Executive Summary

1. Future evolution of costs
The general population of Guyana will experience over the next decades an ageing of its population. In addition, the National Insurance Scheme will continue its maturing process by which the number of persons eligible to pensions in proportion to the total population of Guyana will increase. These two factors will result in an increase of the ratio of pensioners to contributors in the scheme.

Concerning pensions, the reserve ratio which represents the reserve at the end of a given year divided by the annual expenditure of the scheme for that year, is presently equal to 4.1. If the scheme's provisions remain unchanged and if the contribution rate is kept at its present level, the reserve will be exhausted in 13 years. The pay-as-you-go rate for pensions will increase from 7.4% in 1999 to 27.3% in 2040. It shows that the present contribution rate devoted to pensions (8.3%) is just sufficient, in 1999, to cover the expenditure of the scheme. But it also reveals that this contribution rate will have to increase significantly over the next three decades in order to eventually reach a level around 26%. While there is no imminent financial crisis, the situation requires consequent action.

2. Financial autonomy of the three branches
It is recommended that each branch have its financial autonomy, instead of allocating total income and expenditure to the various branches according to arbitrary percentages. The separation of branch will avoid cross-financing between different benefits branches and will permit a better follow-up of the reserves and contribution rates of each branch.

3. Reallocation of reserves
Due to the arbitrary allocation, among the three branches, of some items of income and expenditure, the reserves of the Short-term and Industrial branches have accrued to unnecessary high levels compared to the funding objectives recommended in this report. Hence an amount of $796 million could thus be transferred from the Short-term benefits branch to the Pension branch. In addition, an amount of $1575 million could be transferred from the Industrial benefits branch to the Pension branch.

4. Recommended contribution rates
The contribution rate recommended for the Short-term branch is 2.2% and the rate recommended for the Industrial benefits branch is 1.5%. These contribution rates should remain constant at their 1999 levels until the next actuarial review.

For the Pension branch, considering the anticipated increases in costs, there is a need to specify a rule for the determination of the actuarial equilibrium of the scheme that will guide future contribution rate increases. It is recommended to establish funding objectives for the Pension branch expressed in terms of reserve ratios. Taking into account the actual stage of maturity of the scheme and the projected cost increases, it is recommended to define a rule for the future determination of the contribution rates and to stipulate that rule into the law governing the National Insurance Scheme as follows: "The contribution rate of the Pension branch will be established such that the reserve ratio of the branch is equal to 4.0 in 2010, 2.5 in 2030, and 2.0 after 2040".

The application of that rule results in the following contribution rates for the next three decades.
5. Effect of modifications to the scheme
As requested in the terms of reference, the report presents the financial impact of various modifications to the benefit provisions of the scheme.

*Increase of the minimum pension*
The modification that has been analysed consist in a gradual increase of the minimum pension from its present level of 50% of the minimum wage to 100% of the minimum wage over a period of five years. This modification has an important short-term impact, considering that it would apply to all pensions presently in payment.

*Payment of widowers' pensions*
The modification under study aims at providing the same conditions for widowers' pensions as those applicable to widows' pensions. This modification would increase the general average premium of the scheme (calculated over 40 years) from 18.2% to 18.7%. This could be translated into a 0.5% addition to the recommended contribution rates.

*Qualifying conditions for sickness benefits*
Concern has been expressed about the present eligibility conditions to sickness benefits for seasonal workers in the rice and sugar industries. To permit these people to have real coverage for sickness benefits and at the same time targeting the real seasonal workers who come back to work on a periodical basis, it would be possible to define differently the third condition for eligibility to sickness benefits as follows:

"... had been employed in, and paid contributions for, insurable employment during at least 8 contribution weeks in the period of 13 contribution weeks immediately preceding the contribution week in which the first day of the continuous period of incapacity for work occurred, or during at least 20 of the last 50 contribution weeks preceding incapacity."

Due to the lack of data, the cost of this modification cannot be estimated precisely. However, the modification could be adopted with an unchanged contribution rate which would be revalued at the next actuarial review on the basis of recent experience.

6. Investment policy
A portfolio diversification should be contemplated. A shift towards equity investments would normally increase the long-term return. However, such a modification of the investment strategy should be gradual and has to take into account the opportunities existing in Guyana for investments that show a good balance between safety and return. The National Insurance Fund could increase prudently the share of foreign investments in its portfolio if opportunities do not exist in Guyana. It is also recommended to set-up an investment unit in the NIS considering the fact that reserves of the long-term branch will increase significantly in the future and that the institution will need to rely on a team of skilled investment managers.

7. Adjustment of pensions
It is recommended to legalise the current practice of granting annual adjustments to pensions based on the increase in the consumer price index (CPI) to ensure that pensions will keep their purchasing power over time. In the context of the increase in the minimum pension announced in October 1999, this CPI increase should be granted at the end of 1999 to the pensioners whose pensions are higher than the minimum pension.

8. Level of administrative expenses
The National Insurance Board should have as a target to maintain its administrative expenses below 1.5% of insurable earnings over the next 5 years.