



CARTAC in collaboration with the ECCB
Regional Conference on National and Public Sector Pension Plans:
Issues and Reform
Marriott Beach Resort, St. Kitts and Nevis
24 – 26 June 2009

WRAP UP OF PENSION REFORM CONFERENCE

FRIDAY 26 JUNE 2009

The final part of this Conference is Discussion and Conclusions of the ECCB Portion of the Conference which I have been asked to chair and lead. This mandate manifests a partial approach and reflects one of the few weaknesses of this otherwise very informative and useful three days of deliberations. I will not adopt this approach and instead pursue a holistic one from the following overview perspectives of the:

1. whole conference;
2. various pillars of social assistance and pensions and other supplementary arrangements; and
3. integration and symbiosis of the social system arrangements with the development of both the real and financial systems.

The only apparent partial approach is that I will focus on the eight ECCU economies. Even then that focus is a reflection of the advanced institutional arrangements for the integration of this group of economies in such functional cooperation areas as money and banking, legal, procurement and other common services; and the demonstration and salutary effects that they could have on their larger neighbours.

Conference

The Conference was timely and the imperative for urgent pension reform was more than illustrated by:

1. the expected rapid changes to demographics and social arrangements that are so different today compared to when the plans were designed more than two decades ago;
2. the experience of managing these schemes has given much insights as to what should be best practices;
3. the recent deteriorating economic situations in both the real and financial sectors and which have their geneses in large part to the current global crisis;
4. the recognition that pension reform is an critical platform in economic development; and
5. the need to design institutions that are compatible with the sub-regional objective to foster even closer economic integration in the ECCU..

The whole conference despite its initial focus on national insurance and civil service pension plans has a significant bearing on the work of the ECCU Pension Commission and social assistance and pensions in the ECCU area and was very useful in that regard. We look forward to the workshop that will allow for the assimilation and simulation of the looked forward to promise of the “De-Mystification of the Quantitative Aspects of Public Pension Plans” to allow “an unraveling of the complexities of pension schemes primarily through straight forward data analysis”.

We would also like to encourage a broader and in some cases a higher level of participation in such conferences that are concerned with the reform of critical social and economic institutions. The sharing of experiences is an important value added in such exchanges.

Pillars of Social Assistance and Pensions

Pillar #1: Social Assistance to the Indigent

Though there was limited coverage of the first platform it was instructive to note in one of the presentations that providing a minimum pension of 30 per cent of per capita to those 65 years and older would require about 2.0 per cent of GDP in a typical ECCU country - Saint Lucia, and that would be roughly sufficient to get all of the retired population above the level of the indigent i.e having the capacity to acquire the minimum and least costly caloric content for survival. And that seems possible when it is seen that governments revenue take from the economy is around 28.0 to 35.0 per cent with over 40 per cent and 15 per cent on average going to wages and salaries of a bloated service and interest payments respectively. The issue is that while this is quantitatively possible and feasible, there is no assurance that the desired improvement in the quality of life would be achieved as the redistributed income could be channeled to other uses such as the growing scourge of substance abuse. Moreover, social assistance is not only to the retired but also all the indigent and here the redistribution cost could be even more significant when the level of the unemployed is considered. The bigger issue is what can be done to increase the contribution of the unemployed and minimize the need for welfare and to grow the economy. These further illustrate the need for a holistic and integrated approach to social and economic development.

Pillar #2: National Insurance

Much of the coverage and discussion was on this platform. The platform existed in all the islands but was in need of much reform in all the economies to varying degrees and levels of urgency to ensure their solvency and eventual sustainability. The main areas of weakness were:

- incongruity between plan design in terms of the generosity of benefits and the adequacy of contributions and/or earnings;
- governance and management arrangements which did not allow for:
 - o sufficient efficiency to reduce administrative costs

- more optimal fund returns
- better risk management diversification of assets to remove the home based and public sector bias of the investment portfolio.

There was much discussion on:

1. whether reforms should be structural or parametric bearing in mind that the former are more lasting but more politically difficult to implement while parametric reforms require more frequent revisions and adjustments and can undermine plan credibility and transparency;
2. the extent to which plan design should encourage redistribution of benefits between groups e.g. intergenerational, gender, income etc. and
3. how to minimize the contingent burden and heavy dependence on host governments that are themselves fiscally burdened, heavily indebted and managing very small and vulnerable economies
4. how to get policymakers sensitized and to sufficiently appreciate the magnitude of the problem to take early corrective actions; and also to get the public beneficiaries more seized of the notion that the scheme is a benefit to them and how to get them to take a greater interest in it.

The suggested reforms are self evident and would involve a judicious combination of various measures relating to the benefits, contributions and governance and management sides of the equation including the vexing and widespread problem of compliance evasion to allow for solvency, sustainability, affordability, transparency, and equity objectives to be achieved.

There was consensus that the need for reform was urgent to avoid even greater future crises.

Pillar #3(a): State Pension Schemes

The existing State Pension Schemes which are generally unfunded and non-contributory have serious implicit debt levels on already highly indebted countries and require considerable annual benefit payment outlays from governments that are struggling to meet competing demands from limited revenue sources. This situation is causing many governments to review these schemes and to consider making them contributory, direct contribution schemes that are harmonized with social security. But the transition arrangements have significant cost implications that are now being considered to see the extent to which they can be minimized without affecting current obligations.

Notwithstanding, there was the view that governments, with their greater social responsibility should endeavour to maintain their supplemental plans not only to meet the needs of the large proportion of the labour force that they employ but also to set an example to and exercise some leverage and moral authority on the private sector.

Pillar 3(b): Private Occupational Pension Plans

Pension Reform and Economic Development

It is recognized that pension reform should be seen as a distinct and important area of social engineering activity. However in taking a broad comprehensive view and recognizing that a pension is a deferment of present claims on current goods and services for promises of later (long term) claims on future goods that must be able to satisfy both these past and current claims must mean that there has to be some concern about how the present sacrifices are deployed. The current global financial meltdown, the demise of some large financial conglomerates such as Clico and British American which frittered away considerable long term regional savings, the deployment of the largest pool of sub-regional domestic savings into the financing of recurrent deficits, conspicuous consumption and less than optimal investments and the

underdeveloped state of regional capital markets must mean that reformers and the authorities must take due recognition of the use of the long term savings and to ensure that it generates returns that can increase the national economic pie and be available for present and later claimants. It would be irresponsible at least to do other wise.

In traditional developed economies one can assume that the financial structure is well developed and regulated, economic management is adequate and the overall system is well integrated and coordinated. In economies like ours those assumptions cannot be made and in any case we would be reporting to the authorities that have responsibility for the social, real and financial sectors.