KR CONSULTING

KR SERVICES LIMITED

14 Petra Street, Woodbrook, Port of Spain, Trinidad and Tobago, W.I.
Tel: (868) 623-9945 Fax: (868) 623-7459
e-mail: kr@kr-consulting.com

October 24, 2017

17/JSCFLA/4672
PRIVATE & CONFIDENTIAL

Mr Julien Ogilvie
Secretary to the Committee
Joint Select Committee on Finance and Legal Affairs
Office of the Parliament
The Port of Spain International Waterfront Centre
#1A Wrightson Road
PORT OF SPAIN

Dear Mr Ogilvie

RE: ENQUIRY INTO CERTAIN ASPECTS OF THE NATIONAL INSURANCE SYSTEM OF TRINIDAD AND TOBAGO

Thank you for your letter of October 16, 2017 on the subject at caption. We are honoured to be asked for our input into your enquiry and to provide comments on the 9th Actuarial Review of the National Insurance Scheme ("NIS"). In view of your request for written response by October 24, 2017, we have focused on a few key areas. This is not a comprehensive review of all relevant matters. The retirement benefits have the most significant financial impact, and we have not commented on the other short-term benefits. We have also assumed that the reader is reasonably knowledgeable about the background and structure of the NIS and related issues.

Ideally, this is a matter that we would have circulated to the Caribbean Actuarial Association ("CAA") for wider comment and feedback from our peers. The CAA comprises actuaries and others who live and work in the Caribbean region and have an interest in actuarial matters. It is a member of the International Actuarial Association and has as its primary focus issues of concern to the Caribbean region. Given the short timeframe involved we did not circulate to the CAA however, we solicited unofficial feedback from the local actuarial fraternity. Comments received are included in an appendix to this letter.

Please note that we have not had the benefit of discussing any of the following comments with the National Insurance Board or the actuaries who prepared the 9th Actuarial Review. Neither have we had access to the detailed information that would have been used in the latter's preparation. It is possible that with such discussion and / or access the ensuing comments may have been different.

1 BACKGROUND

1.1 General Factors

Our NIS, like many others in the region, is faced with several significant challenges. These include:

- An aging population
- Failure to increase contributions to recommended levels.
- Benefit increases for political / social reasons without concomitant contribution increases
- Increasing life expectancy
- Declining fertility
- Slow economic growth
- Low investment returns

Given these factors the NIS is projected to run out of assets in 2030. If no changes are made, the NIS will not be able to deliver expected benefits.

1.2 NIS Retirement Benefits vs Other Pensions

The Senior Citizens' Pension ("SCP") ($3,500 per month) exceeds the minimum NIS pension ($3,000), which in turn exceeds the minimum wage ($2,600). The 9th Actuarial Review reports that 97% of the NIS pensioners are in receipt of the minimum NIS pension.

The SCP is a non-contributory means tested pension that starts at age 65, and is adjusted downwards for other income. It appears anomalous that the non-contributory SCP is higher than the NIS minimum pension to which employees and employers have directly contributed. Historically this lack of a coherent structure to national retirement income issues has created significant political pressure to adjust the NIS minimum pension upwards.

The issue of retirement income is more complex than the relative sizes of monthly pensions. There are many other factors that are relevant, including subsidized transport for senior citizens and subsidized health care through CDAP etc.

CONSULTING
Shaping Tomorrow's Solutions

2 RECOMMENDATIONS OF THE 9TH ACTUARIAL REVIEW

The main recommendations of the Review are that:

- A gradual increase of contribution rates should be effected, assuming all other recommendations are implemented:
  - 2016 13.2%
  - 2017 14.4%
  - 2018 15.6%
  - 2019-2021 16.8%
  - 2022-2027 18.0%
  - 2028-2038 19.2% eventually reaching 22.8% in 2061-62
- The retirement age for an unreduced pension should be gradually increased from age 60 to age 65 over the period 2025 to 2060.
- Increasing the minimum pension by an amount lower than inflation so that its value falls in real terms over time.

In principle, these recommendations are reasonable and appropriate and have been made in previous actuarial reviews.

2.1 Increased Contribution Rates

The long-term cost of the promised NIS benefits is significantly higher than the 13.2% of salaries currently being paid. The original structure of the NIS was designed to require increases in contribution rates over time. The problem is that increases are often resisted or considered unaffordable when required.

While the proposed future increases no doubt are a mathematical solution to the funding problems of the NIS, we question whether they are realistic. Since we are unprepared now to pay 23% contributions, why would any other future generation consider them affordable? Many other countries have been forced to scale back pension benefits as populations have aged, often with severe social disruption.

We would suggest a different approach. Determine the maximum affordable level contribution rate that can be sustained, for example 15% of insurable earnings. Then estimate what level of benefits that contribution can support. This can be supplemented by any windfall gains in the future. This is more realistic that making promises that can only be met by contributions of say 20% - 30% that are unlikely to be paid in the future.

2.2 Increase In Retirement Age

The recommendation to increase the full retirement age from 60 to 65 over 36 years starting in 2025 and ending in 2060 seems too slow. Other Caribbean countries faced with similar issues have adjusted their NIS retirement ages much faster and in some cases to ages beyond 65.

Barbados	from 60 in 2006 to 67 in 2018 (six months every four years)
St Lucia	from 60 in 2000 to 65 in 2015 (one year every three years)
St Vincent	from 60 in 2014 to 65 in 2028 (over a 15-year period)

It should be noted that this is the age where a full pension can be paid. Earlier or later retirement is usually possible, with a reduced or increased NIS pension.

We recommend that the increase in full pension retirement age be accelerated for Trinidad & Tobago, and that a higher retirement age be used. We have not built actuarial models to assess what ages would be best, but a possible schedule could be:

Time Period	Age for Receipt of Unreduced Pension
2022 - 2023	61
2024 - 2025	62
2026 - 2027	63
2028 - 2029	64
2030 - 2031	65
2032 - 2033	66
2034 - 2035	67

2.3 Adjustments to Minimum Pension

The suggested adjustments to the NIS Minimum Pension are presumably workable. They do not however deal with the wider issue of proper integration with the SCP and other features of social support for retirees. Unless this integration occurs, there will always be pressure to increase the NIS Minimum Pension at rates higher than those assumed in the 9th Actuarial Review.

3 Comments on Investment Policy

We were asked to comment on the Investment Policy of the NIS. It is difficult to do so without further information. However, we do have a few observations based on the Review:

- 11% of all NIS assets, and 79% of the overseas assets were apparently held in RBC shares. This seems an excessive concentration.
- Consideration should be given to using a small proportion of the NIS Fund in venture capital operations to support innovative start-up operations with developmental potential.

4 CONCLUSION

We have suggested:

- Determining a sustainable contribution rate for NIS benefits that is acceptable to us as a society, and adjusting benefits to this level.
- Accelerating the proposed increases in retirement age for a full pension, which will reduce costs.

We do not have the benefit of the financial impact of these alternatives but we recommend that they be examined. In the long-term, alternatives like these may require changes in the SCP, the civil service pension and employment patterns. However, willingness to consider and adopt what may be less than comfortable options may be the only practical way to deliver the NIS promises.

We thank you for the opportunity to put forward our comments on this matter and look forward to meeting with you on October 27, 2017 to respond to any questions you may have on our feedback.

Yours sincerely

KR SERVICES LIMITED

KYLE RUDDEN
CONSULTING ACTUARY & MANAGING DIRECTOR

SHELLEY WORRELL
MANAGER – ACTUARIAL SERVICES

cc: President, Caribbean Actuarial Association
Actuaries in Trinidad & Tobago

CONSULTING

Shaping Tomorrow's Solutions

APPENDIX – COMMENTS RECEIVED FROM OTHER ACTUARIES

1. Increase NRA from 60 to 65 (with transitional provisions e.g. commencing 2020 and ending 2025; i.e. increase NRA by one year per annum up to 65 after giving the population sufficient notice).
2. Change arrangement from career average with underpin to cash balance plan ("CBP") where the guaranteed interest rate is reviewed periodically based on available investments (not quite CBP but also not defined contribution).
3. Consider fixing the annuity conversion factor but review periodically to allow for changes in both financial and demographic factors.
4. Definitely include self-employed.
5. There should be some consideration for indexing of pensions (e.g. if in a year, there is an excess yield of assets over the guaranteed interest rate in the annuity conversion factor, then pensioners receive some portion of the excess).
6. Improve automation to reduce the administrative burden on the Plan's assets.
7. Finally, remove the politics (which I know is easier said than done!).