

Ministerial Statement on the Revitalisation of the National Insurance Scheme

Made by Hon. Colin E. Jordan, M.P.,
Minister of Labour, Social Security and the Third Sector
in
The Honourable The House of Assembly
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Mr. Speaker, the 17th Actuarial Review of the National Insurance Fund, the Unemployment Fund and Severance Fund as of December 31, 2020 was laid in this Honourable House on August 9, 2022. I should remind Members that the National Insurance Scheme manages these three funds along with the Catastrophe Fund and the Sugar Workers' Provident Fund.

During the three years under review, the number of contributors decreased each year while the number of pensioners and the total pension payouts increased each year.

The Review's assessment suggests that current contribution and benefit provisions generally provide a very good level of benefit adequacy and income protection to most workers and pensioners. The legislated annual adjustments of the earnings limit and pensions have been effective in replacing most of the price inflation felt by pensioners and maintaining adequate coverage for higher paid workers. In other words, pensioners have generally been able to use the cost of living allowance increases to adjust to temporary price rises.

For the Review, four sets of 60-year projections of Barbados' population and National Insurance Fund finances were performed so that a range of reasonable prospects for the Fund could be assessed. These projections were based on there being no changes to the current contribution rate and legislated benefit rules.

Except for under the most optimistic scenario, projections indicated that between 2022 to 2025, total expenditure will exceed total income each year. As a result, the Fund will need to rely more heavily on investment income to help meet expenditure

each year. Of critical importance, eventually investments will have to be liquidated to meet the deficit and, as a result, depletion of the Fund was projected for between the years 2034 and 2041.

Mr. Speaker, it is important to note that a number of factors have contributed to where we are today.

There are the demographic factors: Our population is aging and has begun to decline. Allow me to share some statistics:

In 2015 there were 2,874 live births, 2,538 deaths, and 3,481 taking the Barbados Secondary Schools' Entrance Examination;

In 2020 there were 2,349 live births, 2,713 deaths, and 3,381 taking the Barbados Secondary Schools' Entrance Examination;

In 2021 there were 2,207 live births, 2,895 deaths, and 3,336 taking the Barbados Secondary Schools' Entrance Examination; and

In 2022 there were 2,274 live births, 3,349 deaths, and 3,091 taking the Barbados Secondary Schools' Entrance Examination.

Our total deaths per year now exceed total births. In ten years the number of children taking the Barbados Secondary Schools' Entrance Examination will be 33% less than the current amount. These statistics make very clear the serious challenge we face. There will be fewer and fewer workers to contribute and support persons who are living longer and longer. We used to say that our population was over 280,000 and that we were heading to 300,000. The numbers now say that our population has started to decline.

Another contributing factor is the reality that when the NIS was originally designed in 1967 the average life expectancy was 68 years. In 2004 when the last adjustments were made to the NIS, life expectancy was 75 years. Today it is 78 years and expected to continue increasing.

These two trends mean that we are simultaneously suffering a reduction in the contributor base – the number of people who are paying National Insurance – whilst paying out more in benefits to the increasing number of pensioners.

There are factors around employment status: The informal sector is growing. A higher percentage of persons are not tied to an employer and many do not

participate in the social security system. Statistics suggest that less than 15% of self-employed persons contribute to NIS.

Governance factors: The structure of the NIS splits responsibilities between the Public Service and the National Insurance Board. This, as you can imagine, causes challenges in management, allocation of resources, and accountability.

This Government acted as a responsible Government should and, like it has since being elected to office in 2018, we took the people into our confidence and starting in July 2022, undertook an extensive series of consultations.

The National Insurance Fund is strong with assets of approximately \$4bn with average yields on investments of 4.3%. Even though the Fund is not in crisis now, we know that we have a date with destiny between 2034 and 2041. We refused to kick the can down the road and instead took the decision to ensure that the people of Barbados will have a social security system that is sustainable and will be able to provide benefits for all, particularly the most vulnerable.

This administration has made it clear that for every major decision we will consult with the public. In order to make the eventual reforms to revitalize the NIS a reality, we met and consulted with a wide range of stakeholders including: the Social Partnership; leaders of faith-based organisations; the Democratic Labour Party; the Alliance Party for Progress; independent Senators; the Executive Committee of the National Union of Public Workers; the Executive Council of the Barbados Workers' Union; Unity Workers Union; Barbados Association of Retired Persons; the staff of the National Insurance Department; former Ministers, chairpersons and members of the National Insurance Board; members of the private sector; and managers of media houses.

Three well-attended town hall meetings were held at Combermere School, Alexandra School and Princess Margaret Secondary School. Another town hall meeting was organized by the Democratic Labour Party at its headquarters. Additionally, suggestion boxes were placed at locations across the island, and the option to make submissions via email was facilitated. Two public surveys were also conducted which together received over 2,500 responses.

The stakeholder and town hall meetings, and the other avenues provided, allowed for scores of suggestions on how the National Insurance Scheme could and should be revitalized and placed on a sustainable footing. There was consensus that we all had a responsibility to ensure those who contributed were able to benefit when the time came for them to receive benefits.

Suggestions and proposals received addressed retirement age, contribution rates, the basis of pension calculations, participation by the self-employed, population trends in the country, investment policies, enforcing compliance, timely action to address any challenges, the need for audited financial statements, the composition and governance of the National Insurance Board, and the ability of the organisation to be nimble and responsive, among others.

A core group was established comprising Rawdon Adams, Wismar Greaves, Sir Roy Trotman, Marsha Caddle, M.P., Prof. Justin Robinson, Senator Crystal Drakes, and Actuary Derek Osbourne. This group reviewed all of the submissions and survey results and crafted a suite of suggestions based on achieving the best possible balance between benefit adequacy, contribution affordability and fund sustainability for revitalizing the NIS.

The suggestions were shared with a Working Group that included persons from the private sector, a regional development finance institution, and senior management of the National Insurance Department, and further with a larger Advisory Group of stakeholders from trade unions, academia, civil society and the public service for further discussion and comment.

The National Insurance Board was then tasked with proposing a final suite of measures for submission to The Cabinet.

Mr. Speaker, the National Insurance Board has made its submission to The Cabinet and the Cabinet has agreed proposals that I will share today with this Honourable Chamber in the Annex to this Statement, and which will be a Document of the House and therefore a public document.

These measures are designed to ensure the stability of the scheme and to make good on the assertion that “National Insurance is more than a contribution; it’s our lifeline.” The recommendations will first stabilize the National Insurance Fund and

then maintain the size of its projected reserves at a level equal to or greater than two to three times the value of annual benefit expenditures.

Allow me now, Mr. Speaker, to share some of the main proposals that Cabinet has agreed.

- i) There will be no increase in the contribution rates for employers or employees. The percentages deducted and paid to the NIS will remain as they are now.
- ii) Mr. Speaker, I mentioned earlier that when the NIS was created in 1967, life expectancy was 68 and the pensionable age then was 60, based on the idea that 8 years is an appropriate differential between life expectancy and retirement age. As of 2020, life expectancy had improved to 78 and is expected to continue improving. The pensionable age is now 67, making the current difference between average years lived and retirement age 11 years. The measure therefore recommended here is a one-year rise of the pensionable age in two steps:-
 - In 2028 the pensionable age will become sixty-seven and a half (67.5) years
 - In 2034 the pensionable age becomes sixty-eight (68) years

Mr. Speaker, the public was clear that, while changes would have to be made, there was no desire to have 70 years as the pensionable age, and we have done our utmost to honour that desire.

- iii) Today, the first age to qualify for a reduced pension is 60 years. There will be a change to this age in three steps:-
 - 61 in 2025
 - 62 in 2028
 - 63 in 2031
- iv) There will be an increase in the number of contributions required to become eligible for pension from five hundred (500) weeks (approximately 10 years) to seven hundred and fifty (750) weeks (approximately 15 years) with **no effect** on those sixty (60) years or older on January 1, 2024. For comparison, Guyana, Trinidad and Tobago and St. Lucia also saw it necessary to fix their number of contributions required at 750, and others in the region who are

currently at 500 are moving in a similar direction. For persons less than sixty (60) years old on January 1, 2024, the number of contributions required increases by thirty (30) weeks per year until 2030 and becomes seven hundred and fifty (750) weeks in 2031.

It is understood that, with most persons starting to work by their early to mid-twenties, the requirement for contributing to the National Insurance Scheme for at least fifteen (15) years is entirely reasonable and brings us into line with international benchmarks.

In this transition, however, we are making sure that persons who are already sixty years old, or will be sixty years or older by January 1, 2024 will not be affected.

- v) The National Insurance and Social Security Act will be amended to indicate that the National Insurance Board will develop a Funding Policy, and any adjustment being proposed to the policy by the Board must be laid in Parliament. The Minister responsible for Social Security must respond to the Board's proposal within six (6) weeks of the document being laid in Parliament.

Mr. Speaker, the fact that we are where we are today reforming and revitalising the NIS so significantly is due in large measure to past inaction. As far back as 2014 was when benefit expenditure first outstripped contribution income. Yet no corrective action was taken, despite the flashing warning. To stop this damaging delay happening ever again a Funding Policy and a Compulsory Adjustment Mechanism will be incorporated into the National Insurance and Social Security Act. These amendments will ensure timely intervention to keep the Fund on track to meet its revitalisation goals.

- vi) There will be a change where the wages used to calculate the pension benefit will be the "Best 10 years" rather than the 'Best 5 years'.

Many persons were opposed to what is considered an abuse of the system, where some persons contribute at the maximum for five years then stop, and

are still able to enjoy the maximum pension. Going forward the basis for calculating pension will be the best ten years.

There will be an aggressive approach to encouraging and enforcing compliance with the legislation governing the National Insurance Scheme. Officers from the Compliance Unit will be in the field, and the Office will use all measures at its disposal to ensure the law is adhered to, including using garnishments or the Law Courts.

A critical aspect of the revitalization of the National Insurance Scheme will be the implementation of a new regime that is more flexible, and simplifies the process for self-employed persons to participate in the NIS by way of making contributions and receiving benefits. We expect that this will result in higher enrolment by self-employed persons in the National Insurance Scheme.

Before I go on, Mr. Speaker, please allow me to reiterate that the classification of a person as self-employed is not determined by any construction or other company's management making a unilateral decision that a carpenter or labourer or steel bender is to be treated as self-employed just so that the responsibility and cost of social security is evaded. There are set criteria based on case law that are used by both the Labour Department and the National Insurance Department to make the determination. Good employers know what those criteria are and abide by them.

The new regime for persons registered as self-employed will provide an innovative approach and formula for converting contributions to weeks and wages and a corresponding mechanism to determine short-term benefit eligibility.

I will use an example from an industry that I am familiar with to make the point. A taxi driver will ordinarily generate decent cash flow during the November to April period. They may make some money again in July/August. Currently if the taxi driver does not pay contributions in May and June, or September to November, the system will say that she or he is delinquent and owes contributions – and levies penalties, not taking into account the seasonal nature of the business. The same goes for entertainers who may earn most of their money during Carnival or Crop Over, or artisans who may work on a house for three months and then may be out of work for a month before the next job begins. And in a third-decade-of-the-twenty-first-century world, Gig entrepreneurs have a similar challenge.

In the first phase, we expect that:

- Self-employed persons will be able to pay their contributions without having to complete schedules or specify a period;
- They will be able to make their payments via Bank Bill Pay, credit card, cheque or cash;
- Confirmation of receipt of payment will be sent via email;
- There will be an online interface which allows the self-employed to view submitted contribution payments; and
- There will be the ability to pay at any time during the year.

Thereafter, we expect that:

- Self-employed persons will be able to make payments using the NIS portal or using EZPay.
- The contribution payments of all self-employed persons will be converted to earnings.
- Self-employed persons will be notified of their short-term benefit status for each year.
- Short-term and long-term benefits will be computed using the new payment regime; and
- Self-employed persons will be able to apply for and receive Clearance Certificates.

Mr. Speaker, allow me to share with the Chamber and with the people of Barbados that a Cabinet Paper on the introduction of paternity leave benefit to allow the granting of paid paternity leave has been prepared and will soon be sent to The Cabinet.

Additionally, the NIS Regulations will be amended to allow persons who have not made the requisite contributions to qualify for a pension to be able to catch up or become current with the understanding that a premium will have to be paid for the privilege.

Mr. Speaker, when we came to office we found out that NIS contributions for public officers had not been paid since 2015. This Government has paid up the \$250m that was owing. At the same time we have been staying current with payments. Because of the impact of the COVID-19 pandemic this Government has recapitalized the Unemployment Benefit Fund to the tune of \$143m. Prior to this this administration coming to office in 2018 Government owed the NIS \$83.5m for non-contributory

pensions. This outstanding debt has been cleared. \$66m has also been paid toward the Training Levy.

Some of the matters raised by persons related to the governance of the Scheme. During our consultations, we shared the hybrid nature of the current structure where some functions related to the Ministry of the Public Service and others related to the Board. It is not fully a Government Department and it is not fully a state-owned enterprise. We are in the final stages of transitioning the current structure into a commercial state-owned enterprise.

Mr. Speaker, a country's social security system is intended to be a safety net for persons in their time of need – whether for maternity, or in cases of illness or employment injury, or, importantly, for old-age pension. The sustainability of the system is critical to the well-being of citizens.

The Government of Barbados will continue to do right by the people of Barbados. We today share measures that were designed through extensive consultation, careful modelling and deliberate assessment, are human-centred, and take into account our realities.

We are confident that they will serve to revitalize the National Insurance Scheme and protect our people for many years to come.

Mr. Speaker, I am obliged to you.