**Executive summary**

This summary states the main findings and recommendations of the actuarial review as of 1 July 1995, which was undertaken by the International Labour Office, in accordance with section 70 of the National Insurance Act 35 of 1971. The report on the valuation was presented to the National Insurance Board in July 1996.

1. **Findings**

The report analyses the present financial status of the scheme and establishes short-term projections for the short-term benefit branch and long-term projections for the long-term benefit branch. These projections can of course only be model calculations about uncertain future developments, but they map out one possible path of developments based on prudent economic assumptions. According to this quantitative analysis, the National Insurance Scheme in Trinidad is presently in a sound financial state. After sufficient provisions have been made for the short-term and the employment injury branches, the funding ratio (i.e. the reserve at the end of the year expressed as a multiple of annual total expenditures) for the Long-term branch as of 30 June 1995 is \( k = 13.0 \), and is superior to a level \( k = 10 \) for the next 30 years, at the present contribution rate. This is sufficient to insure the viability of the scheme for the next decades. However, the current financial situation allows the National Insurance Board to concentrate on a necessary major review of the scheme’s basic design, such as contribution conditions and benefit conditions. Necessary benefit adjustments will shorten the above periods of contribution rate stability. The present financial stability of the scheme exists because of severe decreases of the real value of benefits. Benefits and ceilings of the wage classes have not been adjusted for many years, and hence, benefit levels have deteriorated. Presently, average old-age pensions only amount to 16% of the national average wage, and the average amount is substantially lower than the means-tested old-age benefit provided by the non-contributory old-age pension system. The contributory pension system is thus at risk of being completely marginalized if contribution and benefit provisions are not substantially revised. The present financial status of the scheme leaves considerable room for improvement. The scheme is capitalized at 68.9 per cent, and this rate is presumed to increase up to 77.4 per cent in 2020, if the scheme remains unmodified.

2. **Recommendations**

2.1 **General conceptual issues**

This actuarial review cannot provide the Government with comprehensive advice on an overall restructuring of the social protection system. The advice given is restricted to retirement provisions and benefits provided through the NIB. The following recommendations aim at strengthening the National Insurance System as a sound first tier in what might become de facto a multi-tier benefit system (i.e. notably a multi-tier pension system). The relatively widespread private sector pension arrangements could be transformed through appropriate regulation into a genuine voluntary second tier where private initiative is combined with an effective base of state protection of acquired rights. The present means-tested non-contributory old-age pension system could be transformed into a social assistance provision for needy citizens in old age. The ILO is ready to provide - and has offered - more explicit advice on the latter suggestions or to undertake quantitative analyses of any alternative proposals concerning the overall design of the national social protection system developed by the Government or social partners.

2.2 **Coverage and benefit provisions**
Extension of coverage to self-employed persons
Considerations are outlined in the report about the possible inclusion of self-employed persons into the National Insurance System (NIS). It is stressed that stringent mechanisms to insure compliance and realistic income declarations have to be put in place preferably before the self-employed are offered social security coverage.

Adjustment to pensions-in-payment and accumulated contributions
It is recommended to apply a one-time adjustment of pensions in payment in order to bring their level closer to presently reached levels of newly awarded pensions. Pensions awarded before implementation of the current proposition should be increased according to the transition schedule displayed in section 4.1.5. Credits accumulated on the date of implementation should be increased according to the same schedule.

Benefit design
It is recommended that:

a) the present eligibility conditions (i.e. contribution requirements) for survivors' and invalidity pensions be replaced by a minimum period of contribution equal to 50 weeks for survivors’ pensions. A minimum of 150 weeks of contribution is required for invalidity pensions, including 50 weeks of contribution within the 3 years prior to the event of invalidity;

b) the definition of the degree of invalidity be related, in the first year of invalidity, to the previous occupation of the insured, and thereafter in relation to a broader concept of ability to work;

c) sickness benefit be payable for 52 weeks instead of 26;

d) the payment of invalidity pension commences after 52 weeks of sickness (if medically approved);

e) contribution credits be granted to invalidity pension beneficiaries.

f) there are improvements in the amount of invalidity and survivors benefits.

2.3 Contribution and financing provisions

Creation of new earnings classes
It is recommended to restructure the existing eight class system into a twelve class system. The new twelve class structure will cover earnings from TT$80/week to TT$810/week (the latter represents two times the average salaries in Trinidad and Tobago in 1995). This leads to a de facto increase of the ceiling of insurable earnings. The current first four classes are merged with the current fifth class. The minimum contributory earning is increased from $TT5/week to $TT80/week. Any week during which the worker does not earn at least this minimum is not considered as an insurance period. Coverage is mandatory for any worker in a covered employment whose earnings are higher than this minimum. It is recommended to adjust the class ceilings at least annually in line with the development of average insurable earnings.

This restructuring should, however, be seen as an interim measure. As soon as administratively feasible, the wage class system should be replaced by a contribution system which collects the exact amount equivalent to a uniform contribution rate (presently 8.4% from each insured person,
two-thirds financed by the employer). The insurable wages could still be subject to a floor which should initially be equivalent to the lower boundary of the lowest wage class, and a ceiling which should initially be equivalent to the upper boundary of the highest wage class.

**Financial system**

It is recommended that the long-term benefit branch continues to be partially funded based on the scaled premium system of finance. This system leads to consecutive periods of constant contribution rates. The contribution rates of these consecutive periods (called the period of equilibrium) will show an escalating increasing trend, which is a genuine characteristic of all pension schemes financed on a scaled premium basis. During the periods of equilibrium the reserves are required to remain above or at a prescribed funding level.

Using the amount of reserves of the accumulated fund, and of the long-term benefit fund, the present contribution rate of 7.1 per cent for the long-term benefit branch does not have to be increased during the next 30 years (if one were to keep the presently advocated reserve level). During the next decades it is recommended to maintain the present practice of keeping the reserves in the long-term fund at the end of each year at a level of 10 times that year's benefit expenditure. The short-term and the employment injury branches' reserves are presently kept at a level of 1.25 times the annual expenditure. Because of the long-term nature of some employment-injury benefits, it is recommended to set the reserve level for this scheme at 8 times the current year's benefit expenditure.

**Investments**

It is recommended to continue to reduce investments in the residential mortgage market. Limits should specifically be stated on how much money can be invested in securities other than bonds (i.e. real estate, stock, mortgages, other financial tools). Diversification in international investment (in CARICOM countries at the beginning), either bond or stock, is also recommended.

**Future increases of contribution rates**

The actuarial valuation has assessed the cost of the short-term and long-term benefit branches separately. As the short-term benefit branches are considered to have a relatively stable risk structure, emphasis of this analysis is placed on the financial assessment of the pension branch. The central indicator for the financial development of the pension branch is the development of the pay-as-you-go (PAYG) cost rate. Different scenarios were calculated and the development of this indicator was traced throughout the next five and a half decades.

All projections show that in Trinidad and Tobago, as in all other young schemes, the contribution rate will have to increase as the scheme is maturing. The PAYG cost under scenario 1 (static status quo) and scenario 2 (dynamic status quo) is anticipated to increase to 30 per cent towards the end of the projection period.

The financing of the above benefit modifications (as suggested here and in section 2.2) would require higher absolute amounts of contributions by employers and employees which are furnished through the de facto raising of the contribution ceiling. Due to the increase of the total amount of insurable earnings, the ultimate PAYG contribution rate (in 2050) for this scenario would be even lower than the one under the first two scenarios.

The necessary increasing of the contribution rate is a process that has to be phased over decades. At present, there is no need to raise the contribution rate even if the above modifications to the contribution and benefit provisions are accepted. According to the projections, the prescribed
funding level could be met during the next 5 to 7 years without an increase of the contribution rate, and it appears preferable not to charge higher contribution rates during the current difficult economic transition process. It is recommended that the contribution income be allocated as follows: 84.5 per cent for the long-term branch (i.e. 7.10% points), 8.7 per cent for the short-term branch (i.e. 0.73 % points) and 6.8 per cent the employment injury branch (i.e. 0.57% points).

Nevertheless, it is recommended to establish either a legal provision or rule governing the decision-making process on the determination of the necessary contribution rates. The earlier the Government commences with the gradual increase of the contribution rate, the smaller each increment can be. Smaller but more frequent increases are most likely politically acceptable than sudden increases after a long period of stable contribution rates.

2.4 Administrative and management matters

Administrative cost
As in the third and the fourth reports, it is recommended that the provision of the National Insurance Act limiting administrative expenses to 9.5 per cent of the contribution income be removed. The adequacy of administrative expenditure should, in future, be explicitly reviewed in the context of each actuarial valuation.

Data collection and maintenance
It is recommended that, for management purposes, an accurate record of all pensions paid as of the end of a fiscal year, and all new pensions awarded in that year, by age, sex and amount of benefit, be kept. Explicit records on contributors, including, in particular, their history of contributions, and age and sex, must be kept up to date. This should be done for benefits of each branch but using the same data base. Accurate data are an indispensable prerequisite for efficient management. A continuous exchange of data with the Ministry of Finance and the institutions responsible for the registration of marriage, births and deaths shall be made. Permanent data updating is of utmost importance in order to guarantee that the scheme receives the contributions due and also pays the due amount of benefits to contributors.