Executive summary

Future financial development of the scheme

The long-term benefit branch is presently in a surplus position. It is projected that the reserve ratio (reserve expressed as a number of times the annual expenditure of the scheme) will decrease in the future if no change is made to the contribution rate of 6 per cent presently allocated to that branch. The decrease of the reserve ratio will result from the maturing process of the scheme (more and more beneficiaries with longer insurance periods) and also from the demographic changes that are projected (lower fertility and increased longevity of pensioners leading to an increase in the old age dependency ratio).

The number of pensions in payment in 2050 will be about ten times as high as in 1999, whereas the number of contributors will only be two times those at the beginning of the projection period. Today there are 6.4 contributors for every pensioner, whereas there will be only 1.4 of them by the year 2050. The pay-as-you-go rate of the branch (the rate of contribution that would be just sufficient to support the expenditure for the current year in the absence of any reserve) will increase from 6.4 per cent in 2000 to 22.5 per cent in 2050. The increase in the PAYG rate is mainly due to the steep increase of the expenditure on old-age pensions.

Under status quo conditions, with a constant contribution rate of 6 per cent, total revenue (combining contributions and investment earnings) will exceed expenditure until 2011. After 2011, a growing part of the accumulated reserve will have to be used to face the increase in benefit expenditure and the reserve will become exhausted in 2023.

The short-term benefit branch has accumulated a reserve of 22.2 million EC$ at the end of 1999. Given the accumulated reserve and the investment earnings it will generate, it is projected that, under current conditions, the reserve ratio will remain around 6 times the annual expenditure of the branch for the whole projection period. The present contribution rate of the branch is thus considered more than sufficient to finance short-term benefits.

Concerning the employment injury benefit branch, it is projected that the reserve ratio will continue to increase from its present level of 33 times annual expenditure to more than 40 at the end of the projection period. This represents a very high ratio and indicates that the contribution rate of the branch could be reduced.

Financing strategy under status quo

Long-term benefit branch
It is recommended to define a rule for the determination of future contribution rates as follows and to stipulate that rule into the law governing the DSS: The contribution rate of the long-term benefit branch is established such that the reserve ratio of the branch is at least equal to 7.0 until 2025, and at least equal to 2.0 after 2050.

The application of that rule would produce the following contribution rates for the financing of the long-term branch under status quo conditions.
Short-term benefit branch
It is recommended to reduce the contribution rate for the short-term benefit branch from 1.2 per cent to 1.1 per cent of insured earnings.

Employment injury benefit branch
It is recommended to reduce the contribution rate of the employment injury benefit branch from 1.0 per cent to 0.5 per cent of insured earnings.

Redundancy Fund
Given the high level of reserves accumulated under the Redundancy Fund, contributions to the Fund could be suspended until the next actuarial review.

Summary of recommended contribution rates under status quo conditions
The following table summarises the contribution rates recommended for the period 2002-2009 for the different branches.

<table>
<thead>
<tr>
<th>Branch</th>
<th>Present</th>
<th>Recommended</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term</td>
<td>6.00%</td>
<td>8.00%</td>
</tr>
<tr>
<td>Short-term</td>
<td>1.20%</td>
<td>1.10%</td>
</tr>
<tr>
<td>Employment injury</td>
<td>1.00%</td>
<td>0.50%</td>
</tr>
<tr>
<td>Redundancy fund</td>
<td>0.25%</td>
<td>0.00%</td>
</tr>
<tr>
<td>Health scheme</td>
<td>1.55%</td>
<td>1.55%</td>
</tr>
<tr>
<td>Total</td>
<td>10.00%</td>
<td>11.15%</td>
</tr>
</tbody>
</table>

The report discusses the possibility to re-affect to the long-term branch a portion of the contribution rate presently devoted to the Health scheme (1.55 per cent). If this is done, the present total contribution rate of 10.00 per cent could be maintained for the period 2002-2009 by reducing the contribution rate to the Health scheme to 0.40 per cent instead of 1.55 per cent.

Analysis of modifications to the scheme

Revision of the qualifying conditions for the old age pension
It is recommended to set the minimum criteria for eligibility to the old-age pension at 500 weeks of contribution (instead of 300), without the possibility to claim a proportional pension between 300 and 500 credits as it exists presently. However, for those who have acquired at least 300 weeks of credit when they reach the normal retirement age, it would be possible to continue contributing to the scheme in order to reach the new minimum requirement of 500 weeks of contribution.
New determination of reference earnings for the calculation of pensions
It is recommended to determine the amount of future pensions based on a longer period of average earnings. Presently, to determine the amount of a pension, a percentage is applied to the average earnings of the best three years in the ten-year period preceding the calculation of the pension. It is recommended to change the "best 3-year" rule to a "best 10-year" rule and to adjust those past earnings between the year they were earned and the year the benefit becomes payable in order to keep their value in real terms.

Increase of the retirement age
It is recommended to contemplate a gradual increase of the normal retirement age. One option could be, for example, to increase the retirement age from 60 to 65 over a 20-year period, from 2006 to 2026. Such an increase of the normal retirement age would result, in the long-run, in a reduction of 25 per cent of the expenditure of the long-term benefit branch.

Provisions concerning self-employed persons
The participation of self-employed persons into the DSS is problematic. Most of the self-employed persons in the labour force do not pay contributions to the scheme and those who participate declare in general very low earnings. In addition, they may ask for a reassessment of their contributory earnings just before retirement, thus benefiting unduly from the provisions of the scheme at the charge of the other insured persons. A series of solutions are recommended in the report. In addition to the measures recommended to apply to all insured persons (increase the number of weeks required to be eligible to a pension from 300 to 500 and increase the number of years used in the computation of the reference earnings used in the pension formula to a "best 10-year" rule), other recommendations include:

- restrict the possibility for the self-employed to obtain a reassessment of their earnings just prior retirement;
- put in place administrative measures to enforce the contribution payment by self-employed persons;
- increase the minimum amount of earnings subject to contribution (presently 600 ECS per year);
- establish classes of earnings that would determine the amount of contribution, while limiting the possibility to change drastically the class of earnings from one year to the next;
- exchange information between DSS and Inland Revenue Division so as to ensure that the same earnings are declared to both institutions.

It has been asked to consider the inclusion of maternity benefits for self-employed persons. This could be done on the condition that more stringent contribution conditions apply to that group of insured.

Indexing of scheme's parameters
It is recommended to adjust regularly the amount of pensions in payment (based on a price or salary index) and to adjust the amount of the earnings' ceiling on the basis of a salary index. These adjustments could be annual or made every three years.

Other concerns raised by the management of the DSS
A series of specific issues raised by the management and the Board of the DSS are addressed in Section 5.5 of the report.

Financial impact of the modifications
The adoption of those modifications would limit the ultimate contribution rate of the long-term benefit branch to 11.5 per cent, compared to 18.0 per cent under status quo conditions. With the adoption of all the reform measures recommended in the report, the contribution rate schedule for the long-term branch would be as follows:

<table>
<thead>
<tr>
<th>Period</th>
<th>Contribution rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000-2001</td>
<td>6.0%</td>
</tr>
<tr>
<td>2002-2009</td>
<td>7.0%</td>
</tr>
<tr>
<td>2010-2019</td>
<td>8.0%</td>
</tr>
<tr>
<td>2020-2029</td>
<td>9.5%</td>
</tr>
<tr>
<td>2030-2039</td>
<td>10.5%</td>
</tr>
<tr>
<td>2040+</td>
<td>11.5%</td>
</tr>
</tbody>
</table>

**Investment policy**

The report presents a series of investment guidelines aimed at increasing the long-term return of the portfolio. Recommendations include increasing the maturity of fixed-income securities, increasing the proportion of equity and foreign investments.

**Government contributions in arrears**

There is a serious problem of delay in the payment of Social Security contributions by the government of Dominica. In addition to the 12 million ECS of government contributions in arrears as of 31 December 1999, no contributions have been paid by the government to the scheme in 2000. The government must change its present practice of systematically delaying the payment of contributions to the scheme. The necessary actions should be undertaken by the DSS to recover all unpaid contributions by the government and by private sector employers.