THE NATIONAL INSURANCE BOARD'S PRINCIPAL RECOMMENDATIONS FOR THE REVITALISATION OF THE NATIONAL INSURANCE SCHEME

2023

Table of Contents

Executive Summary

The following are the key recommendations designed to enhance the sustainability of the National Insurance Fund (NIF). Details of these and other recommendations are set out in the main body of this report.

If implemented these recommendations will first stabilise and then maintain the size of the NIF's projected reserves <u>at a level equal to or greater than 2 to 3 times the value of annual benefit expenditures.</u>

Contribution Rates

No increase for employers or employees.

Pensionable Age

A **one-year** rise in two steps:-

– 67.5 in 2028

– 68 in 2034

Old-Age Pension Formula

Changes to the pension formula for future Old Age Contributory Pension (OACP) awards that **gradually result** in smaller average new pensions over 5 years. See Appendix E for impact.

Qualifying for Old-Age Pension

A increase in the number of contributions required from 500 weeks (10 years) to 750 weeks (15 years) by 2031 with **no effect on those 60 or older on January 1, 2024**. See Appendix F for details.

Annual Pension Adjustments

A 3% cost-of-living increase will be granted to all contributory pensioners in 2023, with up to 1.5% annual increases thereafter, except when 3-year average price inflation is higher than 3%,. In this case the Actuary will advise on the appropriate amount.

Funding Policy & Compulsory Adjustment Mechanisms

Amend legislation to include a Funding Policy to keep the Fund on track to meet its goals thus avoiding future funding and drastic reform challenges. All future changes to this Funding Policy must be laid in Parliament

Wages used

Change from "Best 5 years" to "Best 10 years".

Early Reduction & Late Adjustment Factors

Increase from 6% to 9% per annum.

Background

"At current contribution rates and pension provisions the NIS is not sustainable as future generations will be required to contribute substantially more, or receive substantially reduced benefits, than previous and current generations."

17th Actuarial Review

The 17th Actuarial Review of the National Insurance, Unemployment and Severance Funds was tabled in Parliament in August 2022. While previous actuarial reviews projected depletion of the NIF and expenditure rates higher than the current average 18% contribution rate, the most recent projections were considerably less favourable due to:

(a) Economic experience being less favourable than expected, primarily due to COVID-19,
(b) Less favourable population and economic projections given the official estimate that the population has already started to decline,
(c) Fewer National Insurance Scheme (NIS) contributors than previously projected, and
(d) Exclusion of contributions receivable from net assets and estimates of contribution income on a cash basis.

Key financial highlights from the projections of the NIF in the 17th Actuarial Review are:

1. Total expenditure is expected to exceed total income each year resulting in a growing portion of reserves required to meet expenditure.
2. The Fund will be depleted between 2034 and 2041.
3. The pay-as-you-go rate when Fund depletion is projected will be between 27% and 34%.

While Fund depletion will not mean the end of the NIS, it will mean that future generations will be asked to pay higher contributions and receive lower benefits.

This report contains the principal recommendations following extensive consultations between July and September 2022. The most frequently raised issues during meetings, from surveys and written submissions were transparency and accountability, debt restructuring, investments, compliance, governance, and service.

The NIF is not yet in crisis. The wide-ranging reforms recommended in this report are intended to both prevent such a crisis and place the NIF on path to long-term sustainability. While an extended period of positive economic growth, job creation and real wage increases will have a positive impact on the Fund's outlook, such outcomes are uncertain. Tough decisions on issues over which policymakers have direct control are therefore required to improve NIS operations and long-term sustainability.

Challenges

The NIS faces a range of challenges, only some of which it can control.

Demographic & Economic Circumstances	Barbados' population is declining and ageing. For a partially funded scheme that is approaching pay-as-you-go status, a decreasing ratio of contributors to pensioners will result in a growing gap between income and expenditure. While population, economic and wage growth will improve NIS finances these factors are not controllable by the NIS.
Social Policy	Policies that have very significant positive impacts on the quality of life of all Barbadians may also have a financial sustainability impact on the NIS. The minimum pension threshold that guarantees financial dignity in old age for the most vulnerable is such an example. The NIS does not make policy but must adapt to it.
Growing Informal Sector	The informal sector has grown significantly since 1967 to an estimated 30% of the employed population. Less than 15% of self-employed persons contribute to the NIS. If self-employed persons do not contribute they do not qualify for a contributory pension and will not qualify for a non-contributory pension. The NIS needs to ensure this is clearly understood whilst making the scheme more attractive and simpler for the self-employed to participate.
Good Design	The design of the pension system was conceived for the economic and social conditions of 1967 - its inception date. Conditions have since changed radically but the design features less so. The NIS can adjust its structure and parameters to strike the balance that best delivers adequacy of benefits, affordability of contributions and overall financial sustainability for the 21st century.
Good Governance	Good governance is an enabler for reform and essential for improving public trust and confidence in the system. The current structure of the NIS splits oversight responsibilities between a board and a government department. This creates a mismatch between performance and accountability. It is hoped that the transition to a State Owned Enterprise in 2023, an assumption upon which many of the recommendations in this report are based, will result in improved service levels and greater accountability and transparency. A radical change in corporate culture is needed.
Public Perceptions	The failure of the NIS to produce audited financials and annual reports for over 10 years, lack of clarity in its investment performance reporting and misconceptions as to how the scheme works are some of the main factors that impact trust and confidence - but which the NIS has the power to solve.

The Minimum Pension is high relative to wages.

The minimum pension, $243 per week or $1,053 per month in 2022, provides "bump up" to those whose formula pension is less than the minimum pension. The minimum pension is considered relatively high because:

1. Approximately 40% of new Old Age Contributory Pension (OACP) cases are "bumped up" to minimum pension,
2. 40% of active OACP pensioners receive minimum pension,
3. The minimum pension equals 71% of the minimum wage or 36% of the average insurable earnings,
4. Many low-paid workers who contributed for over 30 years still get minimum pension,
5. Approximately 16% of the cost of OACP pensions added in the last 3 years is due to the minimum pension "bump up".

The relatively high minimum pension results in the effective payback period being short for a large portion of new pensioners as illustrated below. A simplified average "payback period" was estimated for 35 different groups of NIS insureds (incomes and contribution periods) using data from new pensioners in 2019 to 2022.

Figure 1: Pension Payback Period

Income - % of Ceiling

>90%	7.5	9.9	11.0	13.3	15.8	18.6	23.4
75% to 90%	6.3	9.9	11.0	13.3	15.8	18.6	23.4
50% to 75%	4.8	7.9	11.0	13.3	15.8	18.6	23.4
25% to 50%	2.8	4.6	6.9	9.6	12.9	17.0	21.9
<25%	1.2	2.0	2.9	4.1	5.5	7.3	9.4
	10	15	20	25	30	35	40

Years of Contributions

As shown above:

- The payback period is "quicker" for those with lower incomes and few years of contributions (lower left).
- Many new pensioners are awarded the minimum pension (shaded areas).
- There is a large difference in payback period between those with lower incomes and short contribution histories (lower left) and those with higher incomes and long contribution histories (top right).

A national pension system cannot be sustainable if a large portion of pensioners receive substantially more than has been contributed by them and on their behalf.

The desire to maintain the current minimum pension limits the reform options available. It is not clear whether everyone who is bumped up to the minimum pension needs or deserves such a "bump up". E.g., someone with adequate means but who had only a short working career need not receive a "bump up". Options for reducing the impact of the minimum pension on NIS expenditure include:

i. Bump up the pension amount only where circumstances warrant such an increase.
ii. Gradually reduce the minimum pension in real terms by not increasing it for several years.
iii. Let government, not the NIS, fund the full amount of the "bump up".

Guiding Principles & Objectives

Conflicting priorities must be balanced by guiding principles and funding targets.

Different stakeholders prioritise different potential reform outcomes - and these priorities are frequently in conflict. Appendix B describes some of these conflicting priorities. This review of the NIS considered solutions to this context against the following three Objectives:

1. ***Benefit Adequacy:*** The ability of the OACP to meet a defined portion (based on an agreed Benefits Policy) of the basic living needs of an elderly resident of Barbados, bearing in mind the other elements of the social safety net to address any needs unmet by the OACP.
2. ***Contribution Affordability:*** The ability of employers and employees to meet the cost of future NIS contributions without negatively affecting employer costs, workers' disposable income, compliance, and the overall labour market and economy.
3. ***Fund Sustainability***: Projected NIS reserves being adequate to meet future benefit obligations. Given future economic and demographic uncertainty, extending fund depletion for 25-30 years and pay-as-you-go rates that do not increase as the population ages are the primary financial goals.

Fund sustainability and contribution affordability are already concerns. However, as the list below shows, there are only a few reform options that will enhance sustainability that policymakers can control.

1. Increase the contribution rate.
2. Revise the pension formula such that the expected overall new average pension is lower.
3. Increase the age at which pensions are awarded.
4. Withhold or reduce pension increases that would otherwise have been granted.
5. Pensioners contribute as a means of them sharing the burden of achieving long-term sustainability.
6. Temporary reductions in pension amount for higher income pensioners.

The set of reforms recommended in this report are therefore guided by the following principles.

1.	As a social security scheme, NIS will provide all qualified beneficiaries with a minimum pension that never falls below the poverty line.
2.	Reforms must result in the NIS being financially sustainable for 25-30 years and must be fair in their impact across generations.
3.	NIS should remain self-sustainable with Government having to intervene temporarily in extreme circumstances only.
4.	The National Insurance & Social Security Act should include specific target funding levels and required actions ("Compulsory Adjustment Mechanisms") to be taken should actuarial projections suggest that the NIS will not meet stated targets. (See proposed Funding Policy in Appendix A)
5.	NIS assets should not be overly invested in any one country, region or currency. Investments should be adequately diversified and driven by professional investment managers.
6.	NIS must adhere to good governance practices; prudent decision making must abound when there are negative shocks as well as during times of prosperity.

Consideration was also given to reforms having minimal impact on those close to pensionable age and the abilities of the NIS to implement the changes in a timely manner.

The Necessity for Revitalisation

Wide ranging changes are required if the NIS is to be the comprehensive system of social protection that reflects Barbados' value system, responds to changing socio-economic conditions, and satisfies customers' needs.

The long-term sustainability of the NIS requires maintaining a system that all stakeholders can count on to evolve and adapt to changing circumstances, at a cost that is both affordable for current and future generations. Following are the areas considered most in need to reform if the NIS is to regain the confidence of Barbadians.

Enhanced Governance	Age Pension Reforms	Modernisation	New Approach to Self-employeds
Diversified Invesments	Improved Compliance	Successful Transition to a SOE	Education

The above can be categorised into (i) governance, (ii) scheme design and (ii) administration. Following is a high-level summary of the recommendations discussed in greater detail throughout this report.

Subject	**Focus on**	**Recommendations**
Governance	Board & Committees	▪ Size, how selected, minimum qualification & experience criteria ▪ How the Chief Executive Officer is selected
	Investments	▪ Policy and asset mix ▪ Role for the Board, if any, in specific investment decisions ▪ Internal or external investment managers
Scheme Design	Sustainability	▪ Old-Age Contributory Pension
	Modernisation of benefits	▪ Socio-economic changes since 1967 warrant changes to some benefits
Administration	Modernisation of systems, people management & relationships	▪ With available technology many improvements can be made to enhance compliance, service delivery and how NIS interacts with employers and insured persons ▪ Timely financial and statistical reporting ▪ Following transition to a State Owned Enterprise, implement operational norms that maximise efficiency in a competitive, corporate environment ▪ Direct and real-time links with government departments for two-way information sharing

Recommendations

Old-Age Pension

Old-age Pension accounts for nearly 80% of NIS benefit expenditure and thus any meaningful reform to reduce future costs must focus on this pension. Following are the recommended parameter changes to Old-age pension that will provide a closer link between benefits received and contributions made, as well as a slightly lower average new pension.

Provision	Recommended Change	Transition
Eligibility - # of weekly contributions	Increase from 500 weeks (10 years) to 750 weeks (15 years). See Appendix F.	2024 to 2031 but 60 and over on 1/1/2024 will be allowed to qualify with 500 weeks.
Pensionable Age	Increase from 67 to 68 in 2 steps	67.5 from 2028 68 from 2034
First age for reduced pension	Increase from 60 to 63 in 3 steps	61 in 2025 62 in 2028 63 by 2031
Cost of Living Adjustment	3% increase to current pensions in 2023 with further increases thereafter of up to 1.5% annually unless 3-year avg. inflation >3%	2024
Accrual Rates	Maximum 60% reached after 40 years instead of 36 years. (1.5% for each year of contributions). See Appendix E for impact.	2024 to 2028
Wages used	Change from “Best 5 years” to “Best 10 years”	2024 to 2028
Early Reduction Factors	Increase from 6% to 9% pa	2024 to 2026
Late Adjustment Factors	Increase from 6% to 9% pa	2024 to 2026

It is recommended that most reforms are phased in starting January 2024. Under a phased approach, the impact on those close to pensionable age will be minimal. Following is a summary of how the proposed changes will affect current pensioners and contributors.

Age/Status on Jan 1, 2024	
Existing Pensioners	▪ No change in current pension amount ▪ Annual pension increases will continue but they may be slightly lower
Age 60 to 66 – not yet receiving Old-Age pension	▪ Slightly smaller pension amount. ▪ Larger reduction in pension amount if claim before age 67 ▪ Larger increase in pension amount if claim after age 67
Less than age 60	▪ Full pension available a little later – 67.5 between 2028 and 2033, 68 after 2033 ▪ Slightly smaller pension amount but they have time to make other retirement income preparation

Self-Employed Coverage

An increasing number of elderly persons without a reliable source of income in old age is not good for families and not good for Barbados. Self-employed persons need an easy, flexible, and convenient way to contribute for benefits they understand and value.

It is estimated that only 1 in 8 self-employed individuals (SEIs) regularly contribute to the NIS. Low compliance among SEIs does not directly affect NIS sustainability as those who fail to contribute do not qualify for a contributory pension. If, however, SEIs only contribute for the minimum 10 years, they receive a pension well in excess of contributions made (see Figure 1, page 6).

Following is a comprehensive list of recommended changes to self-employed coverage and administration.

How it is now	What's Recommended
1. Each month's payment must be accompanied by a form. 2. Must pay by the 15th of the month else late penalties will apply. 3. Contributions made more than 12 months late will not be considered for benefits 4. No coverage for employment injury benefits. 5. Employed persons who also have a "side hustle" cannot register and pay as a self-employed person.	1. Full flexibility as to when and how much you contribute in a given year: no forms, no monthly minimums or maximums, no due dates. 2. Contributions can be paid online via bill-pay or direct transfer options – no need to go to the NIS office or post cheques. 3. The NIS will convert SEI contributions into insurable earnings and number of weeks used to determine benefit eligibility and amounts payable. 4. "Back-paying" contributions for previous years will be accepted but the amount paid will be discounted to compensate for lost interest to the Fund. 5. Covered for Employment Injury benefits. 6. Even if they have a current employer-employee relationship, self-employed persons should register as an SEI and pay additional contributions if their employment income is less than the earnings limit. 7. Contribution reminders and payment confirmations sent via SMS or email. 8. Online access to *Check Your Contributions*

The above changes will not negatively affect any self-employed or employed person and thus should be adopted as soon the NIS is able to implement the required operational and system changes.

Increased ease and flexibility will not automatically result in most SEP's quickly registering and making NIS contributions. Changing their perception of the NIS will also be required. Therefore, there should be:

- Ongoing education on the specific benefits offered and their overall value;
- Frequent communication with SEIs via means consistent with individual preferences;
- Demonstrate through improvements in service delivery, meeting statutory requirements, transparency and enactment of timely reforms which enhance confidence that the NIS will be around to consistently deliver on its promises.

Design & Operations

Socio-economic changes and technological advancements since 1967 warrant changes that will make NIS benefits more relevant and NIS operations more efficient and effective.

While much has changed since the NIS was implemented in 1967 several NIS design elements have not. Further, electronic systems, work processes and operational practices at the National Insurance Department provide levels of performance and service below those of most Caribbean social security schemes.

Following are recommendations intended to modernise several aspects of NIS design and its operations.

Contributions & Benefits	
Earnings Floor	Increase the wages below which no contributions are required from $21 to $180 per week. This will increase the minimum weekly contribution to $28.
Invalidity Benefit	▪ Change “Invalidity” benefit to “Disability” benefit and allow for a partial benefit if the insured’s disability limits him/her to partial work
Survivors Benefit	▪ For Survivors benefit eliminate the age-based factors for how long the benefit is available and use instead, a circumstances assessment ▪ Allow widow(er)s who remarry to keep their Survivors pension
Reference Period for Short-term benefits	▪ Eliminate the use of previous “quarters” as the reference period used to determine eligibility and average insurable earnings for Short-term benefits and instead use the period starting as late as the week prior to the sickness, maternity or injury.
Relationships with Government Departments	▪ Establish formal electronic links with government departments responsible for the registration of births and deaths to more efficiently administer the disbursement of benefits.
Administration	
Compliance	▪ Develop the capacity to engage in frequent and random audits of employers and SEIs. ▪ Publish an annual performance report summarising progress made in recovering arrears against a target of at least a 10% increase in contributions. Improved compliance is critical to delivering financial sustainability and raising trust in the NIS. ▪ Hold company directors personally responsible for amounts owed to the NIS. ▪ Establish an electronic cross reference capacity between the Barbados Revenue Authority (BRA) tax records and NIS records to detect non-compliance and trigger the enforcement process. ▪ Electronically link the issuance of government permits and licenses to both businesses and self-employed persons to NIS compliance.
People and Systems	▪ Update or replace the current administrative system so that it can meet service expectations and enable timely financial and statistical reporting ▪ Following transition to a State Owned Enterprise, implement new human resource practices and operational norms that maximise efficiency in a competitive, corporate environment

Unemployment & Severance Funds

Changes to Unemployment & Severance Funds are also required to ensure a comprehensive and relevant safety net for workers.

While the primary focus of this report is the NIF, changes are also needed to the Unemployment and Severance Funds to ensure their ongoing relevance and sustainability. Both funds received increased scrutiny during the economic fallout from the Covid-19 pandemic.

Unemployment Fund

The $148 million paid in unemployment benefits in 2020 was three times typical annual expenditure. With insufficient reserves in the Unemployment Fund to meet this expenditure, $93 million was borrowed from the National Insurance and the Catastrophe Funds. Although the Government of Barbados is recapitalising the fund with $143 million over three years, total reserves will likely not reach the desired level of 1-2 years' worth of expenditure. To gradually achieve desired funding levels, the contribution rate will need to be around 0.25% of insurable earnings more than the actual cost of benefits each year.

Recommendation

Establish a funding policy and a system of annual rate setting to achieve or maintain established funding levels

Severance Fund

The Severance Payments Act establishing the Severance Fund came into force in 1973 and was last amended in 1991. Since then, the NIS has added an unemployment benefit and changes to labour laws over time have provided enhanced protection to workers, bringing into question whether the Severance Fund remains as relevant today as when first conceptualised and established in 1973. For many years, there has been a low level of Employer Rebates (payable from the Fund to employers who pay their employees their severance lump sum entitlement), but large amounts of severance payments from the Fund directly to workers when employers fail to make the required payment.

While the Severance Fund appears to be adequately funded, it could soon become financially challenged if most employers are unable to pay the amounts due to their former employees, and the large amount due from previous employer payments remains uncollected. The Severance Fund also faces administrative challenges which result in lengthy delays in payments to severed workers.

Recommendations

1. Assess the current relevance of the Severance Act and review the process used to administer Severance payments.
2. Take steps to recover all outstanding amounts paid on behalf of employers who did not meet their statutory obligation.

Governance

The Core Group appointed by the Ministry of Labour and mandated to lead the reform review process has transmitted its recommendations on Board governance to the NIS team leading the transition from government department to a State Owned Enterprise. These recommendations will be reported separately by the NIS.

The remaining recommendations below will align NIS' investment portfolio decisions with the long-term interests and requirements of its beneficiaries.

Subject	Focus on	Recommendations
Governance	Board	▪ Transmitted to the NIS SOE Transition Team to be reported on separately. The main areas the recommendations cover relate to (i) increasing tripartite representation, (ii) increasing board expertise and (iii) increasing the alignment of interests between the Board and management.
	Investments	▪ Develop collaborative arrangements with regional national insurance & social security organisations, and others, to identify options for NIF diversification (e.g. asset swaps and pooled investments through master trust structures). ▪ Establish an agreed programme of foreign exchange purchases with the Central Bank of Barbados to increase overseas investments. ▪ The NIF remains subject to the Ministerial investment-related directions of section 101 of the Public Finance Management Act, 2019 but with the added safeguard that any instructions be written and gazetted. ▪ Professional investment managers will drive the investment process independently with the Board's role covering (i) oversight of performance, (ii) verification that its investment mandate is followed, and (iii) that the Investment Policy Statement is adhered to and periodically reviewed. ▪ Implementation of a comprehensive set of portfolio reporting dashboards that include total returns data and risk-adjusted metrics allowing like-for-like comparisons of performance across asset classes. ▪ Publication of a timeline for the implementation and execution of these reforms. ▪ Publication of the Investment Policy Statement and any significant ongoing changes to it. ▪ Publication of the NIF current and historical performance by asset class since the last 2003/2004 pension reform exercise. ▪ Publication of all loans to and purchases of bonds from local and regional private and public sector entities since the last 2003/2004 pension reform exercise. ▪ A return to the practice of publication of Annual Reports.

A fundamental challenge to the NIF portfolio is how to diversify in a jurisdiction with capital controls - Barbados. This constraint has led to very significant portfolio concentrations in a single currency, a single country and a single bond issuer. The debt restructuring of 2018 exposed the risk this created.

Therefore, exploring all avenues of potential diversification is a priority. This must include discussion with the Central Bank of Barbados. The results of these efforts will require a review of the current Investment Policy Statement which is being breached in several respects because of this lack of diversification.

Public perceptions concerning the historic management of the portfolio create an opportunity for the NIS to allay these by sharing data and being more open with its investment process and performance.

Future Work

Notwithstanding these reform recommendations, there remain several critical issues and areas for future research and analysis that could enhance income security in old age for all residents of Barbados. The most important of these leads the list below and would potentially lead to a structural change to the NIS:

- Minimum NIS Pension: a viable, systemic alternative to the status quo where everyone whose formula pension is below the minimum pension rate gets bumped up. This should include analysis of a structural change to pensions such that a tax-financed, flat-rate minimum pension would be paid to all elderly residents who meet minimum residency criteria. A smaller income-linked NIS pension, together with drawdowns from personal savings, may provide more reliable income security than exists today.
- Gradually convergence of the minimum pension with the poverty line. The absence of a recent poverty study prevents this reform today.
- A "Circumstance Assessment" to determine eligibility, rather than the automatic "bump-up" now awarded to new pensioners whose formula pension is less than the minimum pension rate. The assessment would fairly determine which new pensioners warrant an additional lifetime income supplement with assessment criteria including income (as cross-referenced with BRA), length of career and involuntary interruption.
- Comprehensive assessment of the economic, financial and budgetary implications for the return of tax concessions for locked-in retirement savings with the goal of encouraging private businesses and individuals to have private pension plans that would complement NIS benefits.

Appendix A: Funding Policy

Funding Principles & Targets

To ensure an acceptable balance between Benefit Adequacy, Contribution Affordability and System Sustainability over at least 30 years, the following four (4) principles shall guide the specific targets and actions linked with the proposed Compulsory Adjustment Mechanisms (CAMs).

1. **Minimum Reserve-Expenditure Ratio (RER):** 3 in each of the 10 years following the actuarial review date and at least 2 in the 20th year following the actuarial review date. (4.9 at end of 2022)
2. **Maximum NIF Contribution Rate Acceptable:** 20% (now 18.25% for private sector)
3. **Additional Benefits:** Any new benefits to be added shall be fully funded by additional contributions or by an offsetting reduction in projected cost of one or more existing benefits.
4. **Government Support:** Should the NIS annual budget reveal that the RER at the end of the current year is forecast to be less than 2 times, the Government of Barbados shall be required to make special contributions in the next year to maintain a projected RER of at least 2 at the end of the subsequent year.

Specific Requirements and CAMs to be included in the National Insurance & Social Security Act

1. The Board shall maintain a Funding Policy that is reviewed no less frequently than every three years.
2. If the NIS budget suggests that the RER at end of the current financial year will be less than 3, estimate the additional amount required that, if injected to the Fund, would result in the Reserve-Expenditure ratio being 3 at the end of the next financial year. This amount is to be included in the budget report.
3. If an actuarial review suggests that the targets of the Funding Policy will not be met, then:
   a. The actuary shall provide projections for at least two (2) sets of contribution and benefit reforms that are projected to meet this Policy's minimum funding targets and maximum contribution rate. NIS management should agree on the specific changes in each alternate reform option modelled.
   b. The Board shall within 30 days of the report being submitted by the actuary submit the report to the Minister. The Minister will thereafter have 30 days to respond to and lay the report before Parliament.
   c. A set of stabilising reforms that projections suggest will meet this Policy's targets shall be introduced no later than 12 months after the report referred to above is laid in Parliament.
4. Prior to the addition of any new benefits or reduction in an existing benefit, an actuary shall estimate the average cost of the new or reduced benefits over the next 30 years. Should there be a net increase in average benefit cost of more than 0.2% of insurable wages, a contribution rate increase of at least the net increase in benefit costs shall be introduced prior to or when the benefit enhancements are to take effect.
5. With the assistance of an actuary and following consultations with social partners, this Policy shall be reviewed and approved by the Minister no later than 3 months prior to the date of each actuarial review.

Appendix B: National Feedback & Consultations

During August 2022, following the laying in Parliament of the 17th Actuarial Review, the Government of Barbados undertook an iterative consultative process in order to receive recommendations and feedback on proposed NIS reforms.

The process included a series of engagements with stakeholders and the public in the form of over 20 group presentations of the findings of the 17th AR, town hall meetings, two surveys, and suggestions received via suggestion boxes and email.

Town hall meetings were held at the Combermere School on August 15, 2022, Alexandra School, St. Peter on August 17, 2022 and Princess Margaret School on August 18, 2022. Two national surveys were conducted: Survey A "We Want to Hear from You", an online survey disseminated via Surveymonkey which received 1569 responses, and Survey B "Views and Opinions on NIS Reforms" executed by Caribbean Development Research Services (CADRES) primarily via telephone, and in order to (i) reach individuals who are less likely to have access to the online instrument (ii) more closely examine some of the issues raised in early consultations. Survey B received 1000 responses.

Written feedback was submitted via email by the Barbados Private Sector Association, Barbados International Business Association and the Barbados National Union of Fisherfolk supported by Regenerate Barbados.

Three groups of experts and stakeholders – a Core Group, Working Group and Advisory Group – were also convened with the following remits:

The Core Group was the group of experts tasked with reviewing suggestions made by stakeholdersand the public, undertaking further analysis of the data and options available for national insurance reform, including and especially examples from comparable jurisdictions, and on this basis reporting recommendations to the Board of the NIS.

The Working Group was responsible for considering and providing feedback to Core Group recommendations as they were being developed, and the Advisory Group of stakeholders was consulted to give early reactions on how different groups of Barbadians might be affected by the recommendations being developed. The members of each Group may be found at Appendix C.

The National Insurance Board subsequently reviewed and deliberated on the Core Group's report, associated submissions from the public, consultation meeting minutes, surveys and related documentation which, in sum, ran to 241 pages. **This report is the Board's distillation of that overall process.**

A principal finding of the two surveys and other consultations was that Barbadians overwhelmingly believe in the importance of the NIS. On average, around 78% of survey respondents "believe that the NIS is important enough to our social well-being that it is worth revitalising". Across the different forms of consultation, some key concerns, perceptions and observations were as follows:

- Uncollected income from non-compliant employers, employees and self-employed individuals (SEIs) should both be urgently pursued now and measures introduced to incentivise SEIs to participate in the Scheme.
- The current retirement age of 67 should not be increased.
- An increase in the contribution rate for National Insurance, Unemployment & Severance should not be considered.

- Those who work but choose not to contribute to the NIF should not receive an old-age non-contributory pension, except in cases of physical or intellectual disability.
- A transparent investment policy should be agreed and published to ensure that no party, including Government, is able to invest NIF funds in a way that threatens the Fund's sustainability.
- Annual Reports should be made to the public (possibly in a town-hall style meeting) on the performance of the Fund.
- NIS assets should be managed professionally and independently from central government involvement.
- Future reforms should result in the NIS being financially sustainable for at least 30 years.
- Over 60% of respondents in Survey A and B showed general support for NIS Old Age Contributory pension (OACP) calculated based on earnings over one's entire career and not just the average of the best 5 years.

While the above feedback and several other suggestions and comments guided the work of the Core Group in drafting its recommendations, there were clearly some incompatibilities in the data that represent the **conflicting priorities** described in the Guiding Principles & Objectives section. It is, for example, impossible to reform the current structure of the NIS such that there is no increase in the retirement age, no increase in the contribution rate and yet make the system financially sustainable for at least 30 additional years. For this reason the Core Group established a principle-based framework to navigate through contradictory challenges it faced and achieve its objectives. This framework and objectives were set out in the main body of this report.

The consultations also revealed some gaps in public knowledge about the purpose of the NIS and how it functions. The table below discusses some perceptions that have emerged and shares some key related facts.

NIS Perception vs Fact

1. Governments use NIS funds at will	NIS investments in government paper are first considered and then recommended by the NIS Investment Committee and then approved by the full Board. The Board did, however, allow the portion invested in GOB debt to exceed approved limits, a matter which can be addressed/avoided in future with appropriate governance and investment rules.
2. The 2018-2019 debt restructuring severely affected NIS sustainability	The above-mentioned overexposure of the NIS to GOB bonds meant that the debt restructuring, partially offset by the settlement for outstanding contributions, led to the National Insurance Fund losing $0.8 billion,. In the mid to late 2030's when Fund depletion is forecast, the gap between contributions and expenditure is projected at around $0.5 billion. Had the debt not been restructured, the $0.8 billion would have grown to around $1.9 billion which would have only been able to provide another 3 to 4 years of benefit payments. In other words, with the growing gap between contributions and total expenditure, funds lost would have extended sustainability by only 3 years.
3. NIS has not invested assets well	The NIS has an internal investment team that manages most of the investment portfolio. A portion of the international investment portfolio is managed by professional investment managers in the US. Excluding losses from debt restructuring, NIS investments averaged a nominal 5.8% since inception. Some investments have had negative returns, but none large enough to materially affect Fund sustainability.

4. NIS has a major compliance problem	There is a compliance problem. It is estimated that between 91% and 94% of the value of private sector contributions due based on submitted schedules are paid. As of November 2022, unpaid private sector contributions are between \$30 million and \$46 million per annum for 2018 to 2021. There are no estimates for the amount due from businesses that do not submit schedules. While contributions from statutory bodies and Government are not always paid on time, it is expected that payments will eventually be made in full.
5. Low compliance among self-employed individuals (SEIs) affects sustainability	If SEIs do not contribute they do not qualify for a contributory pension and will not qualify for a non-contributory pension. If, however, they only contribute for 10 years, they receive a pension well in excess of contributions made.
6. Non-contributory pension is a burden to the Fund	In 2022, the NIS paid less than \$8 million, or 16%, of total non-contributory pensions. This portion will decrease each year. New non-contributory pension awards average 80 to 100 per annum, approximately 50% of all applications. These new awards are fully paid for by GOB, evidence that it is not awarded to everyone over 67 who does not qualify for an NIS pension.
7. The NIS should be fully funded	Fully funded (FF) schemes must invest in mature capital markets to achieve adequate risk diversification. Such markets carry significant volatility. Assuming the foreign exchange regime in Barbados could accommodate that exposure, FF schemes in economic booms would perform well. But adverse economic conditions risk FF pension payouts that may be too low to meet a minimum threshold for financial dignity. In contrast, the NIS PAYG system is by design positively redistributive in nature and seeks to provide a level of social insurance in its payouts that protects everyone – including the lower paid segments of society who would not be able to set aside the savings require under a FF regime to generate acceptable pensions. A hybrid system like the NIS' seeks to harness the advantages of both approaches and is more suitable for the socio-economic context of Barbados.

Appendix C: Core, Working and Advisory Group Members

Core Group

Name	Organisation
Mr. Rawdon Adams	Deputy Chair, National Insurance Department
Dr. Justin Robinson	University of the West Indies
Mr. Wismar Greaves	-
Ms. Marsha Caddle, M.P	President & Chief Economist, The Bold Centre
Senator Crystal Drakes	-
Sir Roy Trotman	Barbados Workers Union
Mr. Derek Osborne	Actuary

Working Group

Name	Organisation
Ms. Dulce Baptista	Inter-American Development Bank
Mr. Derek Lowe	Assistant Director, National Insurance Department
Mr. Ian Carrington	Director of Finance and Economic Affairs, GOB
Ms. Lisa Wade	Barbados Private Sector Association
Miss Kim Tudor	Director, National Insurance Department

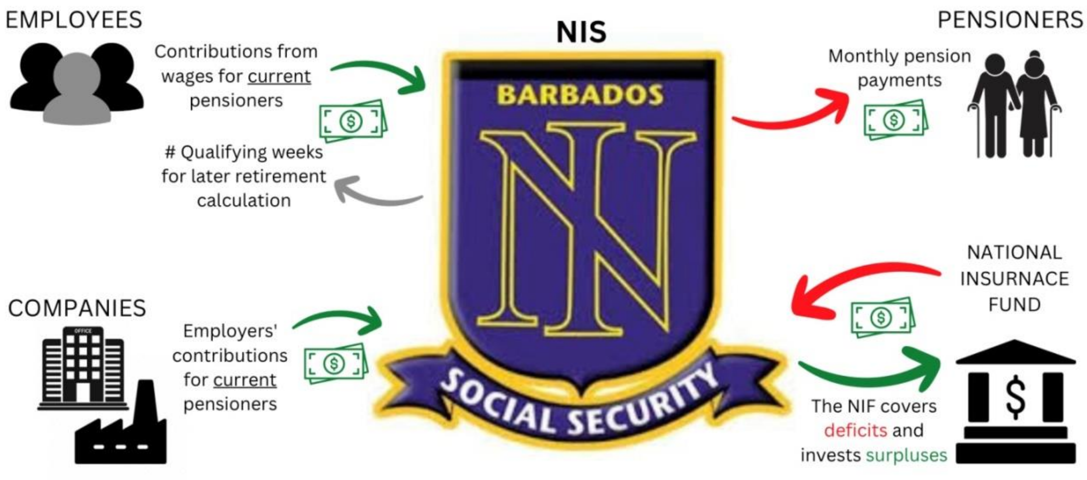
Advisory Group[1]

Name	Organisation
Mr. Dennis De Peiza	CTUSAB
Mr. Jepter Ince	Former Chairman, NIS
Mrs. Trisha Tannis	Chairman (BPSA)
Dr. Tonya Haynes	UWI Representative on Social Justice Committee
Rev. Dr. Cicely Horsford	Chairman, Barbados Christian Council
Mrs. Marilyn Rice-Bowen	President (BARP)
Mr. Stephen Jackman	President, Barbados Association of Principals of Public Secondary School (BAPPS)
Mr. Ivan Clarke	President, Association of Public Primary School Principals (APPS)
Mr. Jehu Wiltshire	Permanent Secretary, Ministry of People Empowerment and Elder Affairs
Mrs. Claudette Hope-Greenidge	Chief Labour Officer, Labour Department
Mr. William Layne	Former Director, NIS
Mrs. Frances Fontinelle-Walcott	Deputy Director, NIS
Ms. Nancy Headley	Permanent Secretary, Ministry of Finance Economic Affairs and Investment
Mr. Leslie Haynes	Chairman, National Insurance Board NIS
Ms. Mary-Anne Redman	President, Barbados Secondary Teacher's Union (BSTU)
Mr. Charles Carter	Managing Director Premium Designs
Mrs. Eudalie Wickham Ashby	Representative for People living with Disabilities

[1] Some invitees to the Advisory Group did not participate, notably: the Alliance Party for Progress (APP); the Democratic Labour Party (DLP); and the Unity Workers Union (UWU).

Appendix D: How the NIS system works

National insurance schemes in Barbados and much of the Caribbean were designed as partially funded systems. In their early years contributions exceeded expenditure with surpluses invested. When expenditure exceeds income invested assets fill the gap – and *vice versa*. The figure below is a schematic of this:

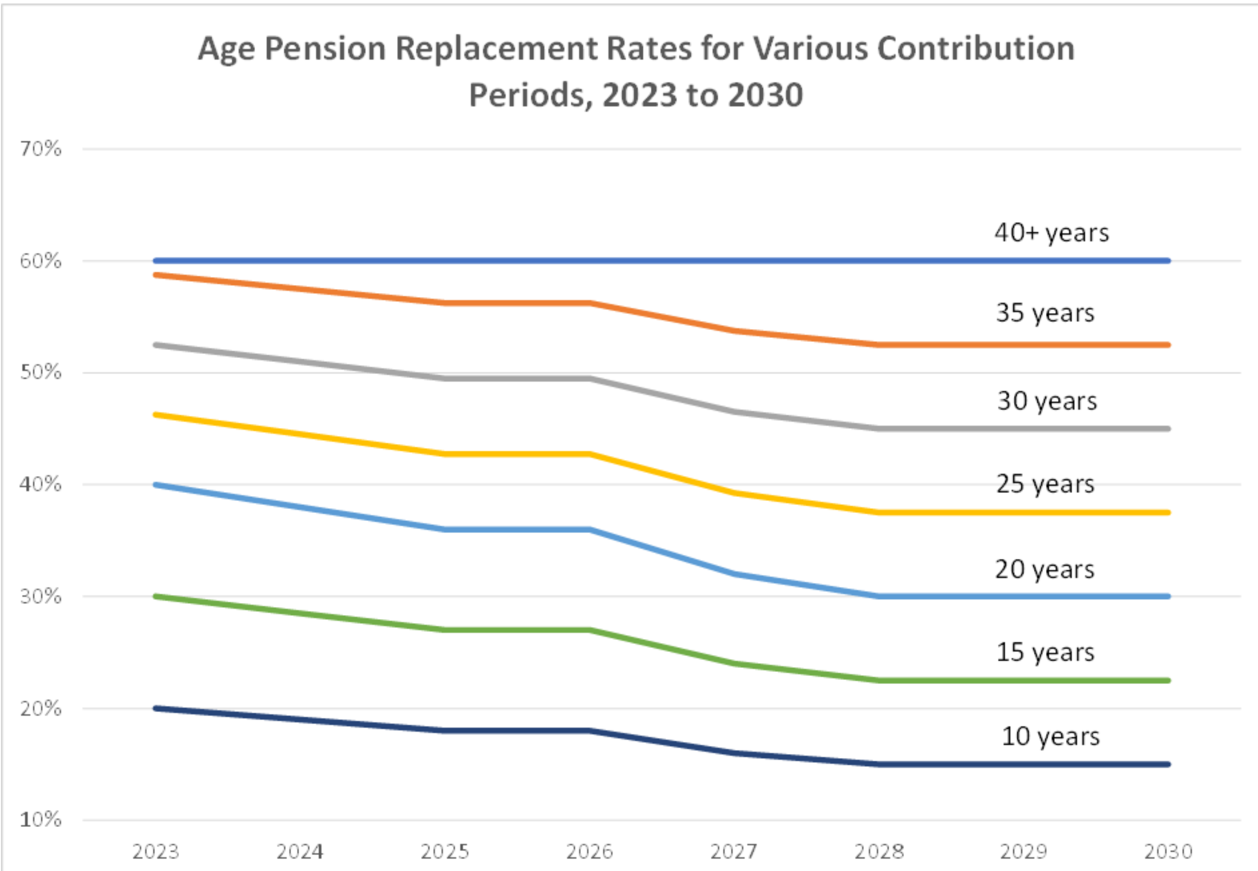


Social insurance systems are typically designed on a principle of solidarity and pooled funding. That is, contributions paid in today on behalf of employee Lydia do not accumulate in an individual fund for Lydia to draw down from when she retires or qualifies for another benefit. Rather, in a pure pay-as-you-go system, contributions paid in today on behalf of Lydia are used today to provide benefits to those who are already in retirement. Similarly, when Lydia retires, in order for her to receive a benefit, there will need to be enough future workers contributing to provide benefits for her and all other retirees at that time. In a partially funded system, contributions not required to meet current expenditure are invested.

While partially funded and pay-as-you-go financing approaches are not considered acceptable for private pension plans, they are acceptable for national social security which is intended to be perpetual with governments having the ability to make reforms as experience unfolds. While a move to fuller funding is possible, it would require current and future generations of contributors to not only fully fund their future benefits, but also meet part of the cost of benefits payable to previous generations.

Appendix E: Impact of new accrual formula changes on replacement rates

The following chart shows the benefit percentage (replacement rate) for NIS pensions for varying periods of NIS contributions as the change in accrual rates is phased in over 5 years starting in 2024.



Appendix F: Phasing of key Age Pension reform measures

Year	Pensionable Age	1st Age for Age Pension	Min # Weeks Required		Accrual Rates	# Years used for Avg. Insurable Earnings	Early/Late Adjustment Factors
			60+ on 1.1.2024	< 60 on 1.1.2024			
2023	67	60	500	500	Old Basis (OB) - 2% for each of 1st 20 years + 1.25% p.a. for next 16 years	Best 5	½% p.m.
2024	67	60	500	530	80% of OB + 20% of NB	Best 6	7/12% p.m.
2025	67	61	500	560	60% of OB + 40% of NB	Best 7	2/3% p.m.
2026	67	61	500	590	40% of OB + 60% of NB	Best 8	¾% p.m.
2027	67	61	500	620	20% of OB + 80% of NB	Best 9	¾% p.m.
2028	67.5	62	500	650	New Basis (NB) - 1.5% p.a.	Best 10	¾% p.m.
2029	67.5	62	500	680	New Basis	Best 10	¾% p.m.
2030	67.5	62	500	710	New Basis	Best 10	¾% p.m.
2031	67.5	63	750[i]	750	New Basis	Best 10	¾% p.m.
2032	67.5	63	750	750	New Basis	Best 10	¾% p.m.
2033	67.5	63	750	750	New Basis	Best 10	¾% p.m.
2034	68	63	750	750	New Basis	Best 10	¾% p.m.
2035+	68	63	750	750	New Basis	Best 10	¾% p.m.

[i] Persons 60 and older on January 1, 2024 qualify with 500 weeks