

Should public sector pensions increase?

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Professor Theodore Study of Pension

- Economists have done very few studies on Old Age Pensions in the Caribbean.
- Professor Karl Theodore broke that by Studying the subject social security
- One such study he did followed a conference he organised at La Joya in 1998 with international professional on the subject.
- Karl took an interest in our capacity to provide for the retired and elderly.
 - Sustainability of pensions.

CCMF Organisation of conference on Pension in 2012

- CCMF organised a conference on Pension by inviting experts on pension schemes to share.
- Experts came from the Caribbean and International Institutions on
 - national pensions, private pensions, investment of pensions, sustainability issues.
 - IMF, World Bank, ILO,

History of Pensions

- Old age pension was first introduced to Germany in 1889.
- It was then followed by New Zealand in 1898 and then the UK in 1908.
- Old age pension went to Barbados in 1937-8.
- Old age pension came to Trinidad in 1939.
- It came to Guyana in 1944.

Early setbacks to setting up Caribbean Pension Scheme

- Low income:
 - Recall that TT was largely agricultural.
 - Seasonal employment.
- Economies suffered high unemployment and underemployment since the 1930s.
- Smallness of the market with limited investment instruments.
 - Most financial investments was in terms of local sovereign bonds and US Bonds.

CSME Ideal

- CARICOM economies are at different stages of development so
 - pension reform would be at different stages.
- Countries started with public pensions.
 - Some Caribbean economies have been able to move to private pensions.
- Existence of capital markets is a prerequisite to the implementation of private pension funds.
- Caribbean economies are at an embryonic stage of development.
 - Contain National Insurance Scheme, Private Plans and Personal Savings.

Developments of Pension Studies

- Pension Reform stem development of pension studies stem from the
 - aging population globally.
 - Fully Funded vs Underfunded,
 - Movement to Caribbean Single Market Economy (CSME).
 - Capital Market under development.
 - Pension Architecture

The Aging Challenge

- Trinidad and Tobago is likely to continue to record an aging population.
 - The aging population is in sync with many countries in the rest of the world.
 - Life expectancy inch upwards while
 - fertility slowed.
- Three Major Type of Pension Systems
 - Funded; Unfunded; Pay-as-you-go; Mixed.
- The major pension scheme adopted by the public sector in TT is the Pay As You Go system (PAYG).
 - This scheme means that the total liability is borne by the citizens of TT.
- The PAYG is a non-funded scheme.

Harmonisation of Pension Funds

- CARICOM Single Market supposed to allow for the free movement of labour across CARICOM.
- Ideal is for harmonization to allow for portability to allow for worker mobility, worker coverage.

Graduate Student to study pension

- I was so motivated that I was able to get a study to study pension for an MSC.

Fiscal Pressure

- Pension is a fixed cost as government uses defined benefits and pension payments are compulsory.
- Sustainability of the pension scheme hinges on the demographics of the working population.
- Pressure likely to bear down on the national treasury owing to
 - increasing proportion of old age persons to receive pensions.
 - Due to a high baby boom recorded in the 1970s.
 - This can cause a bulging of pension payments by 2030.

Some Pension Issues

- Government limited by law to Cap off or to reduce Pensions.
- Pension is the first call on expenditure.
 - Fiscal mechanisms must cater for pension liabilities.
 - This is in contrast to countries like Barbados where pensions are not legislatively constrained.
- Ratio of Pension liability to GDP
 - Pension outlay averaged 4.4% in 2011.

Why not private pensions?

- Private pensions can offer greater flexibility to cater for movement towards Caribbean single Market and the likelihood that an employee would change employment over his/her working life.
- One such instrument is deferred annuities where a person can invest in pension and receive the benefit at a defined date.
- Portability of pensions across markets and jobs.

Pension architecture

- Need for active revision in pension legislation.
 - Latin America have evolved to offering various pension scheme with individuals able to select their scheme based on their risk appetite.
 - Latin America have incorporated private pensions into their pension architecture.
 - Regulatory mechanisms is a prerequisite.
- Portability would allow for suitability and flexibility.
 - Portability exercised by government would require harmonisation of legislation and taxes.
- It would require research on whether rates are correct based on differences on mortality, disease patterns, disabilities.

Scenarios

- Constant Variation: Moderate increase in population; Steady increase in Births; Constant growth in deaths. Calculations is done by age cohorts.
- High variant assumes that population grow by 33%. Increase is purred by high birth rate; low death rate. Aging population increase from 13% to 20% of population.

Projections

- Estimate growth projections by age group is very sensitive to the scenarios assumed.
- The importance of the scenarios allows us to estimate our ability to afford the weight of the pension on the Treasury.
- Government would need to do and act on pension projections from now.
- Affordability is sensitive to export growth.

Conclusion

- We estimate that the low scenario would cause pension to be 4% of the budget.
- High scenario would suggest that the pension would be 7% of the budget.
- The results show that despite the aging population of TT the expenditure should not fall out of sync.