**Executive Summary**

The financial experience of the Social Security Board (SSB) is closely linked to the performance of the St. Kitts-Nevis economy. Decreasing birth rates, net outward migration and overall population ageing will also affect the ability of the Board to pay adequate benefits well into the future. As family sizes decrease and people live to older ages, the proportion of persons 62 and over will more than double over the next 60 years. For the SSB, where pension payments to the elderly represent most of the expenditure, the challenges of an ageing population will require adjustments to the contribution rate and/or changes to benefit provisions. For similarly designed social security schemes this is a normal process.

This actuarial review is concerned with the future financial condition of the Social Security Fund (SSF). The Fund’s income, expenditure and reserves have been projected up to 2060. Such a long-term view is necessary as the scheme’s design and changes in St. Kitts-Nevis’ population characteristics suggest a future significantly different from that of the past.

In a partially funded system, the contribution rate is below the rate required to cover the full cost of all 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 31 December 1999, the SSF was adequately funded having reserves of 17 times total annual expenditure. Contribution income will continue to exceed total expenditure for many more years resulting in significant growth in the Board’s funds 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 changes to either the contribution rate or the benefit provisions that were in place on 31 December 1999.

1. The reserves of the LTB Branch are projected to grow to $1.25 billion in 2020. Thereafter, they will steadily decrease until being exhausted in 2031.
2. The number of active contributors for each pensioner will fall from 11.1 in 2000 to 1.8 in 2060. Given the partial funding system for SSB 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 rate of 11% of insurable earnings.
3. The average level contribution rate required over the next 60 years to fully cover the cost of benefits payable during that period is 17.3%.
4. If the contribution rate is not increased until the reserves are completely exhausted, a contribution rate of 25.9% in 2031 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. This rate will increase slowly to 33% in 2060.
5. Alternatively, to secure a reserve of twice annual expenditure in 2060, the contribution rate would have to be increased periodically over the next 42 years from 11% to 26% of insurable earnings as shown in the following table. Rate adjustments are assumed to occur when the Long-term Benefits Branch reserve-expenditure ratio falls to the levels indicated.

<table>
<thead>
<tr>
<th>Year contribution rate increased</th>
<th>Reserve-expenditure ratio</th>
<th>Reserve-expenditure ratio</th>
<th>Total Pay-as-you-go contribution rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>20</td>
<td>14.0%</td>
<td>8.3%</td>
</tr>
<tr>
<td>2016</td>
<td>16</td>
<td>17.0%</td>
<td>13.2%</td>
</tr>
<tr>
<td>2021</td>
<td>12</td>
<td>20.0%</td>
<td>17.5%</td>
</tr>
<tr>
<td>2030</td>
<td>8</td>
<td>23.0%</td>
<td>25.3%</td>
</tr>
<tr>
<td>2042</td>
<td>5</td>
<td>26.0%</td>
<td>30.1%</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 of reserves out of both branches to the LTB Branch, and reductions in the proportion of contribution income allocated, are being recommended.

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

Several recommendations are made in this report. For issues on which further discussion and review by the Board and stakeholders are considered necessary, comments and ideas are provided but no specific recommendations made. It is anticipated that the government and its social partners will closely consider each issue to ensure that benefit provisions best meet the socio-economic environment in St. Kitts and Nevis, with which they are most familiar.

The specific recommendations made throughout this report are:

(a) Through strategic plans and objectives reduce the cost of administering the SSB both in absolute dollars and as a percentage of contribution income or overall cash flow. The 20% of contribution income spent on administrative expenses in 1999 is excessive when compared to other regional social security schemes and is much higher than the 13% spent in 1994.

(b) Transfer $32 million from the Short-term Benefits Branch to the Long-term Benefits Branch.

(c) Transfer $46 million from the Employment Injury Benefits Branch to the Long-term Benefits Branch.

(d) Reduce the percentage of contribution income allocated to the Short-term Benefits Branch from 2% to 1.75% of insurable earnings.

(e) Reduce the percentage of contribution income allocated to the Employment Injury Benefit Branch from 1% to 0.6% of insurable earnings.

(f) Increase the proportion of contribution income allocated to the Long-term Benefits Branch from 8% to 8.65% of insurable earnings.
(g) Consider placing in Social Security Regulations the timing and magnitude of adjustments to the ceiling on insurable earnings, grants, minimum pensions and all pensions in payment. Such provisions could provide for annual increases in line with changes in price and wage inflation.

(h) Establish a committee to review the current Social Security Regulations, especially benefit provisions, to ensure that the eligibility provisions and the amounts being paid are consistent with prevailing socio-economic conditions in the Federation. Special emphasis may be placed on the adequacy of the Maternity and Funeral grants and the level of the minimum contributory and Assistance pensions. Once recommendations are made the long-term financial effect of the proposed changes should be estimated prior to implementation.

(i) Amend the method of allocating investment income to the three benefit branches and ensure that allocations of administrative expenditure are made in line with Social Security (Financial & Accounting) Regulations.

(j) Calculate the accumulated value of contributions and interest for former National Provident Fund members so that the total amount due to these persons can be established. Once determined, funds that are now part of the National Provident Fund in excess of the amount due may be transferred to the Social Security Fund or used to provide extra interest credits to former NPF members.

(k) Ensure that benefit payments for late claims are made in accordance with the Benefit Regulations. For Age pension, where current practice pays for the entire late period instead of only 6 months, consideration may be given to paying up to one year’s pension. Any change will require an amendment to Benefit Regulations.

(l) Specify the test of resources that will be used to determine whether or not persons will qualify for an Assistance pension. The present test in Benefit regulations only requires that the individual be “in need”.

(m) Put in place a system of regular verifications of pensioners, so that only those who remain eligible continue to receive pension payments.

(n) Make public the financial operations of the SSB and the results of this and future actuarial reviews through annual reports, booklets, discussion forums and other effective means. This will ensure that public understanding and appreciation of the Board’s affairs is increased and that all residents are aware of the challenges that lie ahead.

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

(p) Gradually change the asset mix of the SSF by increasing the proportion held in long-term securities and decreasing the amount held in fixed deposits. Additionally, local fixed deposits should be reasonably spread among commercial banks, instead of being heavily concentrated in one particular institution.

The issues for which no specific recommendations have been made include:

(a) Payment of both a lump-sum grant and a reduced pension to persons eligible to a Death Benefit.

(b) Revised 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.
Revised contribution and Age pension provisions so that persons 62 and over who remain in employment may continue to contribute and qualify for pension when they have substantially retired.

Introduction of a Constant Care and Attendance Allowance for 100% Disablement pensioners who require round-the-clock care.

Employment injury benefit coverage for self-employed persons.

Creation of a programme of rehabilitation for Invalidity and Disablement pensioners so that many of them may be able to return to some active employment and live a more meaningful life.

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 Kittitians and Nevisians. With continued monitoring of Scheme experience, sound planning, frank discussion with stakeholders and the timely implementation of reforms, the Social Security Board will be better prepared to meet the challenges that lie ahead.