National Pension Reform:

Initial Considerations for Trinidad and Tobago

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Terms and Definitions

- Contributory vs. Non-contributory
- Mandatory vs. Voluntary
- Pay-as-you-go (PAYG) Scheme vs. Funded Scheme
- Defined Benefit vs. Defined Contribution
- Publicly managed vs. Privately managed
- Sustainability
- Coverage
- Adequacy and the replacement rate

Introduction

- Pension reform has become necessary in several territories to preserve retirement-income systems.
- Retirement savings/system arrangements have also gained attention locally.
- The economic and demographic environment of Trinidad and Tobago are characterised by limited fiscal space, dwindling labour force participation and a shift towards non-standard employment, increasing Government pension liabilities and an ageing population.
- Simultaneously, there is growing concern over the degree of vulnerability among the elderly.

Introduction

Objective: This study systematically explores the different tiers of the Trinidad and Tobago Pension System and suggests measures to improve sustainability, adequacy and coverage.

Stylised Facts: Enabling Environment

- Fiscal space is limited, which has implications for future fiscal policies including those aimed at protecting the elderly.
- The age distribution has changed towards a greater proportion of persons over 60, coupled with a slow-down in births.
- Labour market trends suggest a shift towards greater informal/non-standard employment, as evidenced by a low and declining labour force participation rate.

Stylised Facts: Inherited System

Table 1: Pension Pillars in Trinidad and Tobago based on World Bank's Conceptual Framework

	Zero Pillar	First Pillar	Second Pillar: A	Second Pillar: B	Third Pillar
Program	Senior Citizens' Pension	National Insurance Scheme	Public Service Pensions	Private Occupational Pension Plans	Personal Pensions, Annuities, personal savings
Legislation	Senior Citizens' Pension Act	National Insurance Act	Various relevant Acts, including Pensions Act and Teachers' Pensions Act	Insurance Act; Income Tax Act; 1969 Draft Regulation; Finance Act	Insurance Act; Income Tax Act; Finance Act
Managed by	Ministry of Social Development and Family Services	National Insurance Board, a body corporate that reports to the Ministry of Finance	Ministry of Finance or relevant ministry	Trustees, Financial services firms, with supervision by the Central Bank of Trinidad and Tobago	Financial services firms, with supervision/regulation by the Central Bank of Trinidad and Tobago/ Securities and Exchange Commission
Financing	General Budget	Investment Income and 13.2 per cent of contributors' salaries (1:2 employee-employer ratio)	Paid from the Consolidated Fund (general budget expenditure)	Employer and employee contributions	Individual contributions, however, employers may contribute
Retirement Age	65+	Flexible, between 60 and 65	Varies from 45 to 60 years of age for an unreduced pension	Based on plan (often 60 years of age)	Based on maturity date, typically chosen between 50 and 60 years of age
Benefits	Means Tested, maximum benefits of TT$3,500, decreasing scale based on monthly income	Minimum retirement pension of $3,000, once a minimum of 750 (weekly) contributions are met	Defined benefit	Defined benefit and defined contribution rules vary	Typically defined contribution, no guaranteed indexation, linked to returns
Coverage	All persons, 65+, subject to residency and income criteria	All employed persons (once contributing)	Membership of relevant profession and plan rules	Membership of relevant profession and plan rules	Based on annuity policies.

Stylised Facts: Inherited System

- Key findings emerge:
  - Trinidad and Tobago achieves near-universal pension coverage, in no small part due to publicly-managed pensions.
  - Adequacy of pensions is seemingly high, although the replacement rate of the NIS retirement benefit is lower for higher income earners.
  - Publicly-managed pensions schemes are particularly vulnerable to sustainability risks, while private occupational pensions and voluntary pensions do not cover a wide cross-section of the population.

Table 2: Analysis of Coverage, Adequacy and Sustainability of National Pension System

	Coverage	Adequacy	Sustainability
Zero Pillar, Senior Citizens' Pension			
First Pillar, National Insurance Scheme			
Second Pillar A, Public Service Pensions			
Second Pillar B, Private Occupational Pension			
Third Pillar, Voluntary Pensions, Annuities and Individual Savings			

Source: Authors' Construct

High

Low/Under threat

Moderate/Less than optimal

Cannot be assessed

Stylised Facts: Overview of Enacted Reforms

- Domestically, pension system reform has been parametric and regulatory, as pillars have remained structurally unchanged since their beginning.
  - Senior Citizens' Pension: changes to the maximum benefit, qualifying income ceiling and eligibility criteria.
  - NIS: changes to contribution rates, earning classes and minimum pension.
  - Occupational Pensions: changes to minimum pension, tax relief on pension contributions.
  - Voluntary Pensions: changes to tax relief on pension contributions.
  - Regulatory reform: Occupational Pension Plans Bill and National Insurance (Amendment) Act, 2022.

Stylised Facts

- Pension system reform is country-specific.
- In Trinidad and Tobago, retirement-income system reform needs are diverse and challenging.
- On the one hand, the sustainability of the publicly managed pensions is threatened by growing ageing demographic and decreasing fertility, labour market trends towards greater informal/non-standard employment and low compliance and lack of enforcement for the mandatory contributory public scheme (NIS).
- On the other hand, coverage of occupational and voluntary pension plans is low.

Recommendations

- Sustainability of the SCP is of foremost concern:
  - Review the SCP benefit. Specifically, the SCP should not be further adjusted until it settles at, or at some pre-determined per cent of, the minimum wage.
  - Improve targeting through the harmonisation and automation of SCP and NIS information management systems.

Recommendations

- Sustainability of the NIS is crucial: failure to ensure continuity of the NIS represents a long-term fiscal risk. Currently proposed in the most recent (available) Actuarial Reviews:
  - The automatic indexation of maximum insurable earnings and benefit amounts, thereby increasing the real value of contributions into the NIS and the "earned" part of pensions.
  - Increasing the contribution rate.
  - Reducing the real value of the minimum pension.
  - Including a penalty for early retirement (before 65).

Recommendations

- In addition to measures suggested within the Actuarial Reviews, this study proposes:
  - Increasing the number of mandatory weekly contributions to 1,000 (or approximately 19.5 years).
  - The reconciliation of Companies Registry and tax data collected by the Board of Inland Revenue with employers and employees registered with the NIB.
  - Discouraging the reliance on amnesties, in favour of a case-by-case approach of “fair” installment payments for non-compliant employers, while simultaneously strengthening enforcement to discourage the non-payment of taxes.

Recommendations

- The overall coverage is less than optimal for occupational pensions, while the sustainability of public service pensions, in particular, is under threat.
  - Occupational Pensions: Public Service Pensions
    - Increase the eligibility criteria of the minimum pension for public officers and teachers to 20 years of service, not ten years as it currently stands.
  - Occupational Pensions: Private Occupational Pensions
    - Advance the Occupational Pension Plan Act for the extension of regulatory and supervisory powers of the Central Bank, in-keeping with international best practice.

Recommendations

- The coverage of voluntary pensions is low while latest data suggests that 29.0 per cent of the population do not have money left over at the end of the month.
  - An expanded financial literacy programme.

Conclusion

- Ensuring adequate savings for retirement, without compromising fiscal sustainability, is a challenging task.
- Pension reform has become necessary in several territories to preserve retirement-income systems.
- A multi-pillar or multi-tiered approach is generally recommended to best attain universal pension coverage with appropriate levels of adequacy, and, once managed properly, sustainability can be maintained.

Conclusion

- Trinidad and Tobago adopts a multi-pillared approach.
- While coverage and adequacy may be high, in no small part due to the zero and first pillars, the sustainability of defined-benefit schemes managed by the Government is under threat.
- Delays in restructuring today will result in more drastic corrective actions in the future.
- The study recommends policies to mitigate the fiscal risks associated with defined benefit, pay-as-you-go schemes, namely, the harmonisation of the various aspects of the eligibility criteria for the SCP, NIS and occupational public service pensions.

Thank You!

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