	48	[74 - 519]
Benefit (PPP dollars, monthly)[1]	218	307	236	33	60	106	[97-681]
Benefit (percent of GDP per capita)	9.9	24.3	9.2	3.7	6.8	9.4	[5 - 34]
Benefit/International poverty line (%)	106.1	149.6	115.1	16.0	29.0	51.4	[47-331]
Universal or means-tested	Means-tested	Means-tested	Universal	Means-tested	Means-tested	Universal	Means-tested
<u>Memo</u>							
Exchange rate (LCU per U.S. dollar)	1	2	208.5	154.16	154.16	36.78	6.75
Implied PPP conversion rate (LCU per international dollar)	1.12	2.49	115.93	71.32	71.32	2.99	4.43
GDP per capita (LCU, monthly)	2,896	3,779	358,380	88,310	88,310	18,600	10,313

Sources: National Insurance Board of The Bahamas (11th Actuarial Report); National Insurance Board of Barbados (official website); Guyana (2023 Annual Budget); Jamaica Information Service (May 31, 2024); National Statistics Institute of Suriname (Statistical Yearbook, Dec 2023); and Ministry of Social Development and Family Services of Trinidad and Tobago (official website). The GDP per capita and the implied purchasing power parity (PPP) conversion rate (for private consumption) for all countries is from the World Bank database; the exchange rate is from the International Monetary Fund's World Economic Indicators database and calculations by the authors. This table is an update of Schwartz and Zegarra (2021).
Note: Values are based on the social assistance pension schemes (i.e., pensions not tied to prior employment) available in each country. Values are monthly equivalents. Ranges in brackets denote the minimum and maximum monthly benefit in local currency units (LCUs), U.S. dollars, and PPP dollars. All

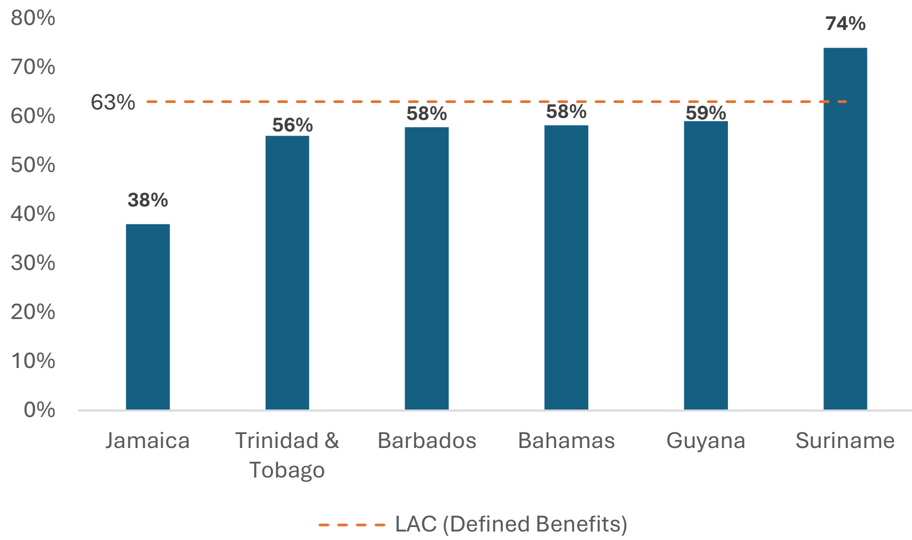
[4] See the Trinidad and Tobago country section of this report for more details.

PPP values are in 2017 terms. The international poverty rate is US$6.85 per day in 2017 PPP terms for upper-middle-income countries.
[1] This row shows how much the benefit is worth in current international dollars. It is estimated by converting the benefit in LCUs in 2023 to the corresponding value in 2017 terms and then dividing by the PPP conversion rate in 2017. According to IMF (2024), PPP relates the variations in the nominal exchange rate between two currencies to variations in the respective countries' price levels.
[2] Jamaica has two social assistance pension programs. The Programme of Advancement through Health and Education (PATH) is open to applicants between the ages of 60 and 75, and the Social Pension Programme (SCP) is open to those 75 and older.

The second purpose of pensions in terms of adequacy is to provide income levels that are a reasonable portion of pre-retirement income. This allows retirees to maintain a standard of living similar to the one they had before retiring. A crucial metric for this objective is the pension "replacement rate," which indicates the percentage of a worker's per-retirement income that a pension program pays out after retirement.

Replacement rates depend on numerous factors. To facilitate comparisons across countries, it is useful to consider standardized cases. An example is a person who earns the average wage of formal sector workers in the country and contributes continuously to the pension system from the time of reaching working age until the minimum retirement age. Based on these assumptions, Altamirano et al. (2023) estimate replacement rates for seven countries from the English-speaking Caribbean (Figure 6), ranging from 38% in Jamaica to 74% in Suriname. These calculations use the parameters in place in 2022.

Figure 6. Replacement Rates for Contributory Pensions Based on Simulations Using 2022 Parameters (Percent)



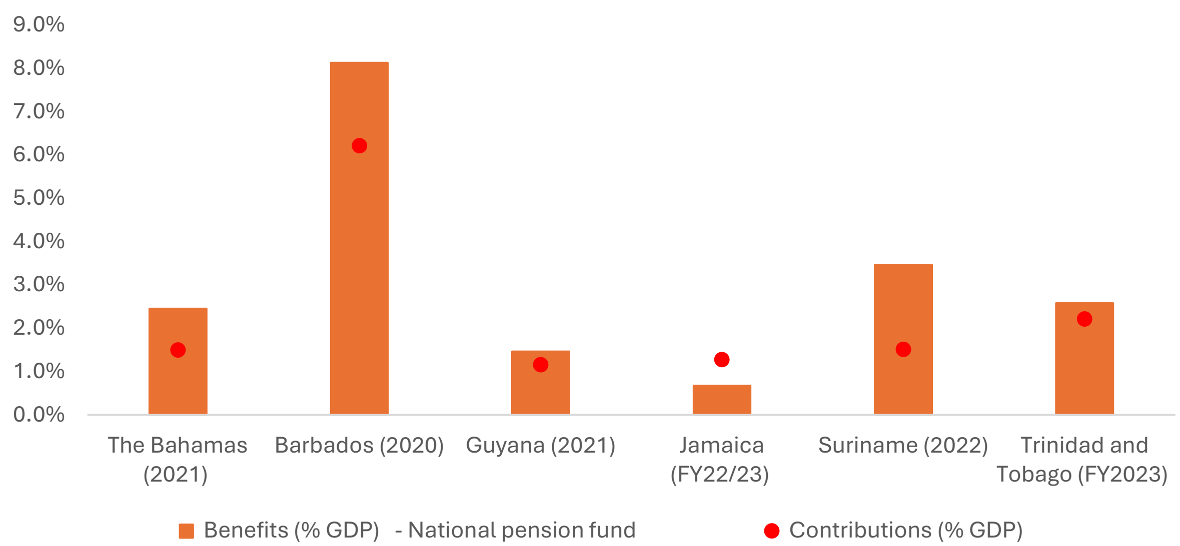
Source: Altamirano et al. (2023).

Sustainability: How to Finance Coverage and Adequacy during the Demographic Transition

Based on the most recent data, most contributory public pension schemes are paying more in benefits than they receive in contributions (Figure 7). Only in Jamaica and Guyana (if one excludes budgetary payments for their non-contributory pensions) do contributions made roughly equal benefits paid. For the rest of the Caribbean, especially Barbados and Suriname, benefits paid by pension funds are larger than contributions to the pension funds. In Guyana and Trinidad and Tobago, much of the benefits are directly paid for by taxpayers through the national budget. Although pension funds are independent of the central government, they are still contingent liabilities—i.e., in the event of bankruptcy (or a liquidity crisis), the government will have to intervene and fill the shortfall.[5]

[5] For example, the national unemployment insurance scheme (Unemployment Benefit Fund) in Barbados became insolvent following the unemployment crisis caused by the COVID-19 pandemic. The government of Barbados was thus compelled to recapitalize the fund. See IMF (2021).

Figure 7. Public Pension Fund Contributions and Benefits, % of GDP



Sources: National Insurance Board of The Bahamas (Annual Report 2021); National Insurance Board of Barbados (17th Actuarial Review); Guyana National Insurance Scheme (2021 Annual Report); Ministry of Labour and Social Security of Jamaica (Annual Report 2022/23); Government of Suriname (Financial Year Plan 2024)and National Insurance Board of Trinidad and Tobago (Annual Report 2022/23).
Note: Benefits and contributions allocated to the countries' respective old-age pension schemes. The exception is Jamaica, where the values correspond to all contributions and benefits from the National Insurance Fund.

Beyond mandatory contributions, pension funds also earn income from investments (both capital gains and earnings from dividends and interest payments). Yet it is also apparent that investment income has not been sufficient to ensure sustainability, as at least four Caribbean public pension schemes are projected to deplete their assets as early as 2028 (and Guyana's pension arm of its national insurance scheme is already running a deficit in its reserves) (Table 2). Furthermore, at least half of the Caribbean countries analyzed here are already running fiscal deficits and are struggling under the weight of their sovereign debt, so adding pension liabilities into this fiscal mix further strains already-stretched budgets. Hence, additional, perhaps difficult, reforms will be needed.

Table 2. Historical Contribution/Benefit Imbalances and Projected Asset Depletion

Country	Year When:	
	Benefit Expenditure First Exceeds Contribution Income	Assets or Pension Reserves Depleted
The Bahamas	2016	2028
Barbados	2017	Between 2034 and 2041
Guyana	2007	Pension reserves depleted since end-2016
Trinidad and Tobago	FY2013	Mid-2030s

Sources: The Bahamas (11th Actuarial Valuation of the NIB); National Insurance Board of Barbados (17th Actuarial Review); National Insurance Scheme of Guyana (Annual Report as of December 31, 2021); Trinidad and Tobago (IMF (2024)).

Challenges and Opportunities for Reform

Despite the relatively high coverage of national insurance schemes, small-island states such as those in the Caribbean face several structural barriers. Arguably the most challenging would be their small population sizes. Population presents a natural limit to how many participants are possible and thus how much pension funds can benefit from economies of scale. For example, Sluchynsky (2015) estimates that a pension plan with 100,000 beneficiaries would see approximately 50% higher administrative costs per beneficiary than a plan with 500,000 beneficiaries.

In addition, small states suffer from volatile economic conditions, narrow employment bases, and resulting incentives for high levels of out-migration. The design of pension systems cannot resolve all these issues. However, these issues do place a premium on building these risk factors into the design of old-age income security systems.

Finally, small states also have small financial markets in terms of the diversity of financial assets that are available. This can limit the investment opportunities for pension funds to earn investment income to enhance the financial prospects for providing future benefits.

Addressing Administrative Efficiency

A higher administrative cost as a share of contribution income implies that less resources are available to pay out benefits. Caribbean pension funds are limited by (dis)economies of scale and, therefore, unfortunately, administrative costs are

particularly high. While scale almost inevitably drives up administrative costs per beneficiary, data show that the degree of administrative efficiency varies substantially across Caribbean countries (Table 3). For example, The Bahamas has the highest proportion of administrative expenditure as a share of contribution income—more than twice the share in Guyana, which is the next highest.

Table 3. Administrative Expenses (Percent)

Country	Administrative Expenditure as a Share of Contribution Income	Year
The Bahamas	24.37	2021
Barbados	5.63	2020
Guyana	9.61	2021
Jamaica	3.94	FY2022/2023
Trinidad and Tobago	5.84	FY2022/2023

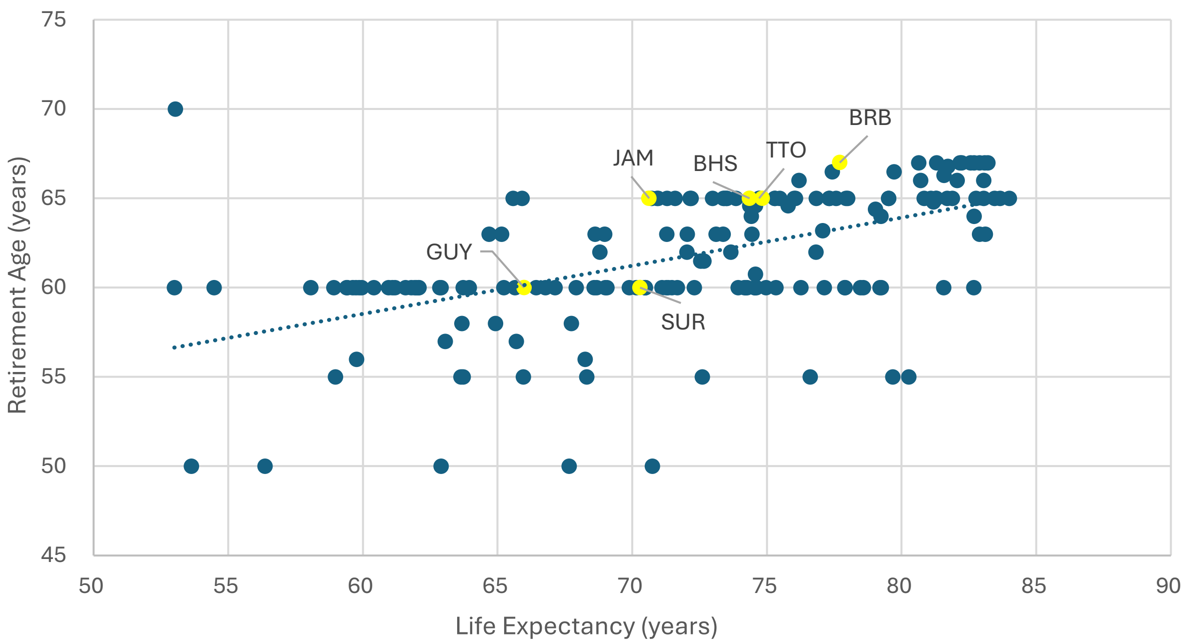
Sources: National Insurance Board of The Bahamas (Annual Report 2021); National Insurance Board of Barbados (17th Actuarial Review); Guyana National Insurance Scheme (2021 Annual Report); Ministry of Labor and Social Security of Jamaica (Annual Report 2022/23); and National Insurance Board of Trinidad and Tobago (Annual Report 2022/23).

Adjusting Eligibility Requirements

One of the most common reforms implemented (and suggested by actuarial reports) is to reduce future payment liabilities by delaying retirement and/or narrowing the pool of eligibility for pensions under national schemes. These reforms can include raising the minimum retirement age or increasing the minimum years of participation to quality for a pension benefit.

The Caribbean has some of the highest statutory retirement age requirements in the world for full pension benefits (Figure 8). On the other hand, Suriname and Guyana have particularly low retirement ages relative to the rest of the world and the region, and thus there is room, especially as Guyana becomes wealthier, to increase its retirement age for full benefits. In any case, the statutory retirement age may need to be raised only gradually to ensure that those close to retirement are not unfairly penalized.

Figure 8. Retirement Age and Life Expectancy in Comparative Perspective, Years



Source: World Bank, World Development Indicators.
Note: Retirement age for male workers, which may differ from that for female workers in some countries.

That said, changing the eligibility requirements can "pass" the liability to social assistance programs for the elderly if newly ineligible elderly persons end up in poverty. Some countries, such as Barbados, already provide social assistance pensions to those without any other pension. One means of reducing social assistance program costs is to means-test those benefits, or as in the case of Trinidad and Tobago, gradually reduce the social assistance payments depending on current income (including other pensions) received by citizens, a form of progressive means testing.

Diversifying Investment Portfolios

Investment income is a key part of any strategy to secure the sustainability of any pension fund. Investment income (and asset value appreciation) can both protect against the erosion of value due to inflation and create buffers for unforeseen liabilities. There are several factors that influence the distribution of investments, including the risk-return profile, broad risk appetite, diversification needs, and regulatory and legislative requirements. Therefore, there is no one-size-fits-all recommendation for a pension fund's investment strategy. Nevertheless, principles of portfolio management

suggest that investments should be diverse, and risk should be proportional to return. Investment strategies should be aligned with the benefits of pensioners, prioritizing strategies that secure retirement income in the long run, as opposed to maximizing wealth in the short run.[6]

For pension funds located in countries with fixed exchange regimes, there are restrictions on the outflow of foreign exchange. The most recent publicly available actuarial reports in both The Bahamas and Barbados, which have capital flow restrictions to support their fixed exchange rate regimes, note that there is room to diversify the portfolios in overseas securities where performance is not correlated with local market conditions and where markets may be far more liquid. Recently, the Central Bank of Barbados authorized the National Insurance Scheme to invest US$40 million abroad, but with the condition that the funds be repatriated within six months of “national economic need” and that authorization be renewed annually.[7]

Improving Pension System Design and Institutional Capacity

As mentioned above, many of the pension systems in the Caribbean will require reforms and other improvements to achieve long-term sustainability. Indeed, countries such as Barbados, Jamaica, and Trinidad and Tobago have recently implemented reforms both to extend the solvency periods of the reserve funds from which pensions are paid and to strengthen the institutional capacity of their national insurance schemes. Unfortunately, however, continued population aging, as well as other economic shocks, will likely make reforms necessary in most or all countries. Even countries that have recently undertaken reforms may find it necessary to implement additional modifications in the future.

The problem goes beyond the traditional pension reforms to strengthen the financial outlook of the reserve funds, such as increasing the retirement age or contribution rate. These parametric reforms are often necessary to achieve long-term sustainability, but may be insufficient if not accompanied by additional institutional measures. If the resources of a reserve fund are invested in a way that generates low returns, even a system that appears to have reasonable parameters may deplete its resources earlier

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[6] Nobel laureate Robert Merton has written extensively on the issue of investment strategy. See Merton (2014).

[7] See National Insurance and Social Security Service, 2023, “NIS Gains New Capacity to Diversify Its Portfolio Internationally,” August 9, https://www.nis.gov.bb/nis-gains-new-capacity-to-diversify-its-portfolio-internationally/

(accessed August 19, 2024).

than expected. In addition, weak enforcement of employers' obligations to contribute or errors in the calculation of pension amounts may further weaken a system that, at first glance, appears to have sufficient contributions to finance the benefits.

For these reasons, the IDB is undertaking a regional research project titled "Social Insurance in the Caribbean: The Time Has Come."[8] The project will offer new information both on the types of reforms the countries might consider in the future and guidance regarding the types of institutional strengthening (including digital transformation) that promise to ensure that the region's national insurance schemes continue providing the protection people require in their retirement years, in spite of the many challenges described here.

Conclusions

Many national insurance schemes in the world, including those in the Caribbean, began their operations under circumstances that are very different from today. Their financial viability was easier to maintain because there were many workers contributing for each retired individual. As outlined above, Caribbean old-age security programs continue to achieve varying degrees of success in ensuring reasonable retirement incomes for some of the elderly, and in reducing the risk of poverty for many elderly citizens across the region. That said, demographic forces are now at play, and without decisive action, national insurance schemes face an existential threat.

Reforms are already under way in several countries. Data analysis and cross-country experience can be invaluable to enrich the policy discussion. The ultimate challenge will be to guarantee incomes for those currently retired in a way that is fair to the younger generations that, in the short term, will have to fund the national insurance schemes, and who eventually will become pensioners themselves.

[8] For more information, see IDB, 2021, "Social Insurance in the Caribbean: The Time Has Come," https://www.iadb.org/en/project/RG-T4030 (accessed August 19, 2024).

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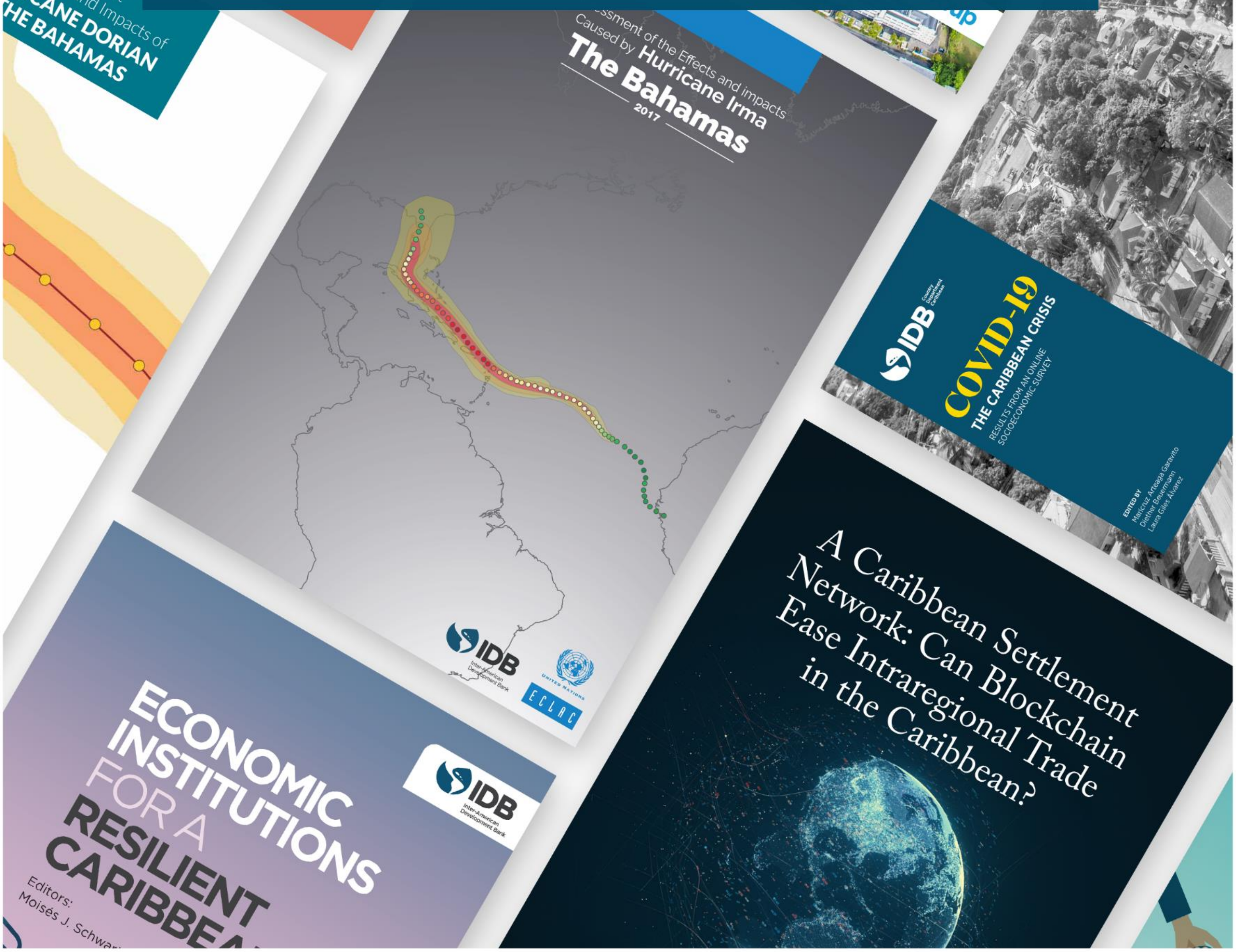


COUNTRY SUMMARIES

The Bahamas

Jose Luis Saboin and Angelo Mazzocca

Support ratios in The Bahamas have traditionally been below representative Latin American and Caribbean peers. However, the rate of decline in The Bahamas is the slowest among those countries. This Bahamian paradigm is explained by the fact that, despite having declining birth rates and rising life expectancy in recent years (which are common to the region), The Bahamas has positive migration rates (contrary to its peers). This has reduced the urgency to make abrupt adjustments to the Bahamian pension system. Pension coverage is high and the social security system is robust, expressed by its steady transition toward a contributory system over the last two decades. Adequacy is appropriate according to different standards and, although sustainability is compromised in the medium term by potential asset depletion and high pension liabilities, the government has moved swiftly to address these vulnerabilities through two key measures: (i) increasing contribution rates in the private system; and (ii) drafting and discussing legislation to shift the current non-contributory public scheme to a contributory one. In the midst of the global (and local) demographic transition, this country section briefly discusses some additional challenges and opportunities for pension system reform in The Bahamas.

Brief Description of the Current Bahamian Pension System

The two pension benefit schemes in The Bahamas—the private sector and civil servant systems—are briefly explained below.

Private Sector Retirement Pensions: The National Insurance Board

- *Benefits*

The National Insurance Board (NIB) is mandated to cover all dependent employees and the self-employed.[9] Benefits are determined by total accrual multiplied by the

[9] Although NIB coverage is mandatory, data from the 2019 and 2023 labor force surveys indicate that labor force participation rates are around 76%, and that around 7% of total employment is considered

reference wage. Accrual ranges from 30% for the first 500 weeks and 1% thereafter for each 50 weeks up to a maximum accrual of 60%. The reference wage consists of the average of the best five years of covered earnings. If someone complies with the minimum of 500 weeks of contributions, there is a minimum pension benefit of about 12% of the average wage (IMF 2022). Those with 500 or more weeks of contributions are eligible for a pension benefit, while anyone with less than 150 weeks is only eligible for a social pension. The statutory retirement age for the private sector is 65.

- *Contributions*

Contribution rates were increased for the second time since 1974 on July 1, 2024 to 4.65% (from 3.9%) for the employee and 6.65% (from 5.9%) for the employer, with a contribution ceiling of about BSD 42,000 per year (around 120% of the average wage). There are only 2% employer contributions for people earning less than half the ceiling, and the self-employed pay 10.3% (from 8.8%). The ceiling has been indexed to inflation since 2013. There are similar schemes adapted to people with disabilities and survivors.

Public Sector (Civil Servants)

- *Benefits*

Benefits are determined as the final salary multiplied by the number of (continuous) months worked as a civil servant, divided by 720. This is equivalent to an annual accrual rate of 1.67%, with a cap of 67% of the final salary. Pensions are not regularly indexed but are increased on an ad hoc basis.

- *Contributions*

Pension benefits for civil servants are financed by the national budget.

- *Social pension*

People above the age of 65 who do not receive a pension are eligible for a social pension. The benefits amount to around 10% of the average wage per year (IMF 2022).

"vulnerable" (e.g., informal and with inadequate earnings). These factors have a potential impact on the pension system.

Demographic Trends

Support Ratios

There is a declining trend in support ratios across Latin America and the Caribbean. Over the last 20 years, average support ratio values for the region have dropped from 10.8 in 2003 to 7.1 in 2023 (Figure 1). While the median country in the Caribbean performs better than the median country in the Latin America and Caribbean region overall, there has been a sharp decline in the Caribbean from 11.7 in 2003 to 8.7 in 2023. The Bahamas is below its Latin American and Caribbean peers, with a support ratio of 6.1 in 2023 (-1 vs. Latin America and the Caribbean, and -2.5 vs. the Caribbean alone), a decline from 8.9 in 2003. This means that although the values of The Bahamas are lower than those of representative peers in Latin America and the Caribbean and in the Caribbean alone, its rate of decline is the slowest among those countries. This Bahamian paradigm can be traced to lower birth rates, net positive migration rates, and higher life expectancy rates than its peers.

- *Fertility Rates*

Fertility rates are one of the key variables involved in the demographic transition. There has been a general decline in the region, with a reduction of 0.62 live births per woman in Latin America and the Caribbean, and a reduction in the Caribbean alone of 0.54 (Figure 2). The Bahamas has a different trend, as it saw an increase in the fertility rate from 1.97 live births per woman in 2003 to 2.01 in 2009. Since that period, which coincided with the global financial crisis, the rate has consistently fallen, with a sharp decline in the 2014–2017 period, reaching 1.37 in 2023 (a 0.6 decline in the 20-year span).

- *Net Migration*

The Bahamas has performed better than its counterparts in terms of net migration rates, with positive net migration rate of 2.8 per 1,000 population in 2003, while Latin America and the Caribbean (-2.0) and the Caribbean alone (-2.6) were in negative territory (Figure 3). While the region has suffered from being a net emigration generator, there is an improving trend toward balanced migration from Latin America and the Caribbean (+1.4 from 2003 to 2023) and the Caribbean (+1.0 from 2003 to 2023), which can be explained to a great extent by the increasing immigration that numerous countries of the region have experienced as a consequence of the Venezuelan exodus (IDB 2021). For The Bahamas, the tendency is different, as there was an increase in immigration until 2010, reaching 5.2 (from 2.8 in 2003), but since then rate has stabilized around 2.5 (the value for 2023).

- *Life Expectancy*

While the median Latin American and Caribbean country has had a consistent increase in life expectancy (71.8 years in 2003 vs. 75.7 years in 2023), The Bahamas has essentially stalled, from 73.2 years in 2003 to 74.4 years in 2023 (Figure 4). In the case of the median Caribbean country, there was a substantial increase in life expectancy from 69.5 years in 2003 (well below the regional average) to 72.3 years by 2020 (an increase of almost three years in less than 20 years). Post-COVID-19, average Caribbean life expectancy reached 73.5 years in 2023. Still, The Bahamas is currently overperforming the region.

Figure 1. Potential Support Ratio, 2003–2023
(Population 15-64 years/population 65 and older)

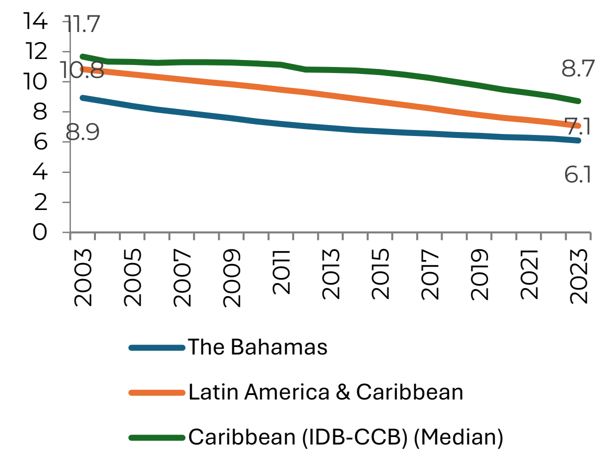


Figure 2. Total Fertility Rate, 2003–2023
(Live births per woman)

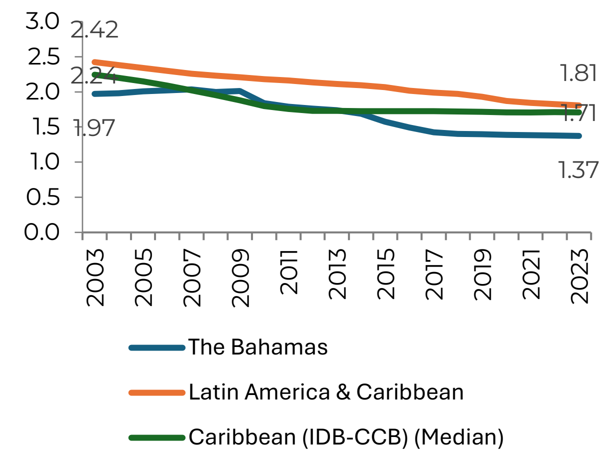


Figure 3. Net Migration Rate, 2003–2023
(Migrants per 1,000 population)

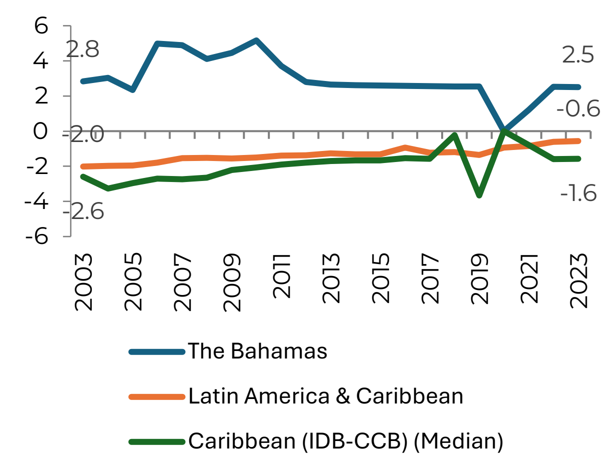
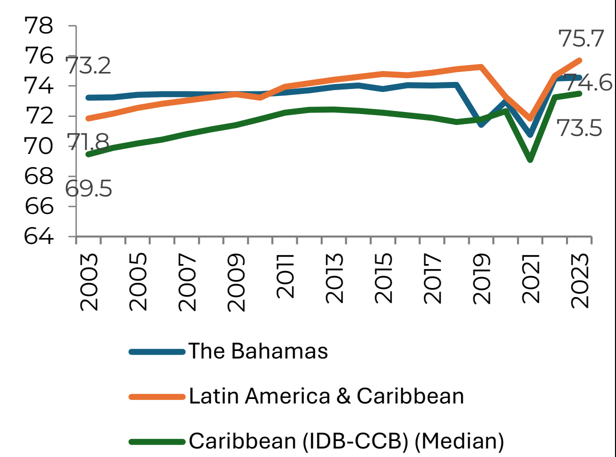


Figure 4. Life Expectancy, 2003–2023
(Years)

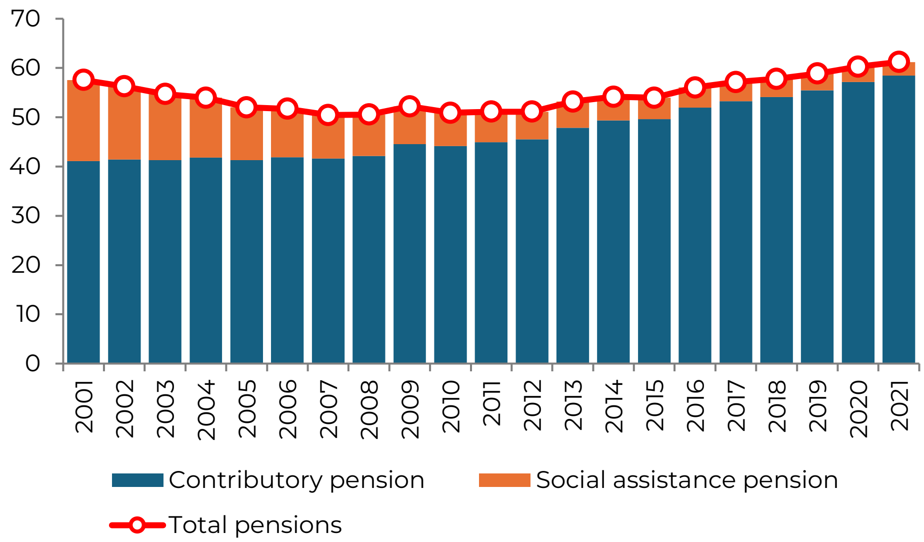


Source: United Nations Department of Economic and Social Affairs, Population Division, World Population Prospects 2024 (https://population.un.org/wpp/)
.Note: IDB-CCB refers to the six member countries of the IDB's Caribbean Country Department: The Bahamas, Barbados, Guyana, Jamaica, Suriname, and Trinidad and Tobago.

Coverage

The social security coverage ratio for the elderly population in The Bahamas has shown improving dynamics over the last two decades. Total pensions accredited (contributory plus social assistance) reached 57.6% of the population over 65 years of age in 2001; this figure rose to 61.2% in 2021, the last year for which data are available (Figure 5). During the same period, contributory pension coverage showed a sharp increasing trend, going from 41.1% in 2001 to 58.4% in 2021, while the percentage of social assistance pension coverage showed the opposite, going from 16.4% to 2.8% over the same period. These underlying trends indicate an increasing degree of robustness of the social security system in The Bahamas, transitioning from non-contributory pensions, which depend on tax revenues, to contributory pensions, which depend on workers' contributions.

Figure 5. The Bahamas: Coverage of Pension-age Residents, 2001–2021 (Percent of population at early age of retirement and older)

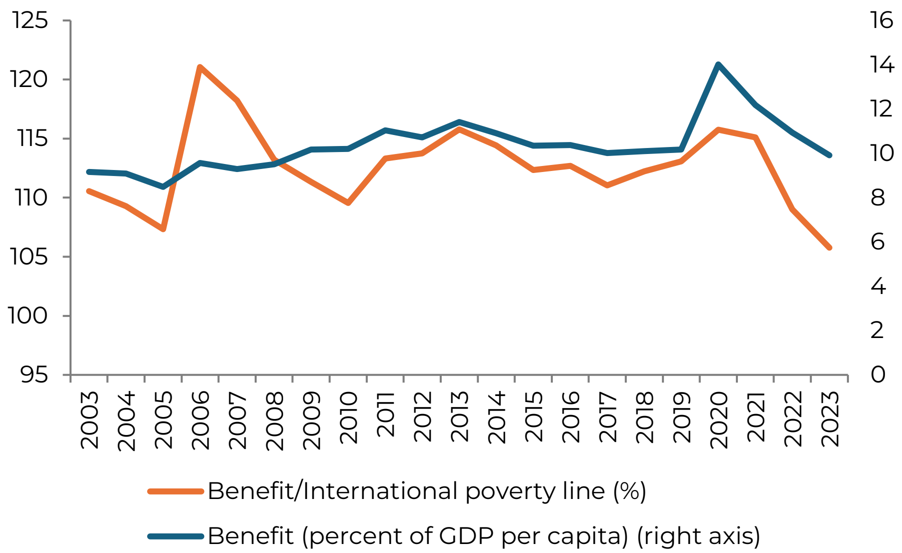


Source: United Nations Department of Economic and Social Affairs, Population Division, World Population Prospects 2024 (https://population.un.org/wpp/).
Note: From 2001 until 2021, it was assumed that 14.5% of contributory pension recipients were early retirees (60-64 years old), and this assumption is based on actual figures in 2018 (NIB 2022).

Adequacy

In terms of adequacy, the monthly benefits of social assistance pensions have consistently remained above the purchasing power parity (PPP) poverty line of US$6.85 per day, as defined by the World Bank, which amounts to PPP US$205.50 monthly. Since 2003, monthly benefits in terms of 2017 PPP dollars have increased modestly from around 110.5% of the poverty line to around 115.1% in 2021, suffering a sharp decline the last couple of years to 105.8% in 2023 (Figure 6). In terms of the share of benefits with respect to monthly GDP per capita, the trend is modestly upward, reaching 9.9% in 2023 (vs. 9.2% in 2003).

Figure 6. The Bahamas: National Insurance Fund Contributions and Benefits, 2003–2023 (Percent)



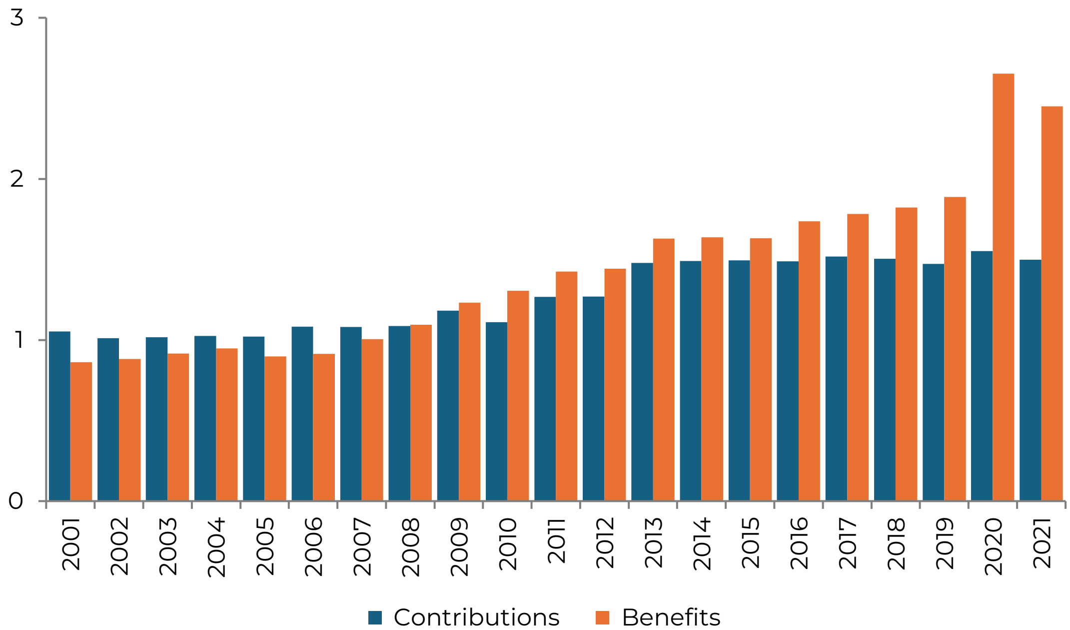
Sources: IMF (2024); and National Insurance Board Actuarial Reports.

As discussed in the Regional Overview, using the average wage of a formal sector worker who contributes continuously to the pension system from the time of reaching working age until the minimum retirement age, replacement rates in The Bahamas are around 58%, which approximates the Caribbean median.

Sustainability

Even though the expected transition to a contributory system for civil servants reduces the inherent pressure of a pay-as-you-go system on the fiscal accounts, NIB performance over the years shows a different paradigm. In 2001, contributions totaled 1.05% of GDP while disbursed benefits were 0.86% (Figure 7). Until 2007, contributions surpassed benefits. An inflection point started in 2008 (in concert with the global financial crisis) and, since then, benefits have exceeded contributions. The change has resulted in a widening gap over the years from 0.10% of GDP in 2009 to 0.15% of GDP in 2014 and to 0.40% of GDP in 2019. In response to the COVID-19 pandemic, as expected, the gap increased further, reaching around 1% of GDP in 2020 and 2021.

Figure 7. The Bahamas: National Insurance Board Contributions and Benefits, 2001–2021 (Percent of GDP)



Sources: IMF (2024); and National Insurance Board Actuarial Reports.

Although the gap seems manageable, it poses an alert about the (lack of) sustainability of the NIB and signals the urgency to adjust the scheme. This is relevant, considering not only that its sustainability will be further constrained by the

compromising demographic trends shown earlier in this country section, but also by the challenges inherent to the system characteristics. Challenges facing the NIB system include the following:

- High accrual rates and short reference wage periods, which imply structurally high replacement rates and therefore high benefits vis-à-vis contributions.
- In line with the above, contribution rates do not support the high replacement rates. This has led to important shortfalls (as highlighted by the 11th Actuarial Review, which states that, ceteris paribus, NIB funds will be depleted by 2028) (ILO 2022). It also prompted the recent increase in contribution rates, which has reduced the need for budgetary transfers to make up for the difference.
- The difference among contribution rates affects the equity of the system and generates undesired incentives. For instance, the 2% contribution rate for wages under half the ceiling might lead firms to set wages just below that threshold.
- The linkage of the contribution ceiling to inflation (rather than to wage growth) implies that effective contribution rates will decrease in the future. While this has been mitigated by the recent increase in the contribution rate, it is important that considerations be made to incorporate wage growth prospects into contribution ceiling adjustments.

Challenges facing the civil servant system include the following:

- The non-contributory nature of this scheme implies that its benefits are financed in a non-equitable way (since they come from the general taxpayer). Therefore, introducing civil servant contributions will not only reduce the pressure on the fiscal accounts but will also increase the equity of the system.
- The difference between the private sector retirement age (65) and the civil servant retirement age (55) is not linked to the life expectancy gains achieved in (and expected for) The Bahamas. Moreover, there are no incentives to retire later, since there is no bonus for late retirement and accruals are capped after 30 years of service. The difference between the private sector retirement age and higher replacement rates in the public sector (67% of the last salary) also create incentives to work in the latter in detriment to the former.

Opportunities for Reform

In The Bahamas, the rate of decline in current support ratios still favors gradual implementation of reforms rather than abrupt adjustments. Having said that, timely action is still important. In this regard, Bahamian authorities have made considerable efforts to achieve sustainability of the system in the near term. In particular, two key reforms are under way: (i) the increase in NIB contribution rates, and (ii) the transformation of the civil servant scheme from a pay-as-you-go to a contributory one.

Regarding the increase in NIB contribution rates, according to its last actuarial review, achieving sustainability of the NIB would require that contribution rates continue increasing in the coming years. The proposed schedule for rate increases is 1.5% every two years over the next 20 years.

Regarding the transformation of the civil servant scheme, yearly funding is forecast to grow from BSD 173 million this fiscal year to BSD 219 million by 2030 (equivalent to BSD 3.5 billion in liabilities).[10] The government finished the consultation process of the Pension Bill on April 1, 2024. The draft bill states that a contributory pension scheme called the Public Service Contributory Pensions Fund will be created. Its beneficiaries will include all new civil service hires, while all existing public officials who have held pensionable positions for less than eight years will be transferred to it. Those in pensionable positions for more than eight years can voluntarily choose whether to join it or retain their current arrangements.

The mandatory contribution rate has been proposed at 3% of a plan member's monthly salary, with the government making a matching 3% payment. Civil servants can also choose to raise the contribution rate to a maximum 10%, although this will not be matched by the government. The Public Service Contributory Pensions Fund will be overseen by a board, which will appoint an independent investment manager, fund administrator, and custodian to manage and safeguard pension plan assets. Membership will include employees at state-owned enterprises, and what are described as "Approved Authorities" in the bill will also participate in the scheme.

Both ongoing reforms are putting the pension system on the right track toward sustainability. Other opportunities for reform include the following:

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[10] See Neil Hartnell, 2024, "Pension Shakeup Over $3.5bn Hole," *The Tribune,* April 5, https://www.tribune242.com/news/2024/apr/05/pension-shake-over-35bn-hole/.

- Address administrative efficiency: As discussed in the Regional Overview, higher administrative costs imply fewer resources available to pay out benefits. The Bahamas has the highest proportion of administrative expenditure as a share of contribution income at 24.37% (double the share in Guyana, which is the next highest).
- Adjust eligibility requirements: As mentioned above, the system can benefit from adapting to the life expectancy gains achieved in (and expected for) The Bahamas.
- Expand the reference wage to the full career: This will make the system more equitable, link contributions to benefits, and contain system costs.
- Revise accrual rates for both systems: This could be done by moving to a constant rather than concave accrual schedule that does not incentivize long careers. The fiscal gains from this change will be realized more gradually (IMF 2022).
- Link the contribution ceiling to wage growth (perhaps in combination with inflation).
- Diversify investment portfolios: The 11th Actuarial Report for The Bahamas noted that there is room to diversify portfolios beyond just in overseas securities (ILO 2022). Other government authorities have encouraged the idea of diversifying locally from government securities to investing in other viable projects inside the country.[11]

[11] See Chester Robards, 2024, "Govt, SCB Both Exploring Contributory Pension Scheme," *The Nassau Guardian,* March 18, https://www.thenassauguardian.com/business/govt-scb-both-exploring-contributory-pension-scheme/article_2174aefc-e494-11ee-91a9-ab3cdea327e4.html

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Barbados

Cloe Ortiz de Mendivil

Introduction

The National Insurance Scheme (NIS) of Barbados began operations in 1967 as a partially funded system. The NIS manages the social security system, including the pension system, and provides long- and short-term benefits to employed and self-employed individuals through three funds: the National Insurance Fund, the Unemployment Fund, and the Severance Fund.[12] As life expectancy has increased and birth rates have declined, the sustainability of the system has been threatened. To strengthen the NIS, a pension reform passed in 2023 introduced modifications to the age of regular and early retirement, as well as the minimum number of contributions requirement. It also eased requirements for participation of self-employed workers. In addition, the NIS has become a statutory corporation and changed its name to the National Insurance and Social Security System (NISSS), gaining more independence and improving its governance structure.

Demographics

Barbados is undergoing a demographic shift that brings challenges to the sustainability of the pension system. Life expectancy has been steadily rising and at 77.8 years is the second highest in the Caribbean after Antigua and Barbuda, and Barbados' birth rate has fallen sharply.[13] In 2000, persons 65 and over represented 13% of the population, while in 2021 their share increased to 19% (Figure 1). Women tend to live longer and on average receive smaller pensions due in part to lower participation in the labor force, and in part to lower wages. Over the same period, children under 15 years old went from representing 20% to 16% of the population, thus putting further pressure on the sustainability of the pension system, as the size of the labor force will further shrink. The total population of Barbados peaked in 2012 at 277,700 inhabitants and has been shrinking since then. It is currently estimated at 267,800.

Labor force participation has declined in recent years from 66.5% in 2016 to 62.5% in 2023 (Figure 2). Workers are exiting the labor force (and living longer) at a faster pace than incomers joining. The retired population increased from 16.7% of the adult

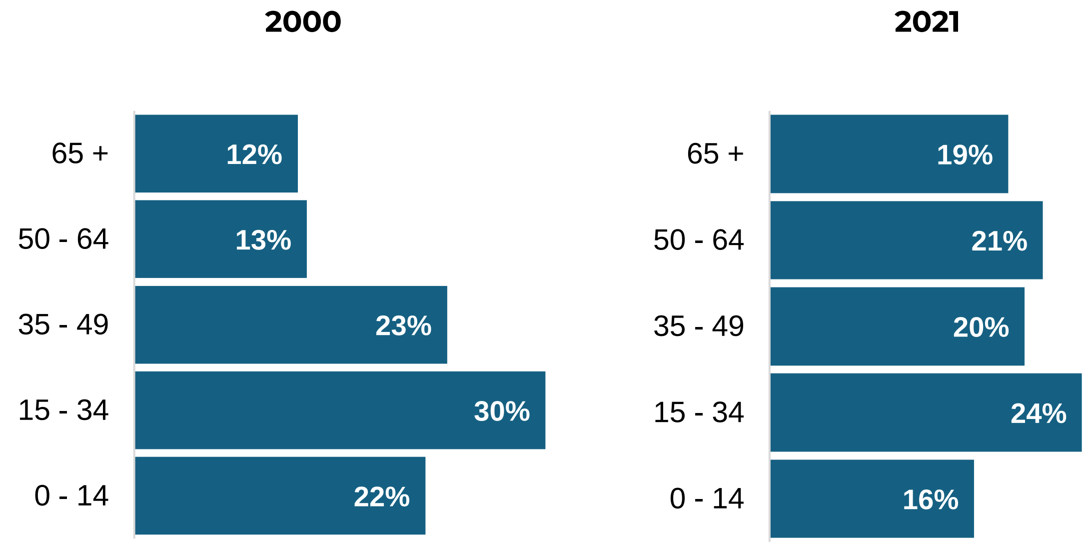
[12] The pension system accounts for 80% of the NISSS benefit expenditure.

[13] Data are from the World Bank's World Development Indicators. The birth rate per 1,000 population was 22.1 in 1967, when the NIS was created, 14 in 2020, and 8.5 in 2023.

population in 2016 to 22.4% in 2023. Large differences exist between men and women. Among the adult population, 25.1% of women are retired compared to 19.5% of men. In addition, women tend to stay at home and remain full-time caregivers more frequently than men. Women staying out of the labor force for that reason represented 6.5% of the adult population in 2023, compared to 1.8% of men.

Another factor than has an effect on the demographic profile of a country is net migration. In Barbados, estimates point to negative net migration of between 750 and 1,000 individuals in 2020, heavily concentrated within the 20-39 age group and thus reducing the pool of potential contributors to the NISSS. The negative trend is expected to continue during the rest of the decade, though some project it could revert to positive.[14] Ideally, net migration should be positive and consist mainly of working-age individuals who contribute to the economy and to the NISSS.

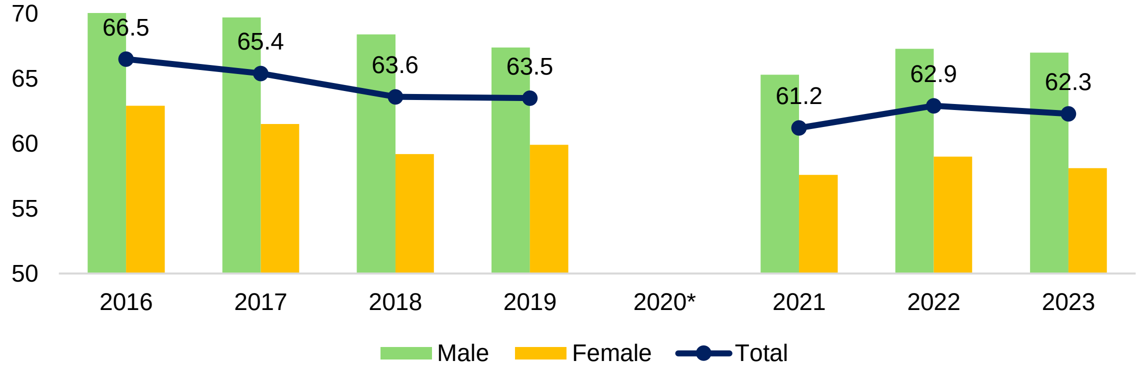
Figure 1. Barbados: Population by Age Group, 2000 and 2021 (Percent)



Source: Barbados Statistical Service.

[14] According to projections included in NIS (2022).

Figure 2. Barbados: Labor Force Participation, 2016–2023 (Percent)



Source: Barbados Statistical Service.
* Data is not complete for 2020. Due to the COVID-19 pandemic, the Labor Force Survey was not conducted in the first two quarters of that year.

Coverage[15]

Coverage analyzes both the proportion of workers who participate in a pension scheme and how well workers are insured for income security in old age. The NISSS provides coverage to a large share of the working population. Although participation is mandatory for all employed and self-employed individuals, it is estimated that between 85% and 90% of employed persons make at least one contribution to the NISSS each year, but less than 20% of the self-employed contribute. This is particularly worrisome because the self-employed as a share of all employed individuals has been rising in recent years. While in 2015 self-employed persons accounted for 15.5% of the total, in 2023 they represented 18.1%. The informal sector is sizable and is estimated to account for 30% of the employed population.

Well above half of the elderly population receive pension payments: 72% of males and 62% of females age 65 and over (Figure 3). The difference can be explained by women's lower participation in the labor force. Survivor benefits tend to benefit more women than men given women's longer life expectancy and also because the survivor pension elapses once the beneficiary is entitled to a larger pension in his/her own right.[16] Citizens and permanent residents who do not qualify for a contributory pension

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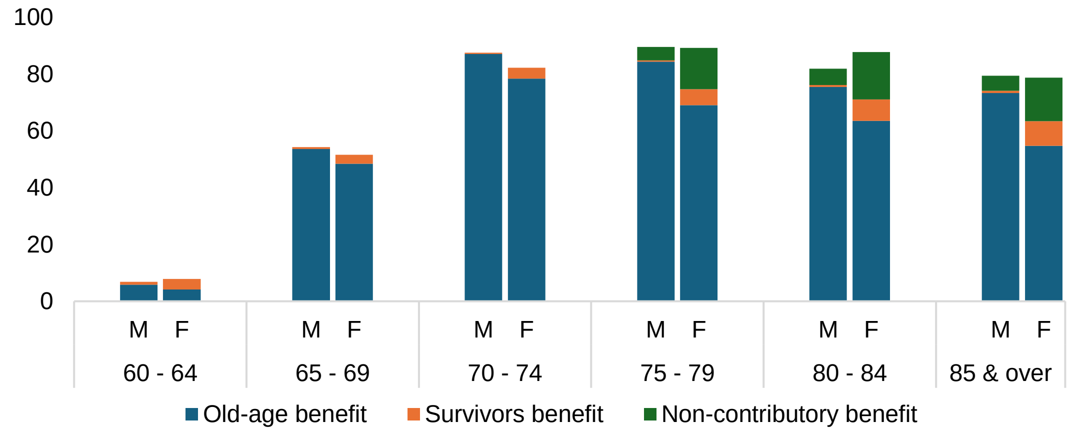
[15] Data are from NIS (2022, 2023) and the NISSS webpage.

[16] Average monthly pension payments are higher for males than for females. As of December 2020, those amounts were BDS$1,438 for men and BDS$1,265 for women.

are entitled to a non-contributory old-age pension if they fulfill certain conditions.[17] The responsibility of such payments has transitioned from the NISSS to the government of Barbados. Currently, only 6% of females and 2% of males age 65 and over receive a non-contributory pension paid by the NISSS. New pension awards average between 80 and 100 approvals annually, but approval is not automatic, as around 50% of the applications are rejected.

Figure 3. Barbados: Share of the Population Receiving Long-term Benefits by Age Group, 2020 (Percent)



Source: Author's calculations based on data from the National Insurance and Social Security System and the Barbados Statistical Service.
Note: The retirement age in 2020 was 67, and early retirement started at 60. Under the 2023 pension reform, the retirement age will reach 68 in 2034, and the minimum age to obtain early retirement will be set at 63 by 2031.

Adequacy

Pensions can be deemed adequate if they are, at a minimum, sufficient to prevent old-age poverty, and in the best of situations, sufficient to secure a standard of living similar to that experienced when people were employed. The minimum contributory pension is currently set at BDS$254 weekly, and 40% of pensioners in this category receive the minimum. The amount is equivalent to 1.65 times the international poverty

[17] The conditions include not receiving any other type of pensions, residing in Barbados regularly, and fulfilling a certain number of years of residency. A person does not qualify for a non-contributory old-age pension if he/she was gainfully employed and failed or refused to be insured under the NISSS.

line. In 2020, the minimum pension was 36% of the average insurable wage.[18] In 2020, the average monthly pension benefit was 2.6 times the poverty line in the case of males and 2.3 times for females.[19] Pensions are adjusted annually to maintain purchasing power. A person who consistently contributes to the NISSS below the earnings limit for the duration of his/her career can expect to receive a pension of 60% his/her earnings.

Although the NISSS is no longer responsible for newly awarded non-contributory old-age pensions, the government grants this benefit to qualifying individuals, thus providing support to seniors otherwise vulnerable. The pension is currently set at BDS$230 per week, which represents 1.5 of the international poverty line.

Sustainability

One of the main challenges the NISSS faces is the sustainability of its three aforementioned funds: the National Insurance Fund (NIF), the Unemployment Fund, and the Severance Fund. The system was designed with a demographic reality significantly different from what the country currently faces. Longer life expectancy and a decrease in the work force translate into added pressure for the funds. For example, the number of contributors to the NIF per pensioner decreased from 2.8 in 2014 to 2.2 in 2020, and the ratio is expected to continue falling. In addition, sustainability is tied to economic performance. Growth in Barbados has been sluggish in recent decades. Between 2000 and 2019, real GDP grew by a yearly average of 0.4%.

In recent years, the NISSS has been hit by two shocks. First, Barbados underwent a debt restructuring in 2018, when public debt reached 158% of GDP. At that time, three-quarters of the NIF was invested in government and state-owned enterprise securities. The debt exchange resulted in a loss of around 15% of the fund's assets.

Two years later, the COVID-19 pandemic shock severely affected Barbados and therefore the NISSS. All funds saw reduced contributions given the sharp decline in economic activity, but the Unemployment Fund was the most severely affected, since in 2020 benefit payouts tripled compared to the prior year.

[18] Replacement rates for individuals receiving pensions above the minimum varied between 24% and 60% of their average insurable earnings.

[19] The average monthly old-age pension as of December 2020 was BDS$1,438 for men and BDS$1,265 for women. Note that these figures only include pensions paid by the NIS. Government employees participate in the NIS and also in a noncontributory public service pension, and private pensions also exist.

The 17th Actuarial Review of the NIS, which takes into consideration data up to December 2020, revealed that total expenditure of the NIF is expected to exceed total income each year, depleting fund assets between 2034 and 2041 (depending on the scenarios considered) (NIB 2022). At that point, the pay-as-you-go rate would have to rise to between 27% and 34% from the current 18% rate. The review also considers scenarios with higher net migration, which will result in the depletion of funds a few years later and pay-as-you-go rates being lower. Therefore, policies to attract working-age individuals from overseas, either foreigners or returning nationals who contribute to the NIF, have the potential to enhance the fund's sustainability.

Reform

Following ample public consultations, the pension system was reformed in 2023 for the first time since 2004 to strengthen it and improve its sustainability. Overall, the reform is expected to revitalize the NIF and ensure that needs are being met for the next 25 to 30 years.

Under the new system, the pensionable age increases from 67 to 67.5 in 2028 and 68 in 2034. Eligibility for a reduced pension increases from 60 to 61 years old by 2025, then to 62 in 2028 and finally to 63 in 2031. Minimum contributions rise from 500 to 750 weeks (approximately 15 years), and wages used for the calculation of the benefit move from the highest five-year period to the highest 10-year period. The formula for future old-age contributory pensions will gradually be adjusted and result in average new pensions being 7% smaller. Given the low participation of self-employed workers, the reform also aims to simplify the process to boost enrollment and contributions from this group.

Notably, the NISSS has transitioned to become a commercial state-owned enterprise with increased independence and an improved governance structure, as its past hybrid structure meant that some functions were split between the Ministry of the Public Sector and the NIS board. The reformed board will be empowered to design and implement its own funding strategy and will be able to invest, borrow, and guarantee loans.

Finally, the contribution rate remains unchanged. Contributions to the NIF are 18.25% for employed workers (8.75% paid by the employee and 9.5% by the employer) and 15.5% for self-employed workers.

Conclusions

Sound pension systems are a fundamental element to ensure a minimum level of living standards in the last stage of life. Barbadian society is aging, and it is expected to continue to do so in the medium and long term. As a result, the pension system managed by the NISSS has needed adjustments. The pension reform recently passed is a step in the right direction that will prolong the sustainability of the National Insurance Fund without compromising the well-being of pensioners. Efforts to ease the participation of the self-employed are particularly welcome given their current low enrollment rate. In addition, policies to attract migrants who contribute to the economy and to the NIF will have a positive effect on the sustainability of the system. Finally, the population should be encouraged to plan early in life for retirement and not rely solely on the NISSS. Private pension plans are a good complement. However, the regulatory framework should be conducive to participation in approved pensions plans, since the current issue of double taxation is a deterrent.[20]

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[20] There are no tax deductions for contributions made to approved pension plans, and the personal income tax allowance for pensioners is set at BDS$45,000, equivalent to US$22,500. Any pension exceeding such threshold incurs income tax and therefore is taxed twice.

Guyana

Victor Gauto and Lisa Hussain

Introduction

Guyana's contributory pension system is the National Insurance Scheme (NIS), which extends social insurance coverage for employed people between the ages of 16 and 60. Similarly, Guyana has a universal non-contributory pension for Guyanese citizens over the age of 65, known as old-age pension. As the elderly population grows, the need for a robust and responsive pension system becomes increasingly critical. This country section will dissect the complexities of Guyana's pension landscape, examining multifaceted challenges ranging from demographic shifts to fiscal constraints, and review reforms that have been proposed that could fortify the system in the future.

Demographics

Guyana's population saw significant changes between 2003 and 2023 based on the composition of age groups. This variation is fundamental for the analysis of pension systems, because it sheds light on how the size of the population contributing to a pension system varies in relation to the potential retired or beneficiary population. In short it approximates the relationship between pension system potential contributions and expenditure, affecting the sustainability of the benefits provided by the pension system. Figures 1 and 2 present the share of the population by main age group and gender in 2003 and 2023.

Figure 1. Guyana: Population Pyramid, by Gender in 2003

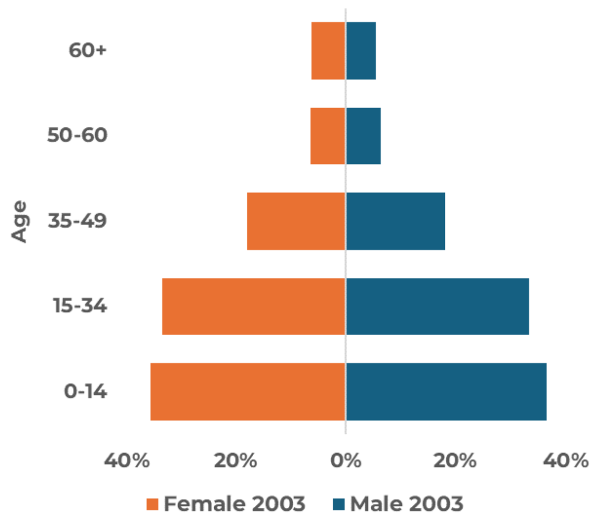
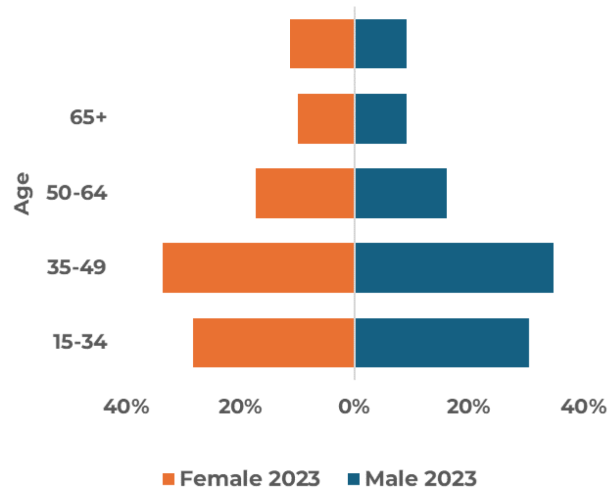


Figure 2. Guyana: Population Pyramid, by Gender in 2023



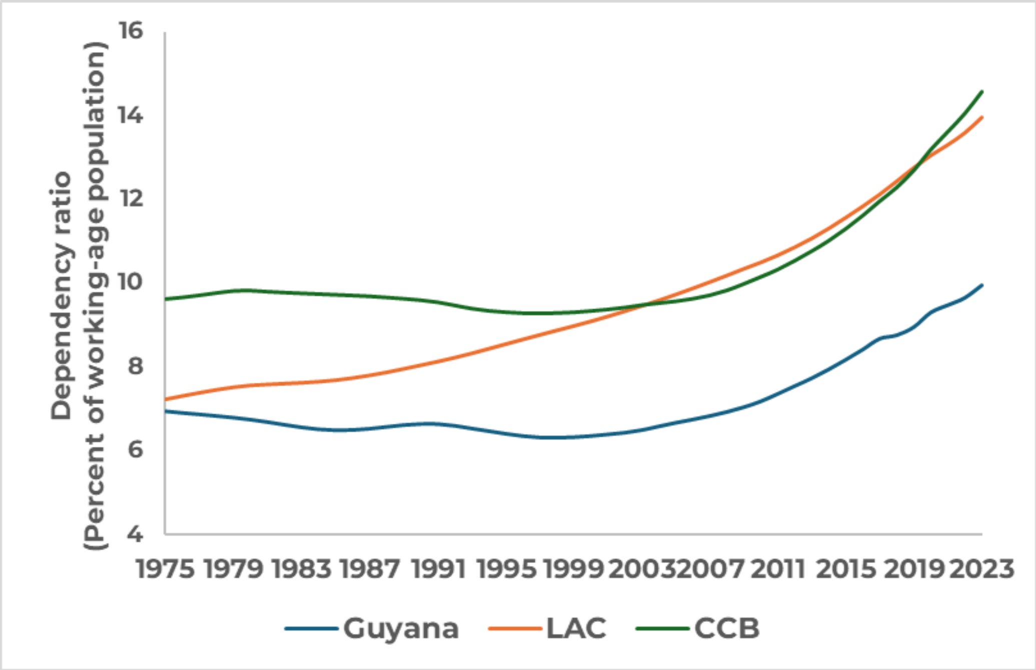
Source: United Nations Department of Economic and Social Affairs, Population Division, World Population Prospects 2024 (https://population.un.org/wpp/).

In 2003, persons below the age of 14 represented 36% of the total population of Guyana, a share that declined to 29% in 2023. The total population of this age group declined by 12% over the same period, suggesting there were fewer births per woman on average more recently. The share of the working-age population (15-64), increased from 60% to 64%, while the share of those over the age of 65 increased from 4% to 6.5%. What is even more relevant is that the population over the age of 60, which is the official retirement age, rose from 5.9% to 10.2%—an increase of more than 80% in the number of people over the age of 60. These dynamics are key drivers of the sustainability of contributory pension systems, which are positively affected by growing numbers of contributors but face financial challenges with growing numbers of beneficiaries.

The dependency ratio, defined as the share of persons over 65 relative to the working-age population (15-64), serves as a measure of the economic pressure on the productive segment of the population. This ratio has been increasing uniformly across the region, suggesting increased financial pressures for pension systems in general (Figure 3). Guyana's dependency ratio increased from 6.9% in 1975 to 9.9% in 2023,

which is below other dependency ratios in the region. The average dependency ratio in the Caribbean was 14.5% in 2023, while the dependency ratio in the Latin America and Caribbean region was 14%.

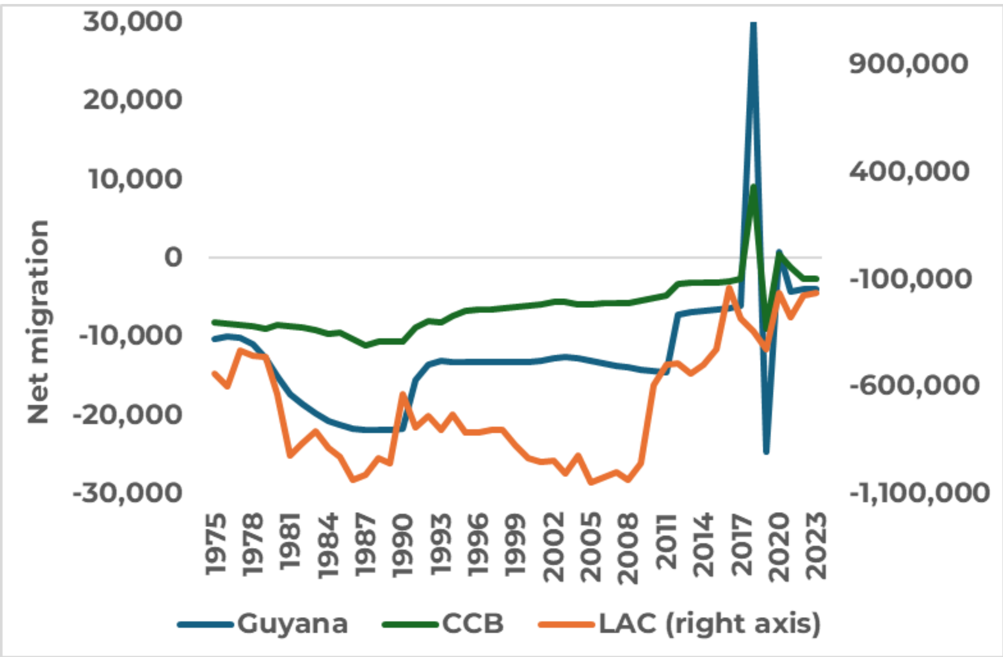
Figure 3. Dependency Ratio, Ages 65 and Older/15-64, 1975–2023



Source: World Bank, World Development Indicators.
Note: CCB refers to the six members of the IDB's Caribbean Country Department: The Bahamas, Barbados, Guyana, Jamaica, Suriname, and Trinidad and Tobago. LAC: Latin America and the Caribbean.

Emigration rates are also fundamental to contributory pension system dynamics because as people of working age leave a country, the dependency ratio and financial pressures to meet expenditure benefits increase. In Guyana, emigration has been a significant factor, with the country experiencing the highest rates of "brain drain" in South America. An estimated 89% of Guyana's tertiary-educated population moved to other countries in the 1990s (Docquier, Lohest, and Marfouq 2005). Net migration outflows in Guyana were the highest in the 1980s, when they averaged almost 20,000 people per year. In the 1990s these outflows declined to an average of 14,000 people per year before dropping to 8,500 in the 2010s. These are generally higher outflows than the Caribbean average, which remained at around 6,600 people per year in the 1990s and 2010s. In 2018, there was a relatively large net inflow into the region and Guyana, potentially related to the Venezuelan economic context and migratory outflows from that country. The Latin America and Caribbean region saw a period of net migration outflows through the 1990s and 2000s. The rate declined in the 2010s, but net migration outflows from the region persisted (Figure 4).

Figure 4. Net Migration, 1975–2023



Source: World Bank, World Development Indicators.
Note: CCB refers to the six members of the IDB's Caribbean Country Department: The Bahamas, Barbados, Guyana, Jamaica, Suriname, and Trinidad and Tobago. LAC: Latin America and the Caribbean.

Sustainability

Considering Guyana's recent GDP growth rates, growing savings in the Natural Resource Fund, and overall declining levels in the debt-to-GDP ratio, the country's macroeconomic and fiscal context is generally sound. In fact, GDP growth has outpaced growing levels of debt, and the debt-to-GDP ratio declined from 47.4% of GDP in 2020 to 27% in 2023, which compares well with the Latin America and Caribbean with an average of around 70%. Furthermore, the balance of the Natural

Resource Fund continues to grow, from US$1.2 billion in 2022 to a projection of US$8.2 billion in 2027, and annual transfers to the budget averaging US$1.1 billion over the same period suggest that Guyana's buffers are considerable.

Yet, the financial sustainability of Guyana's contributory pension system remains a challenge. The total salary contribution rate to the NIS is 14%, the sum of an employee share of 5.6% and an employer share of 8.4%. This is higher than the 11.3% average for Caribbean countries. That said, the latest actuarial review referenced in the NIS 2021 Annual Report stated that this rate is not high enough to cover benefits (NIS 2021). In fact, the 9th Actuarial Review of 2011 stated that at the time the contribution rate would have to increase to 18.7% to meet benefit expenditures (NIS 2021). Cash flow projections indicated that annual operations had been in a deficit position since 2007, which needed to be covered by drawing down on the savings/reserve levels. Reserve levels were projected to be exhausted in the 2020s, depending on various scenarios. Although Guyana's macroeconomic buffers have significantly increased since the most recent actuarial reviews, the contributory pension system continues to face challenges that the government has announced plans to address. In fact, work on a new actuarial review of the NIS was initiated at the end of 2023.[21]

For contributory pension systems, informal employment represents both challenges and opportunities. Informal employment can be described as those jobs that are not protected by social security or do not contribute to a pension scheme. The challenge of having a high level of informal employment is that there is a large share of the population that could be vulnerable once that group reaches retirement age if there are no social assistance programs supporting the elderly population. In Guyana, this population could receive the support of the non-contributory old-age pension once they become eligible. The informal sector also presents an opportunity because if those individuals were to start contributing to the insurance scheme, they would increase the revenue and sustainability of the pension system. In Latin America and the Caribbean, informal employment rates averaged 52% in 2024. In the Caribbean, the most recent measures ranged from 18% in The Bahamas to 62% in Barbados,

[21] See News Room, 2023, "'NIS Is Getting a Bad Rap Because of a Few Bad Eggs' – Dr. Singh Urges Staff to Do Better," October 24, https://newsroom.gy/2023/10/24/nis-is-getting-a-bad-rap-because-of-a-few-bad-eggs-dr-singh-urges-staff-to-do-better/.

averaging 48% in the region.[22] In Guyana, the informal employment rate was 51.2% in 2019 according to ILOSTAT's SDG Labor Market Indicators.[23] In this regard, the government has recently strongly encouraged businesses to comply with NIS contributions, which has contributed to higher levels of collections.[24]

The non-contributory pension (the old-age pension) is financed directly from the budget. The government's recent budget expansion, supported by large transfers from the Natural Resource Fund, has included expansion of the program from one year to the next. In fact, the Old Age Pension and Social Assistance Program increased from US$70 million in 2019 to a budgeted amount of US$207 million in 2024, almost tripling, following the trend of the total government budget. The total government budget expanded by a multiple of four over the same period. The Old Age Pension and Social Assistance Program represented about 1% of GDP between 2022 and 2024 (Ministry of Finance 2024).

Coverage

The World Bank has outlined a framework to analyze pension systems under five pillars representing a multi-tiered system of pension coverage. Most pension beneficiaries fall under the zero and first pillars of pension coverage. The zero pillar is the non-contributory pension or government social assistance program. In Guyana, the Old Age Pension Scheme administered by the Ministry of Human Services and Social Security is the zero pillar of coverage. It is a universal pension for all Guyanese residents over the age of 65. The program currently benefits approximately 73,000 people, which exceeds the population estimate of those older than 65 years of age, suggesting a coverage of 136% of the target population. Previously it had been estimated at 151% of the eligible population (OECD, IDB, and World Bank 2014). This makes the Old Age Pension Scheme a non-contributory program with the highest

[22] Not including Trinidad and Tobago, for which data were not available.

[23] Available at https://ilostat.ilo.org/topics/sdg/.

[24] See News Room, 2023, "No Tolerance for Employers Who Fail to Remit NIS Contributions – Dr Singh," July 31,

https://newsroom.gy/2024/07/31/no-tolerance-for-employers-who-fail-to-remit-nis-contributions-dr-singh/; see also *Guyana Chronicle,* 2024, "Over $130M in Unremitted Deductions Paid to NIS," August 5, https://guyanachronicle.com/2024/08/05/over-130m-in-unremitted-deductions-paid-to-nis/.

coverage rate in the region, as the average for Latin America and the Caribbean is approximately 22% and the average for the Caribbean countries is 40%. The program is intended to assure the sustenance of those in old age.

The first pillar of pension coverage refers to contributory pension programs such as the National Insurance Scheme (NIS). At the end of 2021 there were almost 40,000 beneficiaries obtaining retirement benefits. Those over 60 years of age are eligible for this benefit, suggesting a coverage rate of 47% of the eligible population. Average contributory pension coverage rates in the Caribbean are approximately 63% of the eligible population. To qualify for an old-age pension under the NIS in Guyana, the insured person must have made at least 750 contributions or approximately 14 years of contributions to obtain retirement benefits. Those who have reached the age of 60 and paid at least 50 contributions can also obtain an old-age grant benefit in a single lump-sum payment.[25]

A 2020 study by the IDB found that Guyana had the highest contributory and non-contributory coverage rates of 19 Latin American and Caribbean countries, with a total coverage rate of 91% compared to the Latin American and Caribbean average of 61%. Chile had the second highest coverage rate of 89% of the population (Altamirano Montoya et al. 2020).

Adequacy

The true measure of a pension system's adequacy is its ability to meet the fundamental needs of the elderly, ensuring that no one is left behind. Guyana's non-contributory Old Age Pension Program has made strides in leveraging technology to improve service delivery. The introduction of an online application portal by the Ministry of Human Services and Social Security represents a significant advance in accessibility.[26] In addition, the integration with Mobile Money Guyana, which is a mobile money service or digital wallet, offers a convenient option for beneficiaries to

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[25] See the National Insurance Scheme website at https://www.nis.org.gy/oldage_benefit (accessed August 19, 2024).

[26] See Guyana High Commission UK, 2024, "Gov't Launches Online Portal for Old-age Pension, Public Assistance Applications" February 27.

receive their pensions.[27] Special features to better serve persons who are blind and deaf are also being explored,[28] and officers are being trained in information and communications technology to help applicants with varying needs and preferences, promoting equity.[29]

The amount of the non-contributory benefit has been increasing significantly since 2020. In 2021, the benefit increased from GY$20,500 (US$98) per month to GY$25,000 (US$120), then continued increasing to GY$33,000 (US$158) per month in 2023 and finally reached GY$36,000 (US$173) per month in 2024. Under the NIS pension plan, average benefits are comparable to the current non-contributory old-age pension benefits. The NIS retirement benefit is tied to the salary an employee was making at the time of reaching eligibility. The benefit is calculated as approximately 40% of the average wage over a three-year period at the time of reaching eligibility. Average monthly pension benefits in 2021 were GY$36,200 (US$173) per month, practically matching the old-age pension benefits in 2024.

The monthly old-age pension benefit of GY$36,000 per month is estimated to be US$2.40 per day after accounting for purchasing power parity (PPP). This amount is almost equal to the average NIS pension benefit in 2021. Similarly, the minimum monthly wage of GY$60,147 is estimated to be US$20.80 PPP per day. Consequently, both the old-age pension and NIS benefits are almost twice the poverty line of US$6.85 PPP per day and around 60% of the minimum wage (Figure 5). Approximately 10% of the population is over the age of 60 in Guyana, suggesting that everybody meeting the eligibility criteria for at least the non-contributory pension will be protected from falling below the poverty line.

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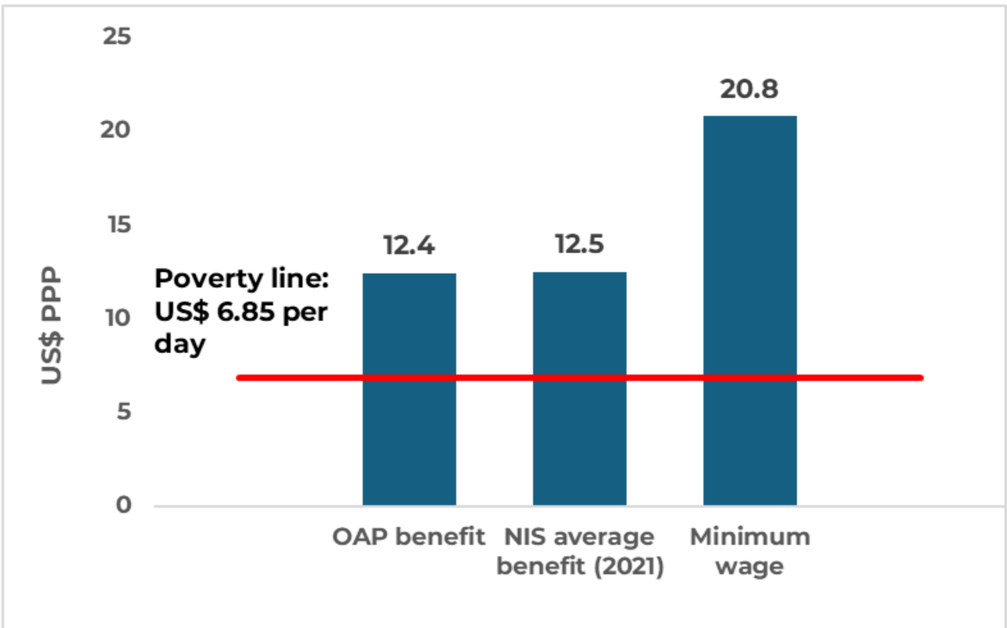
[27] See Guyana High Commission UK, 2023, "Human Services Ministry Now Delivering Pension through MMG," June 29.

[28] See Guyana High Commission UK, 2024, "Gov't Launches Online Portal for Old-age Pension, Public Assistance Applications" February 27.

[29] Ibid.

Figure 5. Guyana: Old-age Pension and Average National Insurance Scheme Benefit (PPP U.S. dollars per day)



Source: Budget 2024; NIS (2021); and World Bank, World Development Indicators.
Note: NIS: National Insurance Scheme; OAP: old-age pension; PPP: purchasing power parity.

Conclusions

Pensions are more than a financial provision; they are a critical pillar of societal resilience. The pension system is intricately linked to the overall macro-fiscal context of Guyana, reflecting the government's fiscal capacity to support its aging population while balancing other economic priorities. As Guyana looks to the future, the non-contributory pension program is growing and seemingly protected by important fiscal buffers, as the government's budget is expected to continue growing in the medium term, benefitting from the oil boom. The NIS pension system, which covers a large share of Guyana's elderly population, faces challenges inherent to population dynamics, with a growing elderly population, a declining working-age population, and challenges associated with high informal employment rates. Strengthening the NIS would contribute to Guyana's improving fiscal context. In this regard, the main recommendations from previous actuarial reviews remain relevant, including a review of contribution rates to assure financial sustainability. Other factors that could affect

the sustainability of the contributory plans include the retirement age and level of benefits. Finally, this presents an important opportunity to attract more workers to contribute to the NIS, which could also benefit from the recent migratory inflows from Venezuela. In short, the pursuit of long-term equity and efficiency will require ongoing evaluation and adjustment of the system to adapt to demographic shifts and economic changes.

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Jamaica

Khamal Clayton

Macroeconomic Context

Like many other Caribbean countries, Jamaica suffered an unprecedented economic shock in 2020, driven largely by the loss of tourism activity from global travel restrictions linked to COVID-19.[30] The economy recovered to pre-pandemic levels of real output, i.e. real Gross Domestic Product, in 2023, and continues to enjoy a strong recovery driven partly by a strong rebound in tourism.[31]

Jamaica suffered from the implications of rapidly rising global prices over the past several years, resulting in high inflation (11.8% year-over-year in April 2022), which prompted the Bank of Jamaica (BOJ) to tighten policies and conditions. Overall year-over-year inflation has fallen in recent months back to within the BOJ's target inflation band of between 4% and 6%. The inflation rate stood at 5.1% as of July 2024, supported by deflation in the food and beverage sectors (12.7% in July 2022 versus 3.5% in July 2024).[32] Consequently, for the first time in over a year, the BOJ dropped the policy rate from 7% to 6.75%. However, Hurricane Beryl, which struck primarily southern parishes of Jamaica, caused substantial damage including over US$60 million in damage to the agricultural sector. The reduced supply of agricultural products may contribute to higher prices, particularly for fruit and vegetables, over the short- to medium-term.[33]

Looking forward, the impact of Hurricane Beryl was less severe on the northern coast, which is where tourism is primarily concentrated, and thus suggests that prospects for continued growth of the tourism industry remain strong.

National Insurance Scheme

Jamaica has the distinction of having one of the few national pension schemes that is not projected to face liquidity or solvency issues in the short- to medium term. Of the

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[30] For example, total air passengers dropped from over 6.6 million in 2019 to almost 2.3 million in 2020, but has since risen to over 6.9 million in 2023. For more information, see https://statinja.gov.jm/BusinessStatistics.aspx

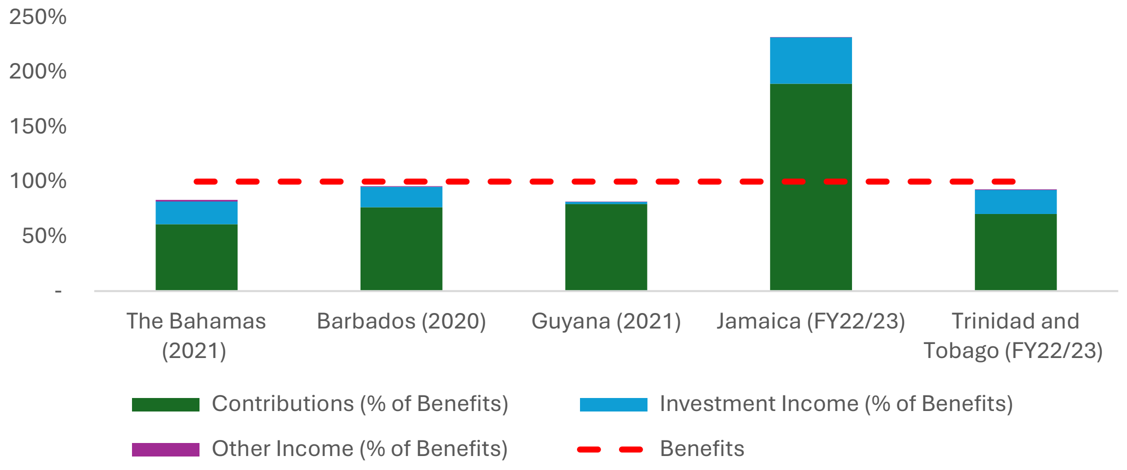
[31] Ibid

[32] Statistical Institute of Jamaica, Consumer Price Index, https://statinja.gov.jm/Trade-Econ%20Statistics/CPI/NewCPI.aspx (accessed August 19, 2024).

[33] See Serena Grant, 2024, "Over $1 Billion in Damage to Agriculture Sector," Jamaica Information Service, July 8, https://jis.gov.jm/over-1-billion-in-damage-to-agriculture-sector/ (accessed August 19, 2024).

six countries surveyed for this report, Jamaica is the only one where contributions were greater than pension benefits paid (Figure 1). For 10 years leading up until 2016, the National Insurance Scheme (NIS), which manages the nation's primary social insurance, had deficits that were primarily covered by investment income.[34] Contributions exceeded benefits paid by 2016, and the trend has continued since. Furthermore, this trend has been partially supported by several recent reforms including raising the contribution rate from 5% to 5.5% in April 2019, and from 5.5% to 6% in April 2020.[35] Nevertheless, like other Caribbean countries, Jamaica faces several headwinds including relatively high net migration, declining fertility rates, and high levels of informality which may affect such trend.

Figure 1. Overview of Income Statement for National Pension Schemes (Percent)



Source: Bahamas (Annual Report 2021), Barbados (17th Actuarial Review), Guyana (2021 Annual Report), Jamaica (Annual Report 2022/23), and Trinidad and Tobago (Annual Report 2021/22).

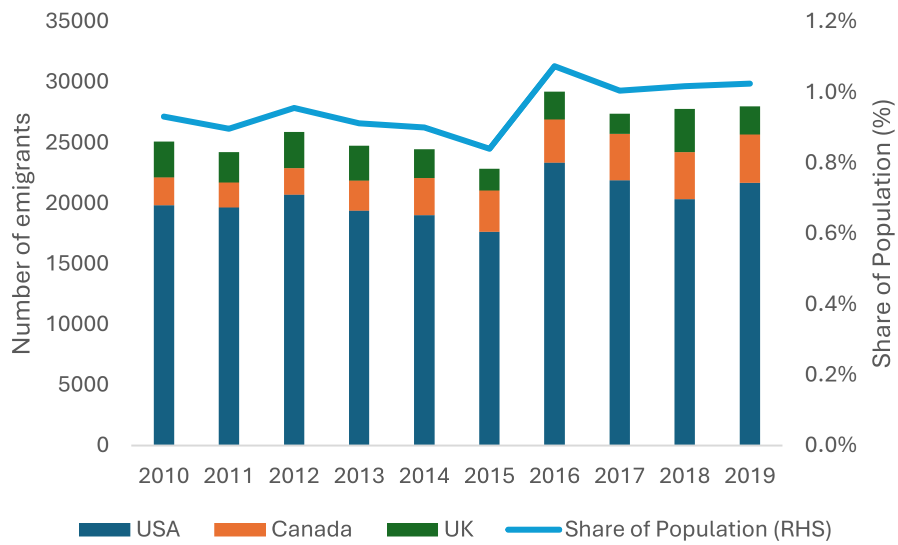
[34] See *The Gleaner*, 2018, "Nigel Clarke: Securing NIS for the Future," September 14, https://jamaica-gleaner.com/article/commentary/20181216/nigel-clarke-securing-nis-future (accessed August 19, 2024).

[35] See Garfield L. Angus, 2021, "Jump in NIS Contribution," Jamaica Information Service, April 28, https://jis.gov.jm/jump-in-nis-contribution/ (accessed August 19, 2024).

High Rates of Emigration

As discussed in the Regional Overview, Jamaica's net migration rate has been declining, but remains high compared to its Caribbean peers. The United States, Canada and the United Kingdom have been the largest recipients of Jamaican emigrants (Figure 2). On average, the equivalent of 1% of Jamaica's population emigrates to these three countries each year. However, among the three recipients, the United States was the destination of about 80% of Jamaican migrants, and recent research suggests that most emigration from Jamaica is composed of prime-working aged individuals who have at least secondary education certification.[36]

Figure 2. Primary Destinations of Majority of Jamaican Emigrants, 2010-2019



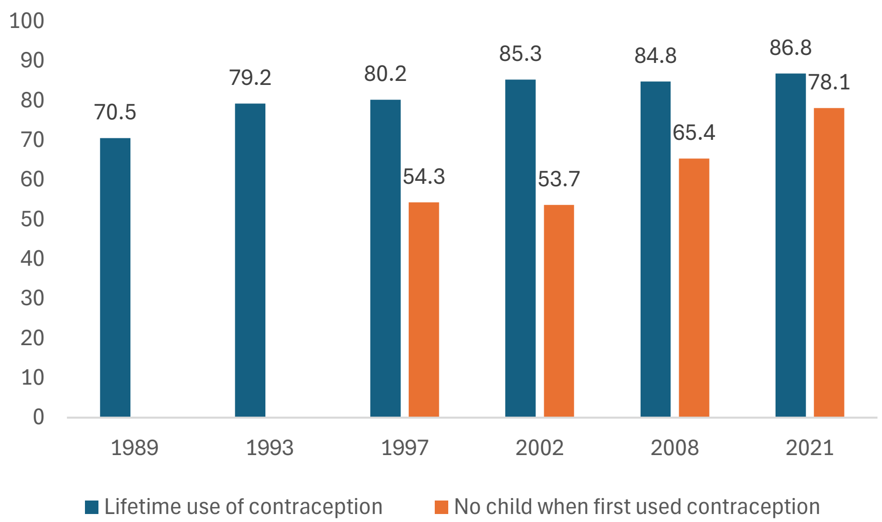
Source: [Economic and Social Survey Jamaica 2021]

[36] Approximately 75% of Jamaican migrants to the United States, from 2015 to 2019, were in the prime-working age category (18 to 64 years old). In addition, more than three-quarters of Caribbean immigrants have completed at least their secondary education. See Lorenzi and Batalova

Low Fertility Rates

Like many of its Caribbean peers, Jamaica has declining fertility rates. The country's fertility rate has been declining since 2017 and, in 2022, stood at 1.3 live births per woman, which is similar to rates in East Asian economies such as Japan and South Korea. While declining birth rates in East Asia have been primarily tied to rising incomes (Doepke et al. 2022), Jamaica's declining birth rate can be partly attributed to increased use of contraception among women, especially among younger cohorts. As Figure 3 shows, not only has the rate of lifetime contraception use increased since 1989, but since 1997 the number of women who started using contraception before their first live child has increased by more than 50%. Currently, more than three-quarters of Jamaican women are using contraception before becoming a mother.

Figure 3. Contraception Use Among Jamaican Women (Percent)



Source: Reproductive Health Survey Jamaica, 2021
Note: No data available before 1997 for the variable "No child when first used contraception".

High Levels of Informality

Informality is difficult to measure especially since, as its definition suggests, informal workers are outside of formal institutions (whether public or private or a combination of both), including those related to social protection such as pensions, and because definitions can vary across institutions.[37] The Statistical Institute of Jamaica (STATIN) defines informality as any form of employment, outside of domestic employment and agriculture, that meets any of the following conditions: deductions from wages for the National Insurance Scheme (NIS) are not made, those working are unpaid family members, or persons who own informal enterprises. Nevertheless, informality in the Caribbean, and particularly in Jamaica, is likely high. Based on different methodologies, using STATIN's 2021 Labour Force Survey, informality in Jamaica may be as low as 48% or, using figures from Ministry of Labour and Social Security in 2023, as high as 61%. This means that roughly half of working Jamaicans may not qualify for social safety nets, particularly pensions in their later years.[38,39]

Much of this informality is highly concentrated across several sectors such as agriculture (including forestry and fishing) and those that overlap with tourism. On the other hand, employment, especially that which overlaps with the public sector, such as jobs in education and health services and public administration, tend to have low levels of informality (Figure 4). Furthermore, public sector employees can usually benefit from not only national pension schemes but also pensions specific to their employment. Agriculture and construction have some of the highest rates of informality. In addition, sectors that overlap with the tourism industry such as "Accommodation and Food Service Activities" and "Arts, Entertainment and Other Services" also have at least half of their employees under informal arrangements.

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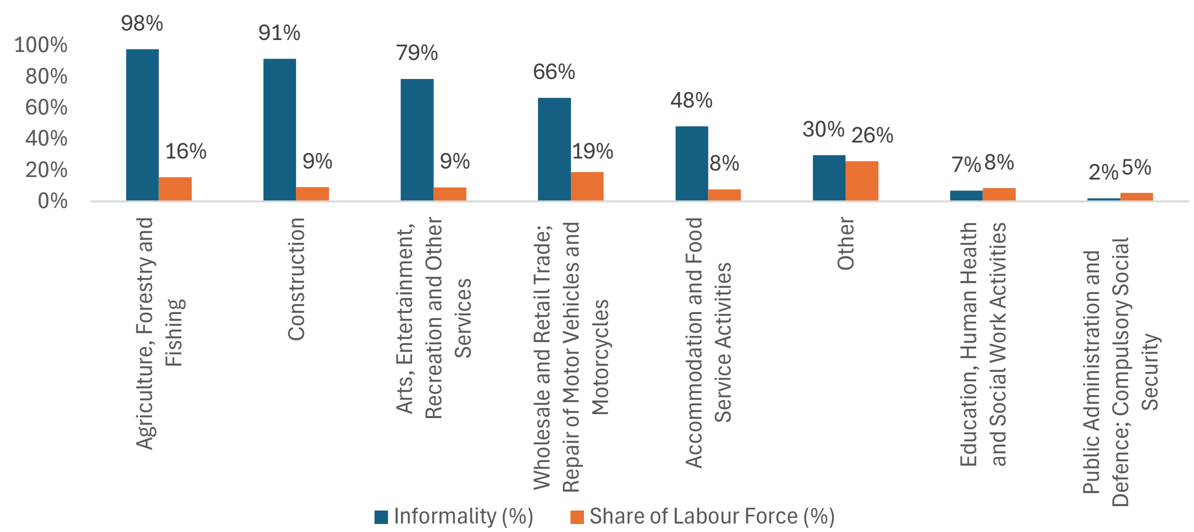
[37] For example, the International Labor Organization (ILO) suggests that "employees are considered to have informal jobs if their employment relationship is, in law or in practice, not subject to national labor legislation, income taxation, social protection…" For more information, see https://www.unescwa.org/taxonomy/term/8705?page=20

[38] Due to measurement difficulties, STATIN does not identify informality in agriculture, forestry and fishing, and in domestic work.

[39] The number of NIS contributors as of March 2023 from MLSS (2023) divided by entire labor force estimates in April 2023 from STATIN.

Figure 4. Jamaica: Labor Force Distribution across Sectors (Percent)



Source: Statistical Institute of Jamaica, Labour Force Survey 2021.
Note: Values are as of October 2021. Share of informality in Agriculture, Forestry and Fishing was calculated using International Labour Organization estimates as of 2021.

Recent Policy Responses

The Government of Jamaica (GOJ) has been proactively expanding social protections particularly for the elderly. In 2021, Jamaica launched a means-tested flat pension called the Social Pension Programme (SCP), which is paid bimonthly to those 75 years of age and older (MLSS 2021). This new pension will complement the existing support offered to those between 60 and 75 years of age under the Programme for the Advancement Through Health and Education (PATH).[40] As of May 2024, 14,932 persons had been registered and benefits were equivalent to J$6,000 per month (MLSS 2024).

In 2021, the GOJ introduced a pension scheme targeting workers within the tourism industry called the Tourism Workers Pension (TWP). According to the GOJ, this is the first comprehensive pension scheme to target tourism workers. As of April 2024, 9,497

[40] For more information on PATH, see https://mlss.gov.jm/departments/path/

tourism workers registered were registered for the TWP, of which 7,027 were contributing members (Bartlett 2024). Additionally, total funds under management stood at J$2.88 billion, of which J$1 billion was contributed by the GOJ.

Future Policy Responses

Jamaica has made tremendous progress with policy reform and fiscal consolidation over the past decade reducing its debt ratio from 142% of GDP in 2009 to 92% of GDP in 2023. Reforms of the pension system have also borne fruit in terms of the sustainability and coverage of the national pension system. Looking forward, continued efforts to reinforce the national pension system should remain a priority, given the accelerating demographic trends such as high rates of emigration of working-aged citizens and declining birth rates. These efforts need to include increasing coverage of Jamaican workers by national pension schemes, and replicating the successful industry-specific pension scheme developed for the tourism industry in other sectors, such as agriculture and construction, which together employ a quarter of the labor force and have the highest rates of informality. In addition, public awareness programs and other behavioral interventions would be helpful to increase participation, especially targeted at people who may be self-employed or in existing pension schemes, with a particular emphasis on contributory schemes that are less likely to be supported by government contributions.

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Suriname

Gisele Teixeira Braun and Andjenie Ramautar

The Surinamese pension system consists of compulsory and voluntary pension or insurance schemes and the government-determined general old-age provision (*Algemene Ouderdomsverzekering* - AOV).[41] There is a pension as a compulsory statutory scheme) for civil servants, while private sector employers are obliged to provide employees with a pension scheme.[42,43]

The AOV is a public pension that provides a minimum income to all Surinamese citizens over the age of 60. For civil servants, there is a separate scheme. Workers contribute 10% of their salaries, with the government contributing an additional 5%. Civil servants can retire early after 35 years of service and at least 55 years of age. Additionally, individuals can participate in voluntary pension savings plans, encouraged by government tax incentives.

This country section focuses on the government-sponsored program for the general population. It first covers the demographic changes projected for the coming decades in Suriname. It then presents and discusses measures of AOV coverage before examining the adequacy of the AOV and the sustainability of the system. The final section discusses the challenges and opportunities for reform.

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[41] Law of 20 March 1981 establishing a General Old-Age Provision Fund (S.B. 1981 no. 30), and Amendments S.B. 1981 no. 190, S.B. 1982 no. 74, S.B. 1983 no. 115, S.B. 1995 no. 12, S.B. 1995 no. 13, and S.B. 2002 no. 96.

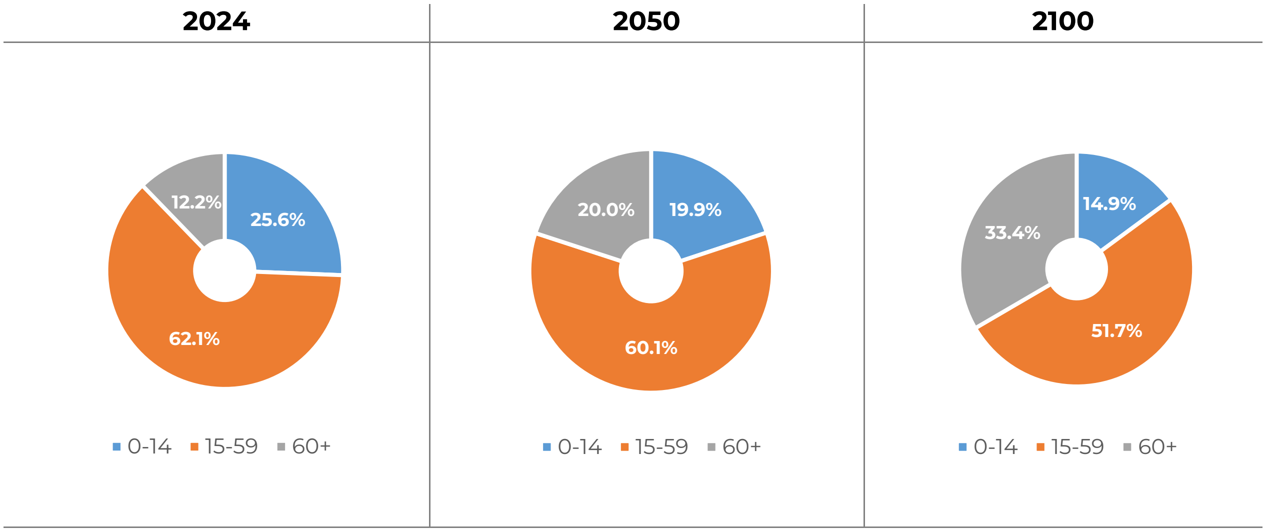
[42] Act of 9 December 1972, containing new regulations on the pensions of civil servants, persons treated as such, and their survivors (Civil Servants Pension Act 1972) (G.B. 1972 no. 150), after the amendments made thereto by S.B. 1977 no. 25, S.B. 1981 no. 79, S.B. 1983 no. 45, S.B. 1987 no. 39, and S.B. 1997 no. 13.

[43] Act of 9 September 2014 containing rules on the introduction of a general pension scheme (General Pension Act 2014) (S.B. 2014 no. 113). Government Decree of 7 August 2023, in implementation of Article 7 paragraph 10 of the General Pension Act 2014 (S.B. 2014 no. 113) (Pension Benefit Indexation Decree) (S.B. 2023 no. 117). Government Decree of 7 August, in implementation of Article 8 paragraph 6 of the General Pension Act 2014 (S.B. 2014 no. 113) (S.B. 2023 no. 118).

Demographics

Despite its small size, Suriname boasts a diverse population of approximately 600,000. The 2012 census reported the composition of the population as Indo-Pakistani (27.4%), Maroon (21.7%), Creole (15.7%), Javanese (13.7%), mixed (13.3%), and others, including Amerindians (8.2%). The United Nations reports that 12% of the population is over 60 years of age, while 25.6% and 62.1% are in the 0-14 and 15-59 age groups, respectively (Figure 1). However, this composition is expected to change over time: one in five people could be over 60 by 2050, increasing to more than one in three by 2100. This aging population, while potentially indicative of socioeconomic development, will challenge the provision of public services and the sustainability of the pension system.

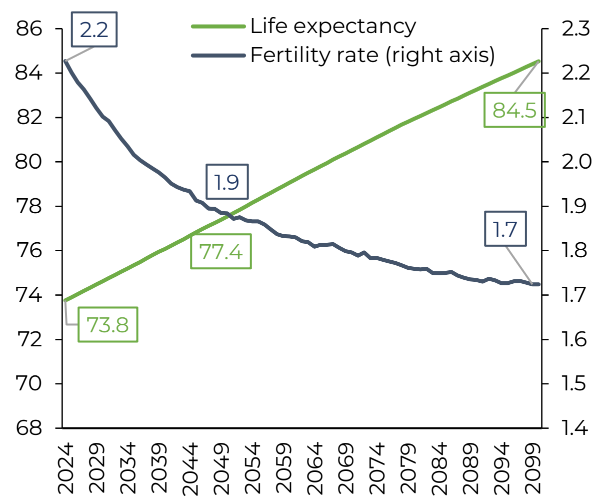
Figure 1. Suriname: Population by Age Group, 2024, and Projections for 2050 and 2100



Source: United Nations Department of Economic and Social Affairs, Population Division, World Population Prospects 2024 (https://population.un.org/wpp/).

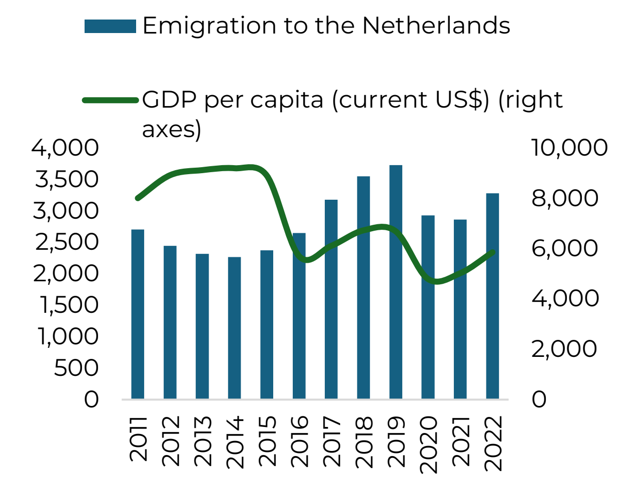
As shown in the Regional Overview, Suriname's fertility rate at 2.2 is higher than expected for its level of GDP per capita. However, the rate is projected to decrease over the long term to 1.5 by 2050, below the replacement rate (Figure 2). Moreover, life expectancy is projected to continue increasing to reach 77.4 years by 2050 and 84 by 2100. The combination of declining fertility and increasing life expectancy will compress the size of the working-age population, highlighting the impending burden on pension systems.

Figure 2. Suriname: Life Expectancy and Fertility Rate, 2024–2099



Source: United Nations Department of Economic and Social Affairs, Population Division, World Population Prospects 2024 (https://population.un.org/wpp/).

Figure 3. Suriname; GDP Per Capita and Emigration to the Netherlands, 2011–2022



Sources: CBvS (2024); Central Bureau of Statistics of the Netherlands (2024).

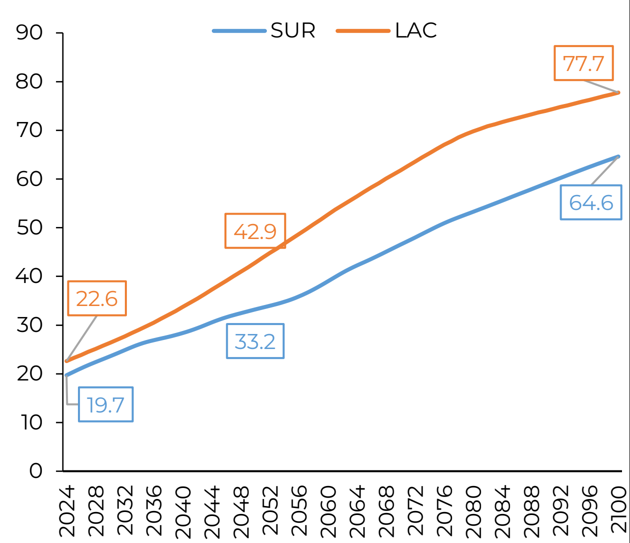
Furthermore, migration could either mitigate or exacerbate the effects of changing fertility rates and longevity. Migration balances in Suriname showed a sharp outflow in 1975, the year of independence, and another sharp outflow in the 1980s, especially during the year of the military coup. According to the latest data from the Central Bureau of Statistics of the Netherlands, 3,280 individuals emigrated to the Netherlands in 2022, representing 0.5% of Suriname's total population. This marked a 14.5% increase compared to the previous year (Figure 3). Since GDP per capita reached its second lowest point in 2016, emigration to the Netherlands has been on the rise. Despite a decrease in the flow of emigrants in 2020, likely due to closed borders during the COVID-19 pandemic, the cumulative number of Surinamese citizens emigrating to the Netherlands continues to grow, with more than 9,000 people making the move from 2020 to 2022.

The economic burden of demographic structural changes is measured by the old-age dependency ratio.[44] As shown in Figure 4, the old-age dependency ratio of Suriname

[44] The working-age dependency ratio is defined as the proportion of individuals over 65 to those ages 15-59.

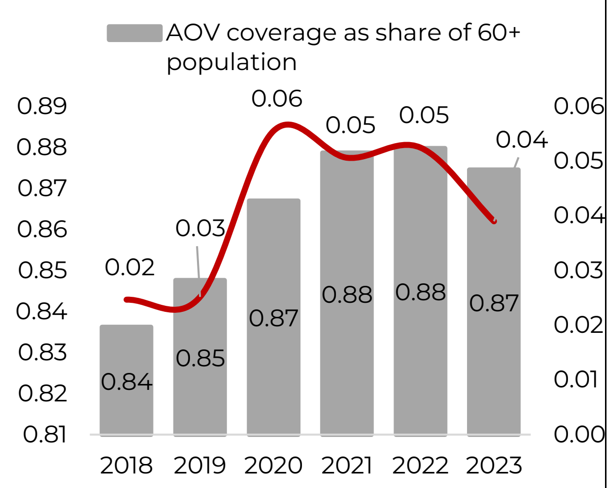
is expected to reach 33.2% by 2050, which is below the dependency ratio of Latin America and the Caribbean (42.9%), before increasing to 64.6% by 2100.

Figure 4. Suriname: Dependency Ratio (65+ population/working-age population) versus Latin America and the Caribbean, 2024–2100



Source: United Nations Department of Economic and Social Affairs, Population Division, World Population Prospects 2024 (https://population.un.org/wpp/).
Note: SUR: Suriname; LAC: Latin America and the Caribbean.

Figure 5. Suriname: AOV Coverage and Remittances, 2018–2023 (Percent)



Sources: CBvS (2024); General Bureau of Statistics (ABS) (2012); and the Suriname government website (https://gov.sr/aov).
Note: The coverage rates for Wanica, Marowijne, and Commewijne exceeded 100%, which might be caused by statistical errors from estimates of the population. In addition, over 100% rates could result from inefficiencies in administrative efforts, as there are more AOV benefits being paid than people older than 60 living in those districts.

Coverage

Elderly people in Suriname have the right to a pension benefit. The general old age-provision (AOV) was established in 1981 and has universal coverage. The benefit is intended for those who reside in Suriname, possess Surinamese nationality, and have reached the age of 60. Those who do not have Surinamese nationality but have continuously resided in Suriname for 10 years and are liable to pay premiums are also eligible for the AOV.[45]

Over the last five years, there has been an increase in the number of people over 60 registered with the Ministry of Social Affairs to be eligible for the AOV. This number grew from 59,205 in 2018 to 71,175 in 2022, with an average annual increase of 5% in the number of beneficiaries. In 2018, AOV coverage for the targeted population (60+ people) was estimated at 83.6%, which increased to 86.7%, 87.9%, and 88% in 2020, 2021, and 2022, respectively (Figure 5). The increase could be associated with pressures on living standards derived from the pandemic crisis. Remittances rose by 2.1 percentage points in proportion to GDP from 2019 to 2020, the first year of the crisis. Preliminary data for 2023 indicate a coverage rate of 87%.[46]

Adequacy

There was a decrease in the adequacy of the AOV benefit in recent years, as expected in a scenario of macroeconomic imbalances. Adequacy refers to whether pension benefits are sufficient to provide retirees with a decent standard of living. The economic instability and inflationary pressures experienced in recent years in Suriname have eroded the real value of these benefits. The updated national poverty line has been adjusted in line with increases in the average 12-month consumer price index. Considering a single person-household, the poverty line increased from SRD 1,153 in July 2018 to SRD 6,994 in June 2023.[47] For its part, the nominal AOV benefit increased from SRD 525 in 2018 and 2019, to SRD 1,750 in 2023 (Figure 6). However, the increase was not enough to keep constant its proportion with respect to the national

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[45] A premium payer is a resident of Suriname, whether or not they have Surinamese nationality, who earns income from business or profession or wages from employment according to the provisions of the Income Tax Act 1922 and has not yet reached the age of 60.

[46] See the government website at https://gov.sr/aov/ (accessed August 19, 2024).

[47] General Bureau of Statistics (ABS) (2024-I, 2023-II, 2022-I, 2021, 2020-I).

poverty line. The ratio decreased by 20.3 percentage points, from 45.5% in 2018 to 25.3% in 2023. In addition, using price levels of 2015, the real AOV benefit amount decreased from SRD 299 in 2018 to SRD 181 in 2023 (Figure 7) (ILO 2023).

Figure 6. Suriname: AOV Benefit, 2018–2023

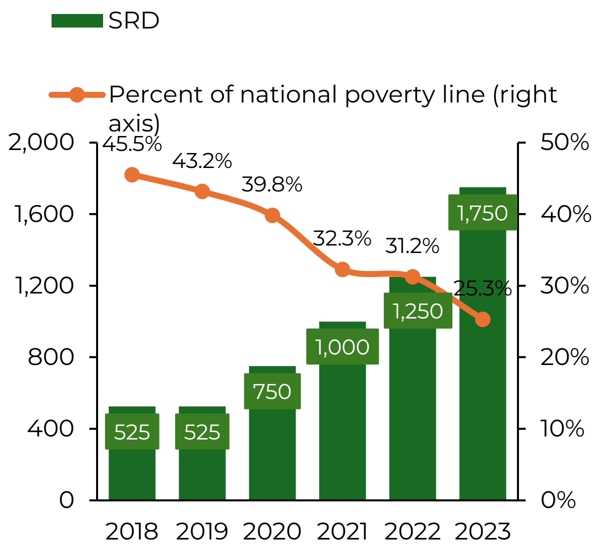
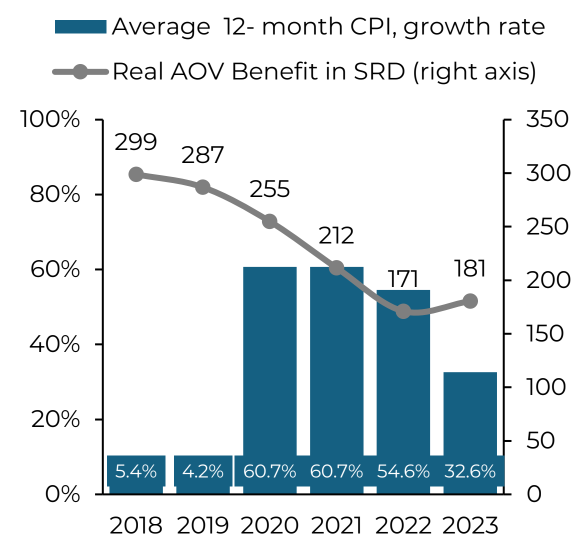


Figure 7. Suriname: Real AOV Benefit, 2018–2023



Sources: General Bureau of Statistics (ABS) (2020, 2021, 2022, 2023, 2024), for AOV benefit amount and national poverty lines. The AOV benefit in proportion to the national poverty line numbers was calculated by the authors; real values for AOV benefits, using 2015 Consumer Price Index (CPI), were also calculated by the authors.

The AOV has been Suriname's main social assistance program to lift people out of poverty. A recent analysis jointly conducted by the IDB and the World Bank found that while the AOV has been effective in reducing the poverty rate in Suriname (Beuermann et al. 2024), the targeting of the benefit has been regressive. Its coverage is lower among the poor than among the vulnerable and the middle class. The authors calculated a coverage of 26.7% for the poor, while coverage increased to 28.5% and 34% for the vulnerable and the middle class and above, respectively.

Sustainability

Long-term average GDP growth has been relatively low in Suriname. The Surinamese economy's high dependence on commodities, in a context of weak institutionality, has contributed to that relatively low growth. The country's average GDP growth rate from 1990–2022 was 1.5%, lower than the average of 2.5% for the Latin America and Caribbean region. Suriname turned the corner in the 2000s with sustained growth averaging 4.6%, due mainly to favorable commodity prices and large investments in the mining sector. However, a reversal of commodity fortunes in 2015 in the presence of largely unsustainable macroeconomic policies and weak economic institutions led to a drastic change in the country's economic performance. Real GDP contracted by 3.4% and 4.9% in 2015 and 2016, respectively, followed by a mild recovery in 2017–2019, before being hit by the pandemic crisis and contracting by 16% in 2020 and an additional 2.4% in 2021.[48] Public debt skyrocketed to an unsustainable level, prompting the government to request an arrangement with the International Monetary Fund. Since approval of the arrangement in December 2021, macroeconomic imbalances have been addressed through successful implementation of the government's economic recovery program.[49]

The macroeconomic imbalances from previous years have translated into higher unemployment rates and lower per capita income, which indirectly makes the AOV benefit even more relevant for the old-age population that usually cannot rely on complementary support from family members in Suriname. Factors such as economic strain on families contribute to the reduced ability of families to provide complementary support to the elderly. Even though growth returned to positive territory and GDP grew by 2.4% and 2.1% in 2022 and 2023, respectively, the projected expansion for the third consecutive year, at around 3% in 2024, would not bring the level of GDP back to the pre-pandemic level. Suriname's GDP per capita stood at US$12,848 (in 2017 international purchasing power parity) in 2000, reaching a high of US$19,778 in 2013, followed by a decrease of 54%. By 2019, per capita GDP had declined

[48] The country's economic challenges, including fluctuating commodity prices and political instability, can affect the investment returns of pension funds, which in turn affects their ability to provide adequate benefits.

[49] In parallel, the government of Suriname is conducting an extensive debt restructuring plan to negotiate with private and official creditors.

to US$18,449. In parallel, the unemployment rate increased from 5.5% in 2014 to 8.8% in 2019.

In addition, the projected demographic changes would add to the challenges for sustainability of the AOV Fund.[50] The resources to cover AOV benefits come from premiums paid by contributors, and transfers from the state budget. The contributors to the AOV Fund are residents with an income from earnings or dividends. The rate has been set at 4% of insurable income and is collected through payroll or income taxes. Any reduction in the size of the working-age population reduces that tax base and affects the fund.

The estimated balance for the AOV Fund has been positive, even though demographic changes are expected to add financial pressures in the long term. The total inflow to the AOV with respect to GDP decreased from 1.7% in 2019 to 1.5% in 2023, even though the nominal amount increased from SRD 173 million to SRD 731.8 million (Figure 8). The decrease is explained by a decrease in the proportion of transfers from the state budget from 1.2% of GDP in 2019 to 1% of GDP in 2023 (preliminary numbers), while the inflow from contributions was kept constant at 0.5% of GDP. As expected in a country with a relatively young population, the balance has been positive for the last five years (Figure 9).

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[50] The AOV Fund is managed by a Board of Directors and a Supervisory Committee. The Board of Directors consists of three members: a director, a deputy director and a secretary. The director is appointed, suspended, and dismissed by the President on the recommendation of the Minister of Social Affairs and Housing. The director represents the fund in and out of court. The Supervisory Committee consists of three members, one of whom is the chairperson. The members serve a term of three years and may be reappointed at the end of that period. The board members are accountable to the minister for fund activities.

Figure 8. Suriname: AOV Fund Inflow, 2019–2023 (Millions of SRD)

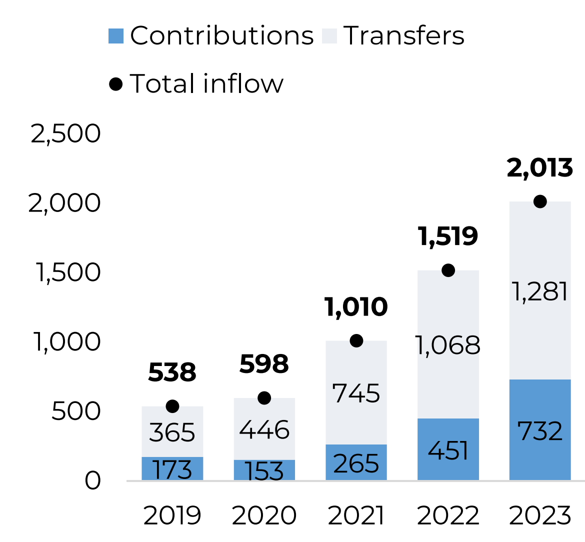
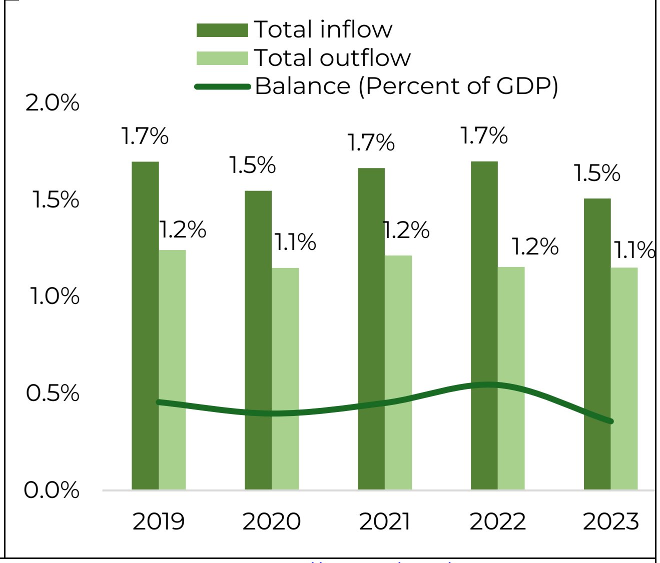


Figure 9. Suriname: AOV Fund Balance, 2019–2023 (Percent of GDP)



Sources: Government of Suriname (2024); and the AOV Dashboard (https://gov.sr/aov/).
Note: The total outflow for 2023 was projected by multiplying the number of beneficiaries in December by the monthly benefit amount (SRD 1,750) and extrapolated for the year.

The guarantee of a more adequate old-age pension system in the medium term would require the creation of fiscal space for its financing. The International Labour Organization (ILO) projects an increase of 0.4% in the cost of providing the AOV benefit up to 1.5% of GDP in 2028 with respect to the estimated cost for 2024. However, under an alternative scenario in which the level of the AOV benefit is increased to 50% of the poverty line for an adult, the total cost would increase by 1.6 percentage points with respect to the projected amount under the status quo scenario in 2024, reaching 3% of GDP, and posing significant challenges for fiscal balance (ILO 2023).

Challenges and Opportunities for Reform

Suriname's pension system faces a promising yet challenging future as the demographic shift towards an aging population increases the pressure on providing support for the elderly. While the system's broad coverage is commendable, enhancing its adequacy and sustainability is essential.

For the government-sponsored AOV benefit, there are several opportunities to improve efficiency and efficacy:

- ***Address administrative efficiency and improve supervision:*** Improving administrative processes and oversight could streamline operations, reduce errors, and bolster the effectiveness of the pension system, aligning it with the government’s goal of poverty prevention.
- ***Undertake reforms regarding eligibility and adequacy:*** Suggested reforms include raising the retirement age and increasing contribution requirements to reduce future liabilities. Adjusting benefits based on economic indicators and promoting private savings could enhance financial stability and support (United Nations 2023).
- ***Develop investment income strategies:*** Effective investment strategies are critical to maintain the sustainability of the fund, protect against inflation, and provide financial buffers. Ensuring equitable distribution of benefits and adapting to economic changes are key to address coverage gaps and support retirees.

Addressing these challenges will require a multifaceted approach. Policymakers must focus on improving the purchasing power of pension benefits to keep pace with inflation and economic fluctuations. This includes implementing regular, inflation-adjusted increases in benefits to protect retirees’ real income. In addition, ensuring the equitable distribution of benefits, especially targeting the most vulnerable groups, will be crucial to addressing coverage gaps.

Economic stability and strategic reforms will play pivotal roles in navigating the demographic and economic challenges ahead. Suriname must foster a resilient economic environment that supports stable investment returns and minimizes the volatility that affects the performance of its pension fund.

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Trinidad and Tobago

Nirvana Satnarine-Singh and Victor Gauto

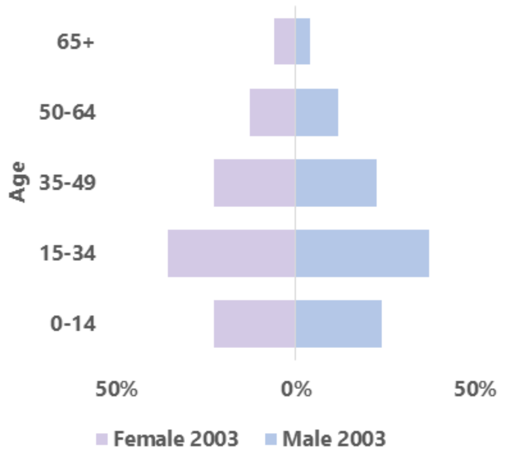
Introduction

Pension systems play a fundamental role in the well-being of households and can also contribute to economic growth through productive investments of saved retirement funds. Their main objective is to provide economic security to retiring workers in old age, contributing to maintaining standard levels of income and fending off poverty. In this context, there are key dynamics at play affecting the health and sustainability of pension systems—namely, the ratio of working-age adults to retirement-age adults. The more people making payments and contributing to the pension fund, the more resources will be available to those who have reached the eligibility requirements to receive benefits from pension funds. A 2018 Actuarial Report by the International Labour Organization (ILO) found the National Insurance System (NIS) of Trinidad and Tobago to be financially unsustainable over an extended period, considering future demographics, contributions, and projected future benefits (ILO 2018). Some key factors affecting the sustainability of pensions in Trinidad and Tobago are discussed below.

Demographic Changes

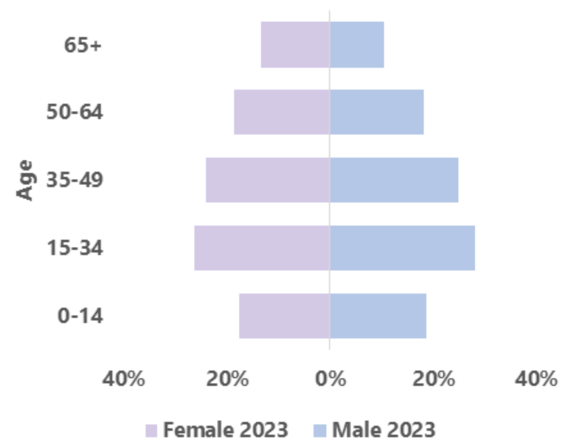
Over the past 20 years, the size of the population 65 years of age and older in Trinidad and Tobago has expanded. As a share of the population, this age group increased from 5.1% to 11.9%. However, the group's population growth outpaced total population growth, as the total population increased by 12.3% between 2003 and 2023 while the population over age 65 increased by 160.8%. From a gender perspective, the ratio of men to women in that age group was 8:10 in 2023, implying that for every 8 males there were 10 females, with the life expectancy of males at 71 years and females at 78 years. The increase in life expectancy suggests improvements in health care services, which, in combination with the large share of aging citizens, puts pressure on existing pension systems as payments to beneficiaries increase. The reshaping of the population pyramid is also apparent in the narrowing of the proportion of the population below the working age (0-14 years), which declined from 23.4% of the population in 2003 to 18% in 2023 (Figures 1 and 2). This suggests that the dependency ratio, defined as the share of persons over 65 relative to the working-age population (15-64 years old) is likely to continue increasing.

Figure 1. Trinidad and Tobago: Population Pyramid by Gender, 2003



Source: United Nations Department of Economic and Social Affairs, Population Division, World Population Prospects 2024 (https://population.un.org/wpp/).

Figure 2. Trinidad and Tobago: Population Pyramid by Gender, 2023



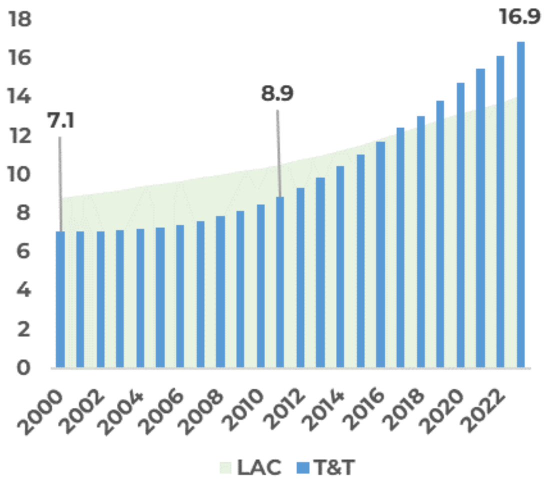
Source: United Nations Department of Economic and Social Affairs, Population Division, World Population Prospects 2024 (https://population.un.org/wpp/).

In 2023, the dependency ratio was 16.9%, up from 7.1% in 2000. Trinidad and Tobago's dependency ratio began surpassing the Latin America and Caribbean average around 2017 (Figure 3). There has also been a surge in informal employment worldwide over the past 20 years, and in particular during the post-COVID-19 period, with the number of persons employed in informal sectors increasing by 17.6%, from 1.7 billion in 2005 to 2 billion in 2024 (ILO 2024).[51] This can be an important factor in reducing contributions to national pension funds and exacerbating dependency. For Trinidad and Tobago, the labor force participation rate decreased from 63.4% in 2007 to 55.6% by 2023, with the participation rate of males falling at a faster rate than females. Male labor force participation fell from 75.2% in 2007 to 64.6% in 2023, and female participation fell from 51.7% to 47.1% over the same time period (Figure 4). In Latin America and the Caribbean, the average female labor force participation rate was 51% in 2023, while the male average was 74.6%. In the Caribbean, female and male labor force participation rates averaged 52.6% and 68.6%, respectively, in the same year. The fertility rate in Trinidad and Tobago has also been on a decline reaching 1.6 births per woman in 2022

[51] The informal economy includes unregistered businesses carrying out untaxed activities or employing workers not contributing to the pension system.

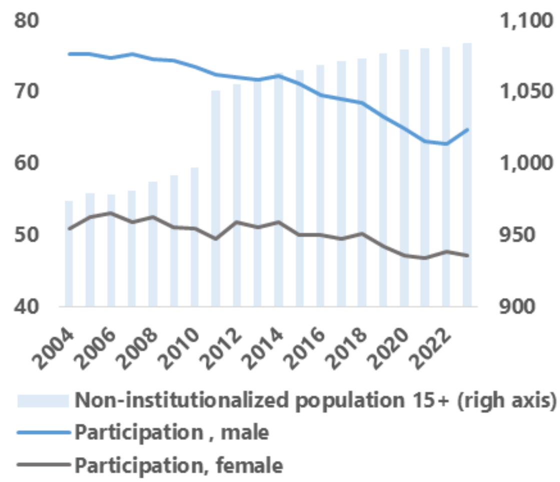
compared to 1.8 in 2000, according to the World Bank's World Development Indicators.

Figure 3. Dependency Ratio for Trinidad and Tobago and the Latin America and Caribbean Average, 2000–2022



Source: United Nations Department of Economic and Social Affairs, Population Division, World Population Prospects 2024 (https://population.un.org/wpp/).Note: LAC: Latin America and the Caribbean.

Figure 4. Trinidad and Tobago: Labor Force Participation and the Non-institutionalized Population Age 15 and Older, 2004–2022



Source: Central Statistical Office.

Net migration rates have probably played a secondary role in terms of recent effects on the NIS. Net migration out of Trinidad and Tobago averaged 10,000 people per year in the 1980s, then declined to 6,800 per year in the 1990s, 3,800 in the 2000s, and 1,100 in the early 2010s, before reverting to average net inflows of 4,300 per year over 2017–2023 (with a surge in 2018 potentially attributable to migration from Venezuela). Between 2010 and 2023, there was an average annual net migration inflow of 1.1 migrants per 1,000 population compared to a net outflow of 1.1 in Latin America and the Caribbean and 1.3 in Caribbean countries.[52] These dynamics could represent an

[52] According to the United Nations Department of Economic and Social Affairs, Population Division, World Population Prospects 2024 (https://population.un.org/wpp/).

important opportunity for the pension system if migratory inflows were to support the pension system with contributions.

Coverage

The current pension system in Trinidad and Tobago is multi-layered in order to reach maximum coverage of retirees and/or citizens over the age of 65. It is made up of three components: a non-contributory pension for low-income persons over 65; a contributory pension for all workers with a salary; and occupational (public and private) pension plans. The combination of the components is designed to provide universal coverage.

The non-contributory pension scheme is financed through the national budget and managed by the Ministry of Social Development and Family Services. This is also referred to as the Senior Citizens Pension (SCP) Program. It targets the population 65 and older regardless of previous employment, but with consideration of other sources of income at the time. As of 2024, the maximum SCP was TT$3,500 (US$518) per month, with a cap for qualification of an income of TT$5,500 (US$815) per month.[53] For FY2023,[54] the number of SCP recipients was 111,735, or around 63% of the population 65 and older (using data from the United Nations' World Population Prospects 2024), suggesting that the rest of the population over 65 had a monthly income level above the eligibility threshold of TT$5,500 (US$815). As shown in Figure 5, the SCP ranges from TT$500 to TT$3,500 (US$74 to US$518) depending on the income band of the individual. Persons over 65 receiving an income (including national insurance) of less than TT$2,500 (US$370) monthly qualify for the full SCP of TT$3,500 (US$518), while persons with an income band of more than TT$4,500 (US$667) but less than TT$5,500 (US$815) qualify for and SCP of TT$500 (US$74). That is, the minimum pension income for a person over 65 should be at least TT$3,500 (US$518).

Contributory social insurance (the NIS) is managed by the National Insurance Board (NIB) of Trinidad and Tobago. This has a mandatory contributory rate of 13.2% of insurable income, with employees contributing one-third and employers two-thirds of the total contribution rate. The pension plan covers retirees over 60 (and anyone over 65) who made a minimum of 750 weekly contributions to the scheme, meaning a worker contributed to the pension fund for at least 14 years. NIS pension coverage was around 50% in FY2023 (using United Nations' World Population Prospects 2024

[53] This income band includes pensions receivable under the NIS.

[54] The fiscal year in Trinidad and Tobago runs from October to September.

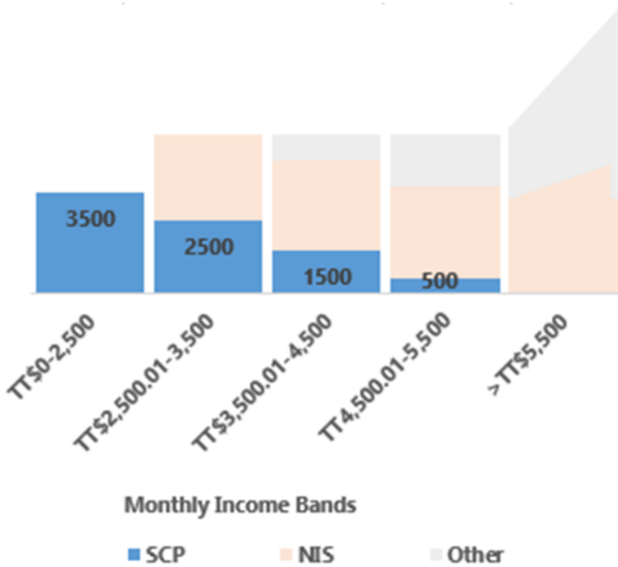
data), excluding grant beneficiaries,[55] who receive only a one-time lump-sum payment. The contributory pension coverage in five of the six Caribbean countries covered in this report averages about 58%.[56] The non-contributory SCP and the contributory NIS are the main sources of pension income for workers in Trinidad and Tobago.

In addition to the above two modalities, occupational pension plans encompass separate arrangements provided through employers to employees in both the public and private sectors. This modality complements the pensions received through the NIS and the SCP (if qualified). In the public service, monthly-paid civil service workers benefit from the Public Service Pension Plan, while partially public and private organizations provide private occupational plans based on employee and employer contributions. With higher income levels, private personal pension (savings) plans can also be used to maximize retirement income, as demonstrated in the >TT$5,500 (US$815) column of Figure 5. Given that contributory pension coverage reaches 63% of the population and non-contributory coverage reaches 50%, with a potential overlap in beneficiaries, pension coverage in Trinidad and Tobago is considered to be universal (Figure 6). Pension (contributory and non-contributory) coverage rates in 19 Latin American and Caribbean countries averaged 61% in 2020, with the highest rates in Guyana and Chile, at 91% and 89%, respectively (Altamirano Montoya et al. 2020).

[55] A one-time pension grant is provided to persons who made less than 750 weekly contributions.

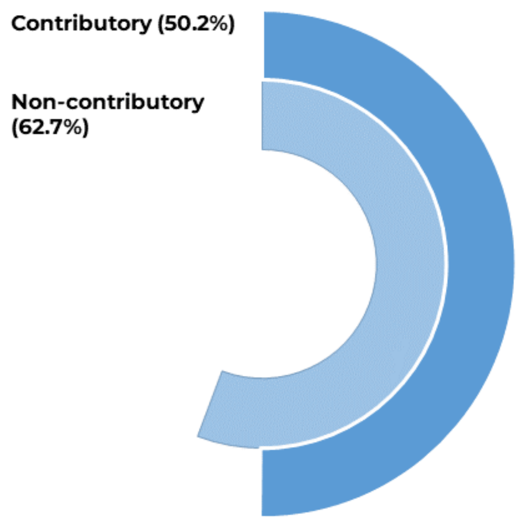
[56] Average does not include Suriname.

Figure 5. Trinidad and Tobago: Pension Distribution by Modality at Monthly Income Bands



Sources: Ministry of Finance; and authors' calculations.
Note: NIS: National Insurance Scheme; SCP: Senior Citizens Pension.

Figure 6. Trinidad and Tobago: Pension Coverage for Contributory and Non-Contributory Plans (Percent)



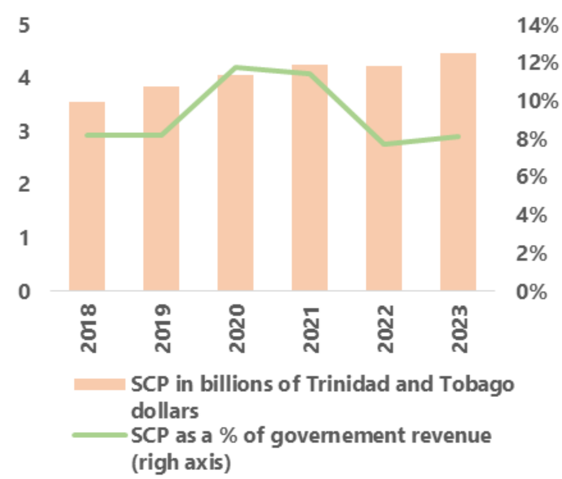
Sources: Ministry of Finance; National Insurance Board; United Nations Department of Economic and Social Affairs, Population Division, World Population Prospects 2024 (https://population.un.org/wpp/); and authors' calculations.
Note: Contributory plan coverage includes everyone over 60 years of age.

Fiscal Implications and Sustainability

Trinidad and Tobago's fiscal space is dependent on the energy sector, and as a result is exposed to global price changes. However, although revenues are often subject to variations in energy prices, expenditures on transfers and subsidies are stable and continue to constitute an important share of government obligatory spending. In FY2023, transfers and subsidies accounted for 56% of total government spending and about 16.7% of GDP. On average, between fiscal years 2018 and 2023, 9.3% of total government revenue (representing 2.4% of GDP) was dedicated to spending on the SCP Program (Figure 7). This is in addition to expenditure on various programs that support the health and wellness of the aging population. This points to the importance of strengthening the contributory pension system, which would mitigate potentially growing SCP expenditures. The public sector debt-to-GDP ratio in FY2023 was 70.9% and is projected to increase to an average of 72% in the medium term, below the government's soft debt target of 75%. The country also has resources available in the Heritage and Stabilization Fund, which had a net asset value of around US$5.4 billion, or 19.3% of GDP, at the end of 2023.

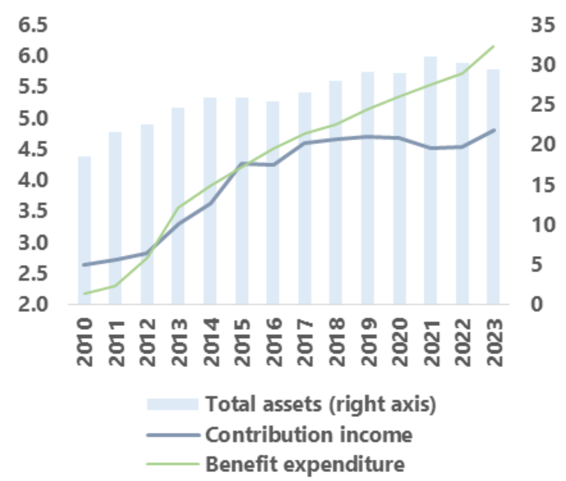
In terms of the NIS, under the current pay-as-you-go system there will be fewer contributions from a decreasing working population and higher benefit payments due to the aging population. The latest actuarial report indicates that NIS assets could be exhausted by as early as 2035–2036 at the existing rate of depletion. As shown in Figure 8, since FY2013 the NIS has been in a deficit whereby benefit payments surpassed contribution income. This ultimately meant that reserves were used to finance the gap between contributions and benefit payments, resulting in a depletion of assets. Proposals moving forward to increase the lifespan of the fund include increasing the retirement age from 60 to 65, and increasing contribution rates.

Figure 7. Trinidad and Tobago: Government Expenditure on the Senior Citizens Pension, 2018–2023



Source: Ministry of Finance.
Note: SCP: Senior Citizens Pension.

Figure 8. Trinidad and Tobago: National Insurance Scheme Contributions and Expenditure, 2010–2023 (Billion TT dollars)

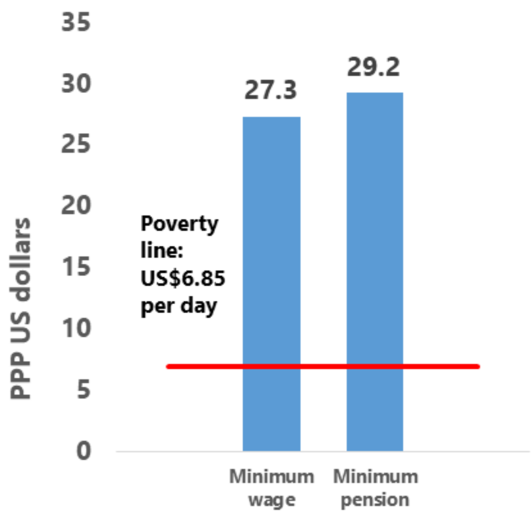


Source: National Insurance Board Annual Reports, various years.

Adequacy

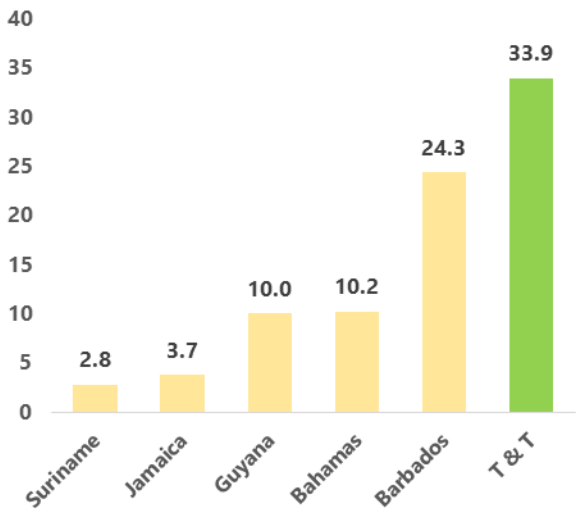
The concept of adequacy is that pension income should be sufficient to maintain a pre-retirement standard of living (broad adequacy) and reduce poverty for vulnerable groups (core adequacy). The previous section indicated that 63% of the senior population in Trinidad and Tobago receives the SCP and therefore qualifies for non-contributory pension income between TT$500 (US$74) and TT$3,500 (US$518), based on other sources of income (Figure 5). As a result, this represents the proportion of the population over age 65 that receives a minimum total (the SCP plus other sources) monthly income of between TT$3,500 and TT$6,000 (US$518 to US$889). About 50% of the senior population receives NIS benefits, and if their benefits are high enough, they do not receive the SCP. The population not receiving the NIS may receive SCP benefits. The fact that the SCP has a coverage rate of 63% suggests that all those without the NIS and potentially some seniors with NIS benefits receive at least partial SCP benefits. The minimum pension income a senior citizen over the age of 65 should receive is TT$3,500 (US$518) per month. On a U.S. dollar purchasing power parity (PPP) basis, the minimum pension income is estimated to be US$29.20 PPP per day, while the minimum wage is estimated to be US$27.30 PPP per day (TT$20.5 per hour). Both are more than four times higher than a poverty line of US$6.85 PPP (Figure 9). Relative to per capita GDP, the minimum pension income is 33.9% of GDP per capita, which is comparable to the standard of high-income economies and higher than that in all other Caribbean countries (Figure 10).

Figure 9. Trinidad and Tobago: Minimum Pension Poverty Comparison (in PPP U.S. dollars per day)



Sources: Ministry of Finance; World Bank; and authors' calculations.
Note: PPP: purchasing power parity.

Figure 10. Minimum Pension Income/GDP Per Capita (Percent)



Sources: International Labour Organization; International Monetary Fund; and authors' calculations.

Challenges and Opportunities for Reform

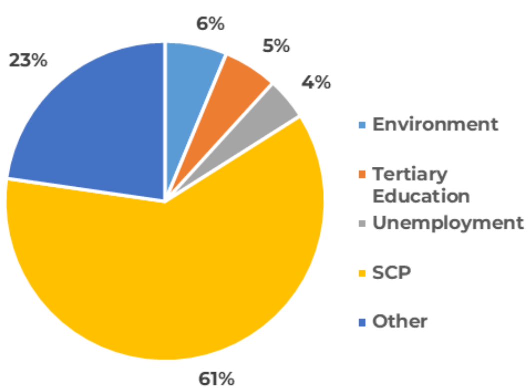
Senior Citizen Pension

SCP spending accounts for 61% of social program expenditure, which makes it the government's largest social expenditure program (Figure 11). Revenue uncertainty in the medium term because of global energy prices may contribute to challenges in financing large government programs, such that an important objective would be to maintain the sustainability of these programs. The SCP's benefit schedule, which depends on the level of income of applicants, contributes to targeting those who are vulnerable as well as containing expenditure growth. The current system provides one of the highest benefits/GDP per capita ratios in the world. Given that the SCP benefit is even higher than the minimum wage, the literature suggests that it should be lower (Smith and Harewood 2023).

National Insurance System

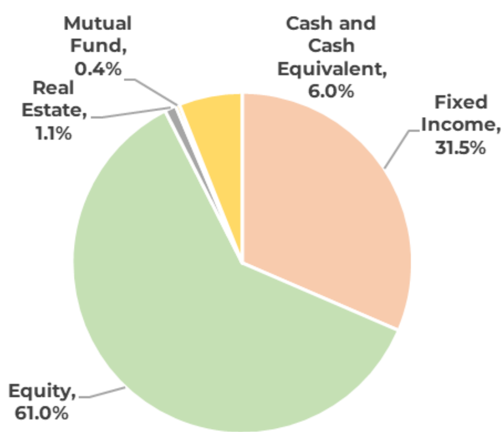
The composition of the NIB investment portfolio can maximize investment income and lengthen the life of the fund. In the current portfolio mix, equity accounts for 61% of investment, followed by fixed income (32%) and then cash (6%) and real estate (1%) (Figure 12). The 10th Actuarial Valuation highlights several recommendations to reform the system, with discussion ongoing on increasing the retirement age from 60 to 65 (ILO, 2018). This would allow for five additional years of NIS contributions before beneficiaries are able to access retirement benefits. ILO (2018) also recommends reducing pensions to persons who retire before 65 and increasing the contribution rate to increase the sustainability of the scheme and reach intergenerational equity goals. In fact, the report proposes that the contribution rate be increased to 25.5% over a 50-year period, higher than the current contribution rate of 13.2%, which would extend the lifespan of reserves to the 2040s. Other areas of opportunity include increasing the minimum retirement age as well as increasing the number of weekly contributions for eligibility, which is currently 750 (Smith and Harewood, 2023). In this context, increasing the share of workers and self-employed persons contributing to the NIS would also enhance sustainability.

Figure 11. Trinidad and Tobago: Distribution of Government Social Expenditure (Percent)



Source: Ministry of Finance Social Sector Investment Report.
Note: SCP: Senior Citizens Pension.

Figure 12. Trinidad and Tobago: National Insurance Scheme Investment Portfolio (Percent)



Source: NIB (2023).

Conclusions

Given the major demographic and labor market changes occurring in Trinidad and Tobago, the current pension system is facing sustainability challenges, as are many pension systems in the region. With the mix of non-contributory and contributory systems, the design allows for universal coverage. Relative to indicators such as GDP per capita, the minimum wage, and the poverty line, current minimum pension income in Trinidad and Tobago meets the adequacy requirements and allows for one of the highest benefit ratios in the world. Furthermore, the contributory and non-contributory pension systems are integrated, given that applicants are evaluated over both pension systems to define the non-contributory benefit. The contributory pension system needs reform to enhance the life span of the pension scheme, and challenges remain in terms of mitigating risks, ensuring optimal contribution rates, and meeting intergenerational equity goals.

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