

Special Bulletin: COVID-19 & Caribbean National Insurance/Social Security Systems

The rapid growth in the number of cases of COVID-19 in the English-speaking Caribbean has resulted in governments taking drastic measures aimed at both preventing its spread and dealing with its financial fallout. This health crisis has quickly transformed into an economic and labour market shock resulting in significant uncertainty and fear among leaders, employers, and the general public.

The industries/businesses most affected thus far in the Caribbean are tourism and hospitality, but as workers in these industries lose employment income, other sectors will be negatively impacted. It is too early to tell how long this crisis will last and how deep its effects on the region will be, but what is certain is the acute role for NI/SS systems to play.

Much is being speculated about the potential effects on local economies, health care systems and daily life. This note's focus is on the pandemic's impact on NI/SS systems (primarily income/pension but the commentary is relevant also to national health insurance) and how they can appropriately respond.

Effects on NI/SS Finances

Three main financial components of NI/SS funds will be immediately negatively affected over the near-term:

1. Contribution Income will decline
 - a. Reduction in the number of employed persons with many of the employed working fewer hours/days and thus lower wages.
 - b. Returning and replacement workers may be hired at lower wages (part time or lower rates of pay).
 - c. Compliance will suffer as businesses with outstanding obligations struggle to stay open or reopen.
2. Benefit Expenditure likely to increase

- a. Sickness – increase (actually sick or away from work due to mandatory or self-imposed quarantine).
 - b. Unemployment (if applicable) – increase.
 - c. Maternity – too early to tell but not material.
 - d. Invalidity – increase (those who continued to work with health challenges may now claim and qualify).
 - e. Age/Retirement – while the elderly appear more susceptible to die from COVID-19 it is too early to tell whether deaths among seniors will have any material effect on NI/SS systems.
 - f. Survivors – too early to tell but likely not material.
 - g. Special – new benefits and assistances designed to meet specific needs could be costly. (See below)
 - h. Health claims – could rise or fall over the short term; will depend on demand and supply/availability of the service.
3. Investment income will decline
 - a. Already low yields on deposits may go even lower.
 - b. Global equities and bonds have decreased in value and may take some time to return to pre-crisis levels.
 - c. Pressures from own government to borrow funds at subsidized rates and possibly restructure existing debt.

The combination of reduced income, increased costs and illiquid investments could create cash flow challenges to funds that already payout more than they take in.

Unless staff levels are increased to help reduce unemployment and/or respond to potential increases in servicing demands, the effect on administrative expenses is likely to be immaterial.

The overall net effect of COVID-19 will more than likely be lower reserves than projected or potential deficits under national health insurance plans.

Special Benefits

Most governments, including some in the Caribbean, have responded quickly to deal with the economic effects of the COVID-19 pandemic by introducing or expanding financial support to businesses and workers who have lost their jobs. In the Caribbean, only Barbados and The Bahamas have a formal unemployment benefit. This benefit can be enhanced easily by one or more of:

- a. Liberalising the qualifying conditions;
- b. Increasing the benefit rate or increasing the minimum benefit amount;
- c. Extending the maximum benefit duration.

If you do not yet have an unemployment benefit, it is possible, and feasible, to introduce one during a recession without prior funding or additional contributions. A strong social security fund cannot exist in a weak domestic economy so holding on to locally invested funds with a goal of securing future pension payments could be counterproductive.

The key question of course will be, how much can we afford to allocate to temporary unemployment-type benefits? Two of several reasonable answers are:

- a. A fixed dollar amount that would provide a certain average level of income replacement for most or all affected for up to 13 or 26 weeks.
- b. The annual dollar equivalent of what would have been collected had the contribution rate for unemployment benefit been 1% or even as high as 2%.

Self-employed persons should also be considered for special, temporary financial support. This could actually be a great way of rewarding the few who regularly make NI/SS contributions.

After the dust has settled

The COVID-19 pandemic will also have less obvious effects on social security, one of which may be society's thinking and expectation of income protection programs in times of crisis. More than 80% of NI/SS system benefit payments relate to pensions. The COVID-19 shock may have minimal direct impact on future pension costs, but it could greatly affect how these costs will be met over time – both from contributions and

investment earnings. A depressed economy will also make it difficult to enhance long-term system sustainability and difficult to introduce contributory national health insurance.

Benefits & Funding Policies

This COVID-19 crisis presents our countries with an ideal opportunity to re-think all income support programs including those found in labour legislation and social security legislation. Social protection reform, with particular focus on pensions and healthcare, should now be a priority for all regional governments. The first step in the process is the creation of an explicit **Benefits Policy** and an explicit **Funding Policy**. For the NI/SS, each should clearly state what the NI/SS system is trying to achieve as well as what the NI/SS system is trying to avoid. Conflicting priorities must then be balanced so that the final result will be a system that is able to adjust to periodic shocks while remaining on a steady path to long-term sustainability. The need for individual responsibility in safe guarding one's economic future is also critical and should be factored in. A thorough review of the Fund's risk and investment policy should then follow. These four policies, Benefits, Funding, Investments and Risk, should then form a new Governance Policy that contains best practices and rationale responses to specific potential outcomes.

NI/SS will still be around fifty years from now

How governments, NI/SS systems and individuals adjust to this economic and labour market shock will determine national and individual outcomes 6 months, 6 years and 60 years from now. NI/SS systems will not fail because of COVID-19 but fallout from its existence could affect current cash flows and medium-term sustainability. We therefore recommend that governments and consider the following:

1. How much reserves should we allocate to supporting those whose wages have been affected?
2. Is now a good time to invest in the US or international equities?
3. Is it time to invest in technology that limits the need for physical interaction with employers and insureds?
4. Does pay-as-you-go now look like a more feasible option for Caribbean NI/SS systems?
5. Is this now an opportunity to achieve wider reform of healthcare systems?

If you wish to find out more about options for quickly designing and implementing benefits to deal with the expected economic fallout due to the COVID-19 crisis contact the team at Morneau Shepell who will guide you through all steps of the process.

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