This actuarial review is concerned with the future financial condition of the National Insurance Fund. The Fund’s income, expenditure and reserves have been projected up to 2050. Such a long-term view is necessary as the scheme’s design and changes in Grenada’s population characteristics suggest a future significantly different from that of the past.

As family sizes decrease and people live to older ages, the Grenada population will grow and age. The proportion of persons 60 and over will more than double over the next 50 years. For the National Insurance Scheme (NIS), where pension payments to the elderly represent most of the expenditure, the challenges of an ageing population will require adjustments to the contribution rate. For similarly designed social security schemes this is a normal process.

In a partially funded system the contribution rate is below the rate required to cover the full cost of all the benefits being promised. This system of funding calls for part of the costs of one generation to be met by later generations. With falling fertility rates resulting in successively smaller generations of contributors, the intergenerational transfer will place greater burdens on future contributors.

At December 31st, 1999, the National Insurance Scheme was adequately funded having reserves of over 17 times annual benefit and administrative expenditure. Contribution income will continue to be well in excess of total expenditure for many more years resulting in significant growth in the Scheme’s reserves and the need for suitable investment opportunities to be found.

For this review, the main focus is on the Long-term Benefits (LTB) Branch from which most of the benefits are payable and the branch that will be most affected by population ageing. As larger lifetime pensions are awarded to more people, the number of pensioners will grow faster than the number of contributors. Benefit and administrative expenditure will also grow faster than total income. Should the contribution rate not be increased or benefit provisions revised, the large amount of reserves now being accumulated, will eventually be exhausted.

The projected timing of these and other significant events are discussed in Chapter 3 and are summarised below. Other than assuming annual adjustments to the ceiling on insurable earnings and benefits in payment, these results are based on no change to either of the contribution rate or the benefit provisions in place on December 31st, 1999.

1. The reserves of the LTB Branch are projected to grow to over $1.4 billion in 2031. Thereafter, they will steadily decrease until being exhausted in 2042.
2. The number of active contributors for each pensioner will fall from 10.8 in 2000 to 2.1 in 2050. Given the partial funding system for NIS benefits, where current contributors are expected to meet a portion of the cost of pension payments, future generations of contributors will be required to contribute significantly more than the present 9% of insurable earnings.
3. If the contribution rate is not increased until the reserves are completely exhausted, contribution rates of 16.2% in 2042 and 21.1% in 2050 will be required. The scheme will enter what is usually termed a “pay-as-you-go” state where current contribution income will be expected to meet current benefit and administrative expenditure.
4. Alternatively, to secure a reserve-expenditure ratio of 5 in 2050, the contribution rate would have to be increased periodically over the next 50 years from 9% to 17% of insurable earnings as shown in the following table. Rate adjustments are assumed to occur when the reserve-expenditure ratio falls to the levels indicated.
<table>
<thead>
<tr>
<th>Year Contribution Rate Increased</th>
<th>Reserve-Expenditure Ratio</th>
<th>Revised NIS Contribution Rate</th>
<th>Pay-as-you-go Contribution Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>15</td>
<td>11.0%</td>
<td>7.8%</td>
</tr>
<tr>
<td>2022</td>
<td>12</td>
<td>13.0%</td>
<td>10.7%</td>
</tr>
<tr>
<td>2037</td>
<td>10</td>
<td>15.0%</td>
<td>13.9%</td>
</tr>
<tr>
<td>2046</td>
<td>7</td>
<td>17.0%</td>
<td>18.4%</td>
</tr>
</tbody>
</table>

The Short-term and Employment Injury Benefits Branches are adequately funded and the present allocation rates for contributions are sufficient for the foreseeable future. In fact, transfers out of both branches to the LTB Branch are recommended.

Drastic measures aimed at extending the life of the NIS’s reserves are not required now. However, planning for the inevitable increases in contribution rates or reform of benefits should begin by raising the level of awareness of the Scheme’s future financial challenges.

The financial effect of several changes being considered to NIS provisions has been estimated. These have been provided to assist policy makers in deciding on which revisions to the scheme may be made.

Several recommendations are made in this report. For issues on which further discussion and agreement among stakeholders is considered necessary, comments and ideas are provided but no specific recommendations made. It is anticipated that the Government and its social partners will consider closely the issues raised and comments provided, to ensure that NIS benefit provisions best meet the socio-economic environment in Grenada, with which they are most familiar.

The specific recommendations made are:

(a) The present combined contribution rate of 9% is adequate and should be maintained until the next actuarial review. The allocation rates for contribution income to the three benefit branches should also be kept at their current levels.

(b) The minimum pension now applicable for Age and Invalidity Pensions should also apply to Survivors’ Pensions payable to spouses.

(c) Eligibility requirements for Survivors Pension for widowers should be amended and made similar to those for widows, so that the same eligibility conditions apply to both widows and widowers.

(d) Employment Injury coverage should be extended to workers aged 60 and over and those under 16, while requiring their employers to contribute 1% of insurable earnings on their behalf.

(e) Consideration should be given to placing in National Insurance Regulations the timing and magnitude of adjustments to the ceiling on insurable earnings, the minimum pension and all pensions in payment.

(f) The Grenada Government should settle all of its outstanding obligations with the NIS. These include contributions, the face amount of matured Government Bonds and Treasury Bills, along with accrued interest.

(g) Transfer $18 million from the Short-term Benefits Branch to the Long-term Benefits Branch.
(h) Transfer $7 million from the Employment Injury Benefits Branch to the Long-term Benefits Branch.

(i) Remove from the National Insurance (Financial and Accounting) Regulations the limit of $5 million on the transfer of reserves between benefit branches.

(j) Revise the current Investment Policy Statement for the purpose of creating specific policies, guidelines and a general framework within which the assets of the National Insurance Fund can be invested and managed.

(k) Revise the make-up of the Investment Committee to include a labour representative. The Financial Controller, or the person directly responsible for investment matters, should also be invited to Investment Committee meetings in a non-voting capacity. Consideration may also be given to providing for one non-voting position on the Investment Committee, to be filled by an investment expert, satisfactory to the three social partners. This person will provide investment advice to the Committee.

There are several other issues for which only comments and/or financial implications are provided, the main ones being:

(a) Payment of either a grant or pension to former members of the Agriculture Workers’ Provident Fund who have not received any benefit from the contributions made on their behalf.

(b) Payment of both an Age or Invalidity Pension along with a Survivors Pension to a spouse who is eligible to a benefit based on his/her own contributions.

(c) Increasing the rate of the minimum pension, possibly to the level of the Poverty Line recently established by the Grenada Government.

(d) Making coverage for self-employed persons mandatory as well as expanding the present benefit package now available to this group.

(e) Reviewing the eligibility conditions for Sickness Benefit for the possible removal of the requirement that the claimant be employed immediately prior to the day on which incapacity commenced.

The discussion of these and other issues is presented in Chapters 5 and 6.

Future increases in the contribution rate are inevitable. To reduce the magnitude of contribution rate increases, reform measures should be considered sooner rather than later. To eliminate the element of surprise and resistance from future contributors, the results of this and future actuarial reviews should be shared with all Grenadians. With continued monitoring of Scheme experience, sound planning, frank discussion with stakeholders, and the timely implementation of reforms, the NIS will be better prepared to meet the challenges that lie ahead.