

Better Social Security For Bahamians



**Report Of The Social Security Reform Commission To
The Minister Of Housing & National Insurance**

The Commission

Alfred Stewart (Chairman)
Ernest Cambridge (Deputy Chairman)
Harcourt Brown
T. Carmichael Brown
Roscow Davies
Bert Deveaux
Milton Evans
Obie Ferguson
Clement Foster
James Gomez
Frederick Hamilton
Keith Major
Gerald Strachan
Telator Strachan
Tanya Wright
Joycelyn Curry-Simms (Secretary)

Investment Sub-Committee

James Gomez (Chairman)
Clement Foster
Gerald Strachan
Larry Gibson
Peter Carey
Sonia Gill

Private Pensions Sub-Committee

Milton Evans (Chairman)
Ernest Cambridge
Tanya Wright
John Rolle
Michael Cunningham

Public Relations Sub-Committee

Keith Major (Chairman)
Clement Foster
T. Carmichael Brown
Roscow Davies
Telator Strachan

NIB Technical Team

Lennox McCartney
Jayson Moxey
Derek Osborne
Verdie Farquarson-Kriz
Tami Francis
Shellyn Ingraham

Social Security Reform Commission
Final Report To
The Minister Of Housing & National Insurance
Table of Contents

Foreword From The Chairman	iv
Executive Summary	v
Chapter 1 The Need For Social Security Reform	1
Chapter 2 National Insurance	3
2.1 Equity & Relevance	3
2.2 Broadening The Scope	5
2.3 Improving Operations	8
2.4 Improving Financial Sustainability	10
2.5 Financial Projections	11
Chapter 3 Private Pensions	13
Chapter 4 Investments	15
Chapter 5 Unemployment Benefits	17
Appendix I: Summary of Commission’s Recommendations	24
Appendix II: Summary of Public Relations Campaign & Survey Results	36
Appendix III: Options for Private Pension Reform: Regulatory Issues Facing The Bahamas	39
Appendix IV: Investments Sub-Committee Report	59

Foreword From The Chairman

Following the tabling in Parliament of the 7th Actuarial Review, the Minister of Housing and National Insurance, Hon. D. Shane Gibson, established the Social Security Reform Commission (hereafter The Commission). The Commission was mandated to review the findings and recommendations of the Actuarial Review and recommend ways to Government of enhancing The Bahamas' social security system, with special emphasis on the National Insurance (NI) programme and the wider spectrum of pensions. The Commission was also mandated to assess the feasibility of adding an unemployment benefit to the NI benefit package along with the creation of a National Disaster Fund.

Comprising 15 members selected from key stakeholder groups namely, employers, labour unions, government, retired persons and self-employed persons, the Commission held internal meetings between November 2003 and July 2004. During this phase of its deliberations, Commissioners heard presentations from National Insurance officials as well as local and external pension and investment experts. For each of the many issues the Commission made preliminary recommendations which were then presented to the general public between August and December 2004 via a host of public town meetings throughout The Bahamas, private meetings with stakeholder groups, talk shows and also through its website.

During the consultative phase of this exercise the Commission received tremendous support from Bahamians

throughout The Commonwealth Of The Bahamas and a definite sense that change is required to The Bahamas' social security system if, as a country, we are going to successfully meet the financial and social challenges that an ageing population will bring. For their comments, criticisms, suggestions and input, the Commission is extremely grateful.

I am very appreciative of the many persons who assisted the Commission in the various aspects of its work. These include persons who voluntarily served on sub-committees or met with us providing their expertise in the fields of investments and pensions, the technical team and all National Insurance Board staff who educated us on the various aspects of social insurance as well as provided administrative and logistical support to the Commission, and The Counsellors Ltd., who provided public relations and advisory services to the Commission.

Finally, to my fellow Commissioners who served diligently over the past sixteen months, I thank you for the service you have provided to your country. I am confident that should the recommendations presented in this report be adopted, future generations of Bahamians will be forever grateful for the time, effort and commitment that you have invested in this most worthwhile of efforts.

Alfred Stewart
Chairman

April 2005

Executive Summary

As it relates to pensions and ensuring income security in old age, The Bahamas' social security system comprises three main pillars:

1. The National Insurance system,
2. Employer-linked pension plans, and
3. Personal savings

Each of these pillars is unique, has different objectives and pertains to workers differently. The income security that many Bahamians can expect from them is not as strong as it ought to be. For the National Insurance system, most self-employed persons are not regular contributors and the low level of income that is currently covered leaves many persons without adequate coverage and thus benefits and pensions may represent a small portion of their actual earnings. Also, recent projections of the National Insurance Fund (NIF or Fund) indicate that unless changes are made to the contribution rate and/or benefit provisions, the Fund will be exhausted within the next 25 years.

For private pension plans, it is estimated that only 20% of the workforce participates in an employer-linked pension plan. Also, because of limited regulation, pension monies are often available prior to retirement and thus are used for current consumption instead of being kept for retirement years.

Finally, as a nation, The Bahamas has a very low savings rate, with most people having little or no savings on which they can depend in old age. Therefore, each of these three pillars needs to be reinforced and given the projected ageing of our population, steps aimed at strengthening each one should be made soon.

In fulfilling its mandate to review the Bahamas' social security system, the Commission has reviewed the provisions of the National Insurance Act & Regulations and the findings and recommendations of the 7th Actuarial Review Of The National Insurance Fund. It has also had the opportunity to discuss with relevant experts and professionals, key stakeholders and the general public throughout The Commonwealth of The Bahamas, ideas, issues and recommendations for improving safety nets and overall income security in The Bahamas.

Throughout the Commission's public discussions, opinions were gathered via surveys, feedback during the question and answer sessions and self completed questionnaires. The detailed results of the questionnaires may be found in Appendix II. The main results of this survey were:

1. There was overwhelming support for changes aimed at strengthening the long-term sustainability of the NIF now instead of later.
2. To secure long-term sustainability of the Fund, there was general support for increasing contributions, improving compliance and reducing administrative costs but little support for reducing benefits or increasing the normal pension age.
3. There was mixed support for a new approach to increasing participation in private pensions with a larger NI and mandatory pensions receiving almost equal support.

After reviewing suggestions from experts, and public opinion the Commission has

summarised its findings and has produced a list of recommendations that if implemented, will strengthen the Bahamas' social security system for several decades. The Commission's findings may be summarised as follows:

1. There is an urgent need for an increased level of savings that together with the NI pension, will provide increased income security in old-age.
2. The National Insurance programme requires changes that will make its contributions and benefits more relevant, provide additional coverage and benefits, make the administration more effective and efficient, bring increased diversity to investments and long-term sustainability to the Fund.
3. The National Insurance Board should mount a major sustained education campaign to explain to both internal and external customers how the NI Scheme works and what are its benefits.

Following is a list of the Commission's main recommendations. Details of these and other suggestions for implementation by the Government and The National Insurance Board (NIB) may be found elsewhere in this report.

To complement the National Insurance Retirement pension, the Commission recommends that a mandatory system of employer-sponsored private pensions be established. Under such a regime, each employer will be required to establish a pension plan with minimum contribution and/or benefit requirements.

National Insurance Recommendations

- (a) Increase the contribution requirement for Retirement pension from 150 weeks (3 years) to 500 weeks (10 years). (Section 2.1.1)

- (b) Increase the ceiling on insurable wages to \$500 per week and thereafter, adjust it annually in line with the average change in the national wage index over the previous three calendar years. (Section 2.1.2 & 3)
- (c) Increase pensions and lump sum grants each year by average inflation over the previous three years. (Section 2.1.4)
- (d) Change the method used to calculate Retirement pensions from one that uses wages over the best 3 years in the last 10 years to one that uses indexed wages over one's career. (Section 2.1.5)
- (e) Require government to finance the cost of Assistance pensions paid to self-employed persons who failed to contribute for the minimum period required to qualify for a contributory pension. (Section 2.1.6)
- (f) Strengthen the means test used to assess persons applying for non-contributory or Assistance pensions by including real estate (excluding one's residence) and financial assets as part of the assessment of income and available assets. (Section 2.1.7)
- (g) For Sickness, Maternity and Injury benefits, NI should only pay if the employee's income has been affected and the amount paid should equal the extent of wages that have been lost up to the maximum benefit entitlement. (Section 2.1.8)
- (h) Increase the wage ceiling for pensionable civil servants for NIB pensions to the same level that applies for private sector workers. Simultaneously, Government should amend the Pensions Act so that combined NI and public service pensions are not excessive but equitable to high and low paid workers. (Section 2.2.1)

- (i) Include in insurable wages, gratuities paid to persons employed in the hospitality industry. Contributions payable on this portion of income should be paid by both employer and employee, with the employer paying only the share that represents the contribution for Industrial benefits – now 2%. (Section 2.2.2)
- (j) Where a worker has more than one job, require each employer to deduct and pay contributions as if they were the only employer. At the end of each year, should total contributions for that employee exceed the amount due for wages up to the wage ceiling, appropriate refunds should be made to both the worker and all employers of record for that year. (Section 2.2.3)
- (k) Allow persons who have been awarded Retirement pension to earn any amount and still keep their pension. (Section 2.2.4)
- (l) Allow widow(er)s who are also entitled to a Retirement pension to receive more than just the higher of the two pensions thus ensuring that household income from NI pensions does not fall by more than 40% following the death of one spouse. (Section 2.2.5)
- (m) Introduce a Survivors grant equivalent to one year's pension that will be paid to surviving spouses who do not qualify for a pension under current rules because they have no dependent children. (Section 2.2.6)
- (n) Permit the award of a Survivors pension where marriage occurred after the award of Retirement or Invalidation pension. (Section 2.2.6)
- (o) Introduce a modest unemployment benefit that will be administered by the National Insurance Board. (Section 2.2.7 & Chapter 5)
- (p) Expand the payment of Invalidation assistance to include children from age 1 to 15 and allow persons with disabilities who are receiving an Invalidation pension to have weekly wages of up to the amount of their monthly pension and still keep their pension. Also, a Constant Attendance Allowance of 20% of the pension should be paid to Invalidation pensioners who require constant care. (Section 2.2.8)
- (q) Using funds of the Medical Benefits Branch, construct and equip facilities that will provide diagnostic support and skills training for persons with disabilities, with an overall objective of enhancing their employment capabilities. (Section 2.2.8)
- (r) Establish a Disaster Assistance Fund that will provide financial assistance in the form of a lump sum payment of up to \$7,500 to current contributors who have suffered damage to personal property in an area that has been designated a disaster area by the government. (Section 2.2.9)
- (s) Reduce operating costs of the National Insurance Board from 20% of contribution income in 2003 to 6% of contribution income or 0.7% of insurable wages by 2015. (Section 2.3.1)
- (t) Simplify the current contribution process for self-employed persons while maintaining the current benefit system for all contributors. (Section 2.3.2)
- (u) Establish linkages with all government departments that issue licenses and permits so that renewals will only be granted if the employer or self-employed person is current with their contributions. (Section 2.3.3)
- (v) In addition to current interest charges on late paid contributions, assess a penalty of \$1 per employee for each week that

contributions are paid late. (Section 2.3.4)

- (w) Discontinue the issuing of National Insurance numbers to, and collecting contributions from, persons who are not legally entitled to reside in The Bahamas. (Section 2.3.5)
- (x) Provide all contributors with annual statements that include details of contribution payments in the last 12 months and summary information on all prior contributions on record. (Section 2.3.6)
- (y) Include in the guidelines for appointment to the National Insurance Board, provision for the nomination by representative associations of two of the three members who represent each of insured persons and employers and indicate the areas of interest from which four of the other five Board members should be affiliated. (Section 2.3.7)
- (z) Conduct a comprehensive review of the NI Act & Regulations so that when amendments emanating from the Commission's recommendations are being made, other changes designed to ensure consistency with NI & other acts & regulations may take effect. (Section 2.3.8)
- (aa) Gradually place small portions of NIB's investments in overseas securities so that between 10% and 20% of the Fund would be invested externally in the medium term. These funds should be invested with the understanding that the Central Bank Of The Bahamas could require that these funds be converted to Bahamian dollars at short notice if required in the national interest. It is also recommended that the Fund seek additional local opportunities as well as allow local private sector investment managers to invest portions of NIB's

investments, all within the guidelines of an Investment Policy Statement that should be adopted immediately. More authority should also be given to the Board to make investments. (Section 2.4.1)

- (bb) Gradually increase the age at which full Retirement pensions are paid from 65 to 67 but keep the age at which reduced pensions are first payable at 60. (Section 2.4.2)
- (cc) Increase the contribution rate from 8.8% to 11.8% in four annual steps beginning in 2011 and reducing the differential between employer and employee contribution rates from 2% to 1%. (Section 2.4.3)
- (dd) Transfer \$40 million from the Medical Benefits Branch to the Pensions Branch and reduce the annual allocation of contribution income to the Medical Benefits Branch from 1.1% to 0.5% with a commensurate increase provided to the Pensions Branch. (Section 2.4.4)

The changes recommended above are designed to improve both the social and financial aspects of the National Insurance system. Regarding finances, some changes will result in increased benefit payouts while others will reduce expenditure or increase revenue. Overall, if all of the changes that have a material impact on NIB's income and expenditure are made, there will be a net savings, and thus a positive impact on long-term Fund sustainability. However, even with the contribution rate increased to 11.8%, Fund depletion is projected for 2052, some 23 years later than projected in the 7th Actuarial Review which assumed current contribution and benefit provisions remained in place.

In deciding on contribution rate increases that are considered appropriate at this time,

the Commission has adopted a funding objective of having reserves of at least 5 times expenditure in 30 years (2035). This provides an adequate level of funding for the medium-term, especially given the projected growth of the fund and the capacity of the Board to find suitable investment vehicles. Also, this partial funding approach is consistent with the financing strategy adopted at inception, which the Commission still feels is appropriate for the National Insurance Fund.

As a country, The Bahamas has a low savings rate and an extremely high

consumer debt ratio, two factors that negatively affect our economy. And while the recommended changes for the National Insurance system and private pension plans will enhance the level of income security for Bahamian workers and pensioners, there is an urgent need for a sustained national education programme on the need for personal savings and investments. Such campaigns should be a joint venture between the government, The National Insurance Board, financial institutions and employer and employee associations.

Proposed Implementation Dates Of Recommendations

Several recommended changes will result in cost increases to both employers and workers, while other changes will affect benefit payment amounts. Therefore, the Commission proposes that some of these changes be phased in over a period of up to 10 years while the changes that increase contributions be staggered so that the overall impact on individuals, employers and the economy is softened. Following are suggested implementation dates for the recommendations that have a direct contribution effect. The dates provided presume that government will approve these recommendations (and begin the implementation process) by June 2005.

1. Amendments to NIB Act & Regulations

- Most changes should become effective in January 2006 with some phased in over as many as 12 years.

2. Wage Ceiling Increases:

- January 2006 – ceiling to \$500
- July 2007 – begin annual indexation of the wage ceiling by the average change in the Retail Price Index during the three previous years.

3. Including Gratuities In Insurable Wages:

- January 2006 – applicable contribution rates to be 6.8% by the employee and 2% by the employer. Contributions on gratuities will only be assessed on the portion of gratuities which, when added to base wage, totals the NI wage ceiling.

4. Multiple Employment:

- January 2006 – all employers to pay for all employees, regardless of whether or not the worker has other employers.

5. Contribution Rate Increases:

- January 2011 – from 8.8% to 9.8% with ½% increase for employer and employee.
- January 2012 – from 9.8% to 10.8% with ½% increase for employer and employee.
- January 2013 – from 10.8% to 11.3% with ½% increase for employee only.
- January 2014 – from 11.3% to 11.8% with ½% increase for employee only.

6. Unemployment Benefit

- July 2005 for upgrading of Employment Exchange.
- July 2006 for contributions to start – ½% by employer and ½% by employee.
- January 2007 for benefit payments to commence.

7. Disaster Assistance Fund

- January 2006 – contributions by employees only of \$1 per week.

8. Private Pensions

- Draft and finalize Act & Regulations by June 2006 and establish well staffed pension regulatory office.
- Pension plans to be established by January 2007 with minimum contribution rates of 2% by employee and employer on total wages.
- Increase minimum contribution rate on wages above the insurable wage ceiling only by 1% each year until the employer and employee contribution rates reach 5% in January 2010.

Chapter 1 **The Need For Social Security Reform**

The 7th Actuarial Review of the National Insurance Fund highlighted several current and future challenges facing the Fund and the need for a review of both operational and policy aspects. The Review also indicated that while the Fund was not currently in crisis, the longer changes aimed at improving long-term sustainability are deferred, the more drastic future changes would have to be. And as The Bahamas' population ages and family structures change, retired persons will depend more on national or personal pensions and savings or investments that they made while working for their sustenance.

The pension aspect of the social security system in The Bahamas may be described as being supported by three pillars:

1. National Insurance
2. Private pensions
3. Personal savings

Unfortunately, each of these three pillars is not as strong as it ought to be.

1.1 National Insurance

The National Insurance programme is universal in that all workers in The Bahamas – employed and self-employed – are required to register and contribute, and thus are entitled to NI benefits. These benefits provide income replacement for short-term contingencies such as sickness, maternity and death, pensions for Retirement, Invalidity and Survivors, as well as the effects associated with job-related accidents.

Since October 1974, The National Insurance Board has provided social security coverage to Bahamian workers with total assets

having grown to \$1.3 billion as of December 2004. These funds have been invested in The Bahamas, providing necessary capital for development. However, while there has been considerable change in socio-economic conditions, there have been only a few changes to NI contribution and benefit rules, thus making several of these outdated and no longer totally relevant. Also, a significant number of workers - especially those in the self-employed category – do not contribute to NI and thus are not covered for social security benefits.

In addition, as the population ages and the scheme matures, greater emphasis must be placed on the long-term sustainability of the Fund. The projections of the most recent actuarial review indicate that unless changes are made to either or both of contribution and benefit provisions, the Fund will be exhausted within 25 years. While this projection is consistent with the scheme's design, changes aimed at reducing the burden that is being placed on future generations should take place. Therefore, to strengthen the first social security pillar to which almost every worker is at some time in their lives covered, this comprehensive review of the National Insurance system is indeed timely.

1.2 Private Pensions

To complement National Insurance benefits, many employers voluntarily establish pension plans for their employees. While such plans exist in almost all public sector entities, it is estimated that only 20% of Bahamian workers are enrolled in employer-linked pension plans. And given that National Insurance benefits were not designed to provide all of the income

required for one to live comfortably in their retirement years, the average worker will need some other source of income to ensure that he/she can live comfortably in old age.

Even if more employers established pension plans for their employees, there remains a need for adequate legislation that will ensure that these plans are properly funded, administered and invested. Also, there should be certain minimum requirements regarding issues such as vesting, portability and the conversion of pensions to lump sums. Therefore, to strengthen the second pillar, there is a need to firstly encourage or mandate employers to establish pension plans, and secondly to put in place adequate legislation and oversight of these plans.

1.3 Personal Savings

While NI benefits are available to every worker, employment related pension plans are not. And for those who participate in such plans, a pension may only be paid if the worker retires from that employer. Many workers who may have been in a pension plan at some time during their career may not receive a pension when they retire due to

insufficient service. Also, most of the self-employed persons in The Bahamas do not have that second pillar from which income may one day be derived. Therefore, it is imperative that personal savings become a cornerstone for one's income security in old age, thus making it the third pillar for pension security.

As a nation, The Bahamas has a very low savings rate and few people retire with sufficient investments or savings to provide sustainable and adequate income for the rest of their lives. And since NIB's pension and private pensions, where they exist, may not be sufficient to replace employment income upon retirement, additional savings and investments is an essential component of one's planning for his/her retirement years.

Given the current state of each of the three social security pillars, the Commission has developed an extensive list of recommendations aimed at ensuring that income security in old age does not become the burden of our children and other family members or the Government.

Chapter 2 National Insurance

The 7th Actuarial Review of the National Insurance Fund highlighted the long-term financial challenges facing the Fund. Specifically, it suggested that unless changes were made to the contribution rate and/or benefit provisions, the Fund would be exhausted by 2029. These projections are consistent with similarly designed national social security systems throughout the world and are due to a combination of an ageing population and the current contribution rate being less than the cost of NIB's benefit package. Also included in the Review, were recommendations aimed at enhancing benefit equity, providing a system whereby key parameters would be adjusted automatically to economic circumstances, ensuring that the contributions and benefits remain relevant over time and preserving long-term sustainability.

The list of National Insurance issues reviewed by the Commission is extensive and wide-ranging and thus has been divided into the following four categories:

1. Equity & Relevance
2. Broadening the Scope
3. Enhancing Operations
4. Improving Financial Sustainability

Many of the contribution and benefit provisions and rules that were established when NIB was created in 1974 were based on prevailing socio-economic conditions and for a non-computerised administrative environment. Since then there have been significant social, economic and technological changes that have made some of the rules governing NI benefits and operations outdated. It is the Commission's view, therefore, that all aspects of NIB's

operations – policy, administration and investments – be reviewed so that the next round of amendments will make all aspects of the Bahamas' social security system consistent with international best practices.

2.1 Equity & Relevance

While the National Insurance Board has many of the characteristics of a financial institution, its primary objectives are social in nature. Thus, it is important that NIB provide benefits that are adequate and relevant to those who receive them. And although the solidarity principle of social security emphasizes social adequacy over individual equity it is important that there be some link between the value of contributions made and the value of benefits received.

2.1.1 Contribution Requirement for Retirement Pensions

The Commission is of the view that the current requirement of 150 weekly contributions to qualify for a lifetime Retirement pension is too low and is no longer applicable for a system that is 30 years old. It therefore recommends that over a 7 year period, in steps of 50 contributions each year, that the contribution requirement for Retirement pension be increased from 150 weeks to 500 weeks. For persons who have not contributed to the Fund before the effect date of this change, an immediate increase to 500 weeks is recommended.

2.1.2 Wage Ceiling

Approximately 35% of contributors have insurable wages that exceed the current wage ceiling of \$400 per week. If gratuities for persons in the hospitality sector are factored in, it is estimated that close to 50% of contributors earn at least this amount. Therefore, the National Insurance Board is not providing sufficient coverage to a large sector of the workforce. The Commission therefore recommends that the wage ceiling be increased to \$500 per week by January 2006.

2.1.3 Annual Indexation of Wage Ceiling

Since 1974, the wage ceiling has only been increased twice. As a result, long periods have elapsed during which National Insurance benefits for higher paid persons lost some of their relevance. It is therefore recommended that the ceiling on insurable wages be indexed annually each July, with each adjustment being the average change in the national wage index over the previous three calendar years. (Average changes in the Retail Price Index may be used if there is no national wage index.) Annual indexation of the wage ceiling should begin after the ceiling has been increased to \$500 per week.

2.1.4 Annual Indexation of Pensions and Grants

Although pensions have been increased several times during NIB's first 30 years, these adjustments have not been at regular intervals and have not always been consistent with cumulative inflation. Therefore, to ensure that NI pensions and fixed-dollar grants maintain purchasing power over time, it is recommended that pensions and grant amounts be increased each July by the average change in the Retail Price Index (inflation) over the

previous three calendar years, subject to a maximum of 5%. Should the average change in the Retail Price Index be greater than 5%, the Board may consider a larger increase but only after actuarial advice on the long-term impact on the Fund has been received.

2.1.5 Method of Calculating Retirement Pension

Under the present formula for calculating Retirement pensions, there is a loose relationship between actual contributions made and the pension that is awarded. This is the case as only the three best years of wages in the last 10 years are used. Therefore, it is possible for two persons who had significantly different earnings pattern in their early years but the same best three years' earnings to get the same pension.

To ensure that pensions are more consistent with actual contributions it is recommended that earnings over one's entire career be used, with older wages indexed to today's value. It is also recommended that the annual accrual rate be set at 1.5% and that the limit of 60% of average insurable wages be eliminated, thus allowing contributors to earn larger pensions if they choose to work longer.

2.1.6 Government to Pay For Assistance Pensions

When the National Insurance Board inherited non-contributory pensions from the Government in 1974, it was anticipated that these pensions would be phased out gradually. While the number of pensions in payment is reducing each year, there are still many new non-contributory pensions awarded each year.

The Commission is of the view that non-contributory pensions should be the responsibility of the government, not the

National Insurance Fund. Therefore, it is recommended that the cost of Assistance pensions paid to self-employed persons who had a chance but failed to make sufficient contributions to qualify for a contributory pension, be met by the Government.

2.1.7 Stricter Means Test

One of the reasons why the roll of Assistance pensions may not be decreasing more quickly is the award and continued payment of pensions to persons who are able to pass the test of resources even though they may have reasonable levels of income or assets. While the current test of resources focuses on income, the Commission recommends that where an applicant has financial assets (bank account, stocks, bonds etc.) and real estate excluding one's residence, that all together exceed 5 times the annual Assistance pension, the application should be denied or the pension suspended.

2.1.8 Payment of Sickness, Maternity & Injury Benefits

When an employee is on leave due to sickness, maternity or job-related injury, employer practice regarding the coordination of wages and NIB benefits varies. While many employers will only pay the portion of one's regular income that the NIB benefit does not cover, some employers pay either full or partial wages that together with NIB's benefit exceeds regular income. As a result, some workers may be financially better off when sick than when at work and thus may be inclined to claim more regularly. For public servants, NIB has documented evidence of excessive sickness claims which is likely linked to the fact that they receive more than their regular income when sick.

Sickness, Maternity and Injury benefits are designed to replace lost income. Therefore, the Commission recommends that NI should not pay benefits if the employee has no loss of income when off from work due to illness, maternity or job-related injury. Where there is loss of income for all or a portion of one's leave, then the NI benefit amount should represent only the portion of wages that has been lost up to the maximum benefit entitlement.

2.2 Broadening The Scope

The National Insurance Board covers all workers in The Bahamas for most of the International Labour Organization (ILO) recommended social security benefits. There are, however, some groups that have limited coverage for certain benefits due to the nature of their employment. The Commission would like to see maximum coverage for the majority of Bahamian workers and thus the recommendations that have been labelled "Broadening the Scope" are designed to capture more fully certain groups and certain levels of income.

2.2.1 Wage Ceiling For Pensionable Civil Servants

Since 1984, the ceiling on insurable wages applicable to pensionable civil servants for NIB pensions has been frozen at \$110 per week. As a result, the Retirement pension payable to former long-serving civil servants is much lower than the amount paid to former private sector workers. While pensionable civil servants are entitled to a pension from the public sector, it is recommended that NIB have only one wage ceiling for all workers, eliminating the \$110 weekly ceiling. If enacted, this will increase government's annual contributions by approximately \$8.5 million.

To ensure that combined NIB and civil service pensions are not excessive and are fair to both high & low income workers, it is recommended that the Government review its pension plan provisions and amend its pension plan so that when combined with the National Insurance Retirement pension, civil servants could receive income replacement of 80% for a 40-year career or 2% per year. NIB would be the first payor and government would “top-up” so that the total pension for services of public officers meets the proposed target. Changes to the Pensions Act aimed at properly integrating NIB and civil service pensions, will result in a significant reduction of government’s future pension expenditure.

2.2.2 Insurable Wages For Hospitality Sector Workers

For persons employed in the hospitality industry who receive gratuities as part of their regular income, National Insurance contributions and benefits are based only on their base wage. Quite often, this base wage represents a small portion of their regular income. As a result, the benefits and pensions payable to these workers are low, relative to usual earnings. It is therefore recommended that gratuities that take total wages up to the wage ceiling be included in insurable wages. However, it is recommended that the distribution of contributions on gratuities differ from that of base wages whereby the employer would pay only 2% (the portion that represents payment for industrial benefits) and the employee would pay the remaining 6.8%.

2.2.3 Multiple Employment

Under current rules, contributions are only required from the “first” employer where a worker has more than one job. This provision often creates uncertainties as to which employer is obligated to pay. It also

results in low insurance coverage as only wages from this first employer are covered.

To ensure equity among employers as well as to provide better coverage for workers who have multiple jobs, it is recommended that all employers pay contributions for workers that have more than one job. Should the worker’s total earnings on which contributions were paid exceed the ceiling on insurable wages, appropriate refunds will be made to the worker and all applicable employers.

2.2.4 Income/Age Limit for Receiving Retirement Pension

Under present rules, if a NI pensioner earns more than half of the insurable wage ceiling (\$200 per week) his/her pension will be suspended. The Commission is of the view that once a worker has reached the minimum age required to qualify for a pension and the pension is reduced appropriately for early retirement, one should be able to earn any amount and still receive one’s pension.

2.2.5 Receiving Survivors & Retirement Pensions

When someone who is in receipt of a Survivors pension reaches age 60 and applies for a Retirement pension, he/she is only entitled to the higher of the two pensions. Similarly, if a NI pensioner dies his/her spouse is only entitled to the higher of half of the deceased’s pension or the surviving spouse’s pension. Under these rules, it is quite possible for household income to fall by more than 50% and for some spouses to be treated differently from others where pension amounts varied widely. To ensure that all surviving spouses are able to maintain their standard of living, the Commission recommends that the surviving spouse receive no less than 60%

of the combined household pension income before death.

2.2.6 Survivors Pensions

Under current rules, young widows and widowers do not qualify for a Survivors benefit if they have no dependent children. Also, Survivors pensions are not payable at all if the marriage occurred after the deceased had been awarded Retirement or Invalidation pensions.

The Commission considers these requirements stringent and outdated and thus recommends that:

- i. A lump sum grant equivalent to one year's Survivors pension be paid to widows and widowers who do not qualify for a pension under current rules;
- ii. Survivors pension be awarded even if the marriage occurred after the award of Retirement or Invalidation benefit.

2.2.7 Unemployment Benefits

While unemployment levels in The Bahamas are relatively low, expected and unexpected events often result in temporary unemployment for hundreds of workers, impacting not only affected individuals but also the general economy. Such events include hurricanes and temporary or permanent closure of hotels and other businesses. To provide additional social security income support during periods of involuntary unemployment, the Commission recommends that a modest unemployment benefit be introduced at the earliest opportunity. Once experience unfolds, adjustment may be made to contribution and benefit rules so that a more comprehensive unemployment benefit may be in place.

Initially, the Commission recommends a benefit payable to involuntarily unemployed persons (except where terminated for cause) for 10 weeks with a benefit rate of 50% for the first 5 weeks and 40% for the next 5 weeks. This benefit would start after a 4 week waiting period which follows that period during which any Redundancy benefit applies. The initial contribution rate will be 1%, shared equally by employers and employees. (See Chapter 5)

2.2.8 Benefits For Persons With Disabilities

The Commission recognizes that there are several gaps that presently exist in the assistance provided to persons who are disabled and those who are responsible for the care of disabled persons. Therefore, several recommendations are being made that will expand the scope of Invalidation benefits, introduce a Disability Assistance Pension and support the enhancement of employment skills of persons with disabilities. These include:

- Payment of a child's invalidity assistance from age 1, instead of the current age 16.
- Payment of a Constant Attendance Allowance (20% of pension) to Invalidation pensioners who need constant care.
- Allow persons with disabilities who are receiving the new Disability Assistance pension to earn weekly wages of up to the amount of the monthly pension and still keep their pensions.

The Commission also believes that in addition to the health clinics and mini-hospitals that are being built throughout The Bahamas, that the Medical Benefits Branch should finance facilities that provide diagnostic and related services to persons with disabilities, as well as assist such

persons in enhancing their employment skills so that more persons with disabilities may become productive citizens.

2.2.9 Disaster Assistance Fund

One of the Commission's specific mandates was to devise a sustainable fund that would assist persons in time of disaster. With the recent hurricanes that affected several parts of The Bahamas, the need for such a fund has become more apparent.

While several options for a disaster fund's objectives, coverage and financing method were debated, the Commission recommends that a fund with the following criteria be established:

- It should provide financial assistance to contributors and NI contributory pensioners,
- Only employees (including self employed persons) would contribute at a rate of \$1 per week. This, it is estimated will raise approximately \$5.5 million per annum.
- A single lump sum payment of up to \$7,500 should be paid to contributors who suffer damage to their property that is located in an area declared a disaster area by the government.
- The Fund should be administered by the National Insurance Board;
- Damage assessments will be conducted by a suitable agency with NIB making the appropriate payments.

The Commission also recommends that a comprehensive risk assessment of the effects of potential disasters on The Bahamas be conducted. The implementation of recommendations from such a study, it believes, could effect the initiation of several steps that may

substantially reduce the social and financial consequences of future disasters.

2.3 Improving Operations

As administrator of the National Insurance Fund, the NIB is responsible for collecting contributions, adjudicating claims, paying benefits & pensions and investing surplus funds. In many respects, the quality of service and levels of competence at which the NIB accomplishes these goals is sub-optimal and in need of improvement. The Commission, therefore, makes several recommendations aimed at making the National Insurance Board a more effective and efficient operation in all of their many roles.

2.3.1 NIB Administrative Costs

In 2003, 20% of National Insurance contribution income was consumed by administrative costs. While this rate is down from over 25% in the early 1990's, the allocation of such a large portion of contributions to administrative costs is considered excessive. It is therefore recommended that the National Insurance Board devise strategies of reducing operating costs to 6% of contribution income or 0.7% of insurable wages by 2015. These rates are attainable if the contribution rate and wage ceiling are adjusted as recommended.

2.3.2 Contributions & Benefits For Self-employed Persons

Of the estimated 24,000 self-employed persons in The Bahamas, only 15% contribute to NI, many declaring earnings that is likely below their actual income. Also, these contributions are often irregular and not paid for the entire year. While the

reasons for most persons in this group not contributing vary, the Commission recommends that NIB devise a new approach to dealing with the self-employed so that the registration, contribution and benefit requirements are made simpler, more flexible and more consistent with the nature of self-employment.

2.3.3 Linkages With Government Departments

NIB estimates that it collects around 78% of the contributions that are due to it annually with highest levels of non-compliance among the self-employed and small employers. Given that NIB contributions are mandatory for all employers and self-employed persons, the Commission believes that with increased enforcement and through the usage of all possible links with private and public sector agencies, compliance levels could be raised to 95%.

To this end, the Commission recommends that National Insurance Board Compliance Certificates be required by Government Departments that issue licenses and/or permits that employers and self-employed persons need to conduct business prior to obtaining such licenses and/or permits. Such would include Business License, Public Service Drivers' Licenses and Work Permits etc.

2.3.4 Penalty for Late Payment of Contributions

A large portion of NIB's contribution income is not received within the one month provided for by the law. The current penalty for late payment of contributions is interest at the Prime rate (now 5.5% per annum), which does not serve as much of a deterrent to many employers. The Commission therefore recommends that an additional penalty of \$1 per employee for each week

that a contribution payment is late be charged.

2.3.5 Issuance of NI Numbers

The National Insurance Board presently issues numbers to, and collects contributions from, persons who are not legally entitled to reside in The Bahamas. The Commission considers these practices a means of facilitating illegal activity and thus recommends that both practices cease. For the purpose of registration, prospective non-Bahamian insureds should be required to provide proof of their status in The Bahamas. For self-employed and employed contributors who may already have valid NI numbers, attempts at determining their legal status should be made so that contributions are not collected from those not entitled to work in The Bahamas.

2.3.6 Annual Contribution Statements

Another means by which the compliance levels could be greatly improved is through the provision of annual statements to contributors with details on the number and amount of contributions received by NIB during the past year. Not only will this provide the contributor with proof that his/her contributions were paid, but it will also serve to improve the quality of NIB's database.

2.3.7 Appointment of Board Members

The National Insurance Act prescribes how the 11-member Board is to be appointed. Presently, three members each are to be appointed to represent unions and employers and five members are appointed by the Minister in his/her discretion. The members representing unions and employers are to be appointed after the Minister consults with their respective associations.

To ensure some independence at the Board level, the Commission recommends that two of the three members representing each of employers and insured persons be nominated by their respective organizations. In addition, the Commission suggests that four of the five members who may be appointed at the Minister's discretion, be chosen to represent retired persons, self-employed persons, the financial services industry and the public service (government).

2.3.8 NI Act & Regulations

Effecting the changes being recommended by the Commission will require many amendments to the National Insurance Act & Regulations. To ensure that these amendments can be made shortly after necessary approvals have been granted, a comprehensive review of the Act & Regulations, along with the drafting of amendments, should begin immediately.

2.4 Improving Financial Sustainability

Unless changes are made to the contribution rate and/or benefit provisions, the National Insurance Fund is projected to be depleted by 2029. For many of today's contributors, this eventuality could mean that they may never receive a pension from the Fund. It is therefore imperative that NIB and the government take steps to improve the long-term sustainability of the Fund for future generations of contributors.

2.4.1 Investments

As The National Insurance Fund has grown to \$1.3 billion at year-end 2004, finding suitable investment opportunities that fit the guidelines set out in the Act has become

increasingly difficult. As a result, the Fund is heavily invested in government securities, has assets that poorly match the time horizon of the liabilities and investments that are all domiciled in The Bahamas.

Given the importance of investment returns to the future sustainability of the National Insurance Fund, a sub-committee of the Commission was appointed to review prudent ways for the Fund to be invested. With assistance from non-Commission members, the sub-committee prepared a report that was adopted by the Commission which is presented in full in Chapter 4. In it, recommendations are made for portions of the NIF to be invested overseas as well as locally but by private sector professional investment managers.

2.4.2 Normal Pension Age

When the National Insurance Board was established in 1974, age 65 was considered to be an appropriate age for pensions to be first payable. After several years of experience, provision was made for reduced pensions to be paid beginning from age 60, as many workers retired at this age but had to wait 5 years for their NI pension. With life expectancy among the elderly increasing and people entering the workforce later after spending more time in formal education, increasing the age at which full NI pensions are payable should be considered. The Commission recommends that the normal pension age be increased from 65 to 67 over a 12 year period in steps of 2 months every year. No recommendation, however, is being made for changing age 60 as the earliest age at which reduced pensions may be payable.

Also, to ensure that the reduced pensions are actuarially equivalent to the full pension, it is recommended that the reduction factors be changed to $\frac{5}{12}\%$ per month, for each month

that the pension start date precedes attainment of the normal pension age 65. Also, the Commission recommends that provisions be made for actuarial increases to pensions payable to persons who elect to have their pension start after normal pension age. A factor of ½% per month is recommended.

2.4.3 Contribution Rate

When the National Insurance Board was established, it was known that the contribution rate would have to be increased in the future to ensure long-term sustainability of the system. Presently, the 8.8% contribution rate is well below the long-term cost of benefits and now below the current benefit and administrative costs – also known as the pay-as-you-go rate.

Therefore, to ensure that future generations of contributors will not be overly burdened by extremely high contribution rates 30 or 50 years from today, the Commission is recommending that a schedule of four annual contribution rate increases to begin in 2011 be approved now. This proposed schedule with the employee/employer portions is shown below.

Year	Employee	Employer	Total
Up to 2010	3.4%	5.4%	8.8%
2011	3.9%	5.9%	9.8%
2012	4.4%	6.4%	10.8%
2013	4.9%	6.4%	11.3%
2014	5.4%	6.4%	11.8%

These rate increases are designed to make the contribution rate more consistent with the true cost of the complete NI benefits package, enhance the sustainability of the system and reduce the burden that will be passed on to future generations of workers.

The reduction in spread between employer and employee contribution rates is designed for the extra employer contribution to match more closely the cost of industrial benefits.

2.4.4 Medical Benefits Branch

To date, funds from the Medical Benefits Branch have been used for developing health infrastructure – namely the construction of polyclinics - throughout The Bahamas. At the end of 2003, available reserves in the Medical Benefits Branch stood at over \$65 million, an amount considered excessive given the limited scope for which these funds may be used and the number of projects already earmarked for financing from this Branch.

Given the financial sustainability issues facing the Pensions Branch, the Commission recommends that \$40 million be transferred from the Medical Benefits Branch to the Pensions Branch and that the annual allocation of contribution income to the Medical Benefits Branch be reduced from 1.1% to 0.5% with a commensurate increase in allocation to the Pensions Branch from 73.9% to 74.5%.

2.5 Financial Projections

One of the main objectives of the Social Security Reform Commission is to make recommendations aimed at strengthening future finances of the National Insurance Fund, which under current provisions, is projected to be depleted in 2029. In reviewing the options for achieving this, the Commission considered several options:- increasing contributions, reducing benefits, increasing investment returns and reducing NIB’s administrative costs. The Commission also considered the pros and cons of more advanced funding as opposed to postponing rate increases to later years.

All of the Commission's recommendations that have been outlined earlier have some impact on future finances – some positive and others negative. If the contribution rate increase is excluded, there will be net long-term reduction in expenditure with greatest savings coming from the increase in the pension age and changing the best 3-year average Retirement pension formula to a career pension formula.

In deciding on the appropriate contribution rate increase that should be proposed, the Commission considered the ability of workers, employers and the economy in general, to afford higher contribution payments. It also considered a funding objective of reserves equivalent to 5 times annual expenditure in 30 years time as being appropriate. (Currently, the funding level is slightly under 9 times expenditure.) While this objective does not suggest sustainability

in the indefinite future, it does provide adequate funding for a period long enough for minimal changes to be made later, depending on Fund experience.

If all of the National Insurance recommendations described in this Chapter are implemented, projected depletion of the Fund will be extended to 2052, some 23 years later than the projections of the 7th Actuarial Review. Thus, the Fund is still projected to be depleted. However, the long-term cost of the National Insurance system as measured by the General Average premium is lowered from 15.5% to 13.2%. With the recommended contribution rate increase to 11.8%, the National Insurance Fund would be in a much stronger financial position to meet rising expenditure as the system matures.

Chapter 3 Private Pensions

With National Insurance benefits representing the first pillar of The Bahamas' social security system, the second and third pillars both relate to private pensions – employer sponsored plans and individual pension arrangements or personal savings. While participation in National Insurance is mandatory, the establishment of pension plans and personal savings is voluntary. However, professional guidance on adequately providing for one's income security in old age usually suggests that there be three sources of income for most workers - national insurance, employer pension plans and personal savings.

The Social Security Reform Commission is of the view that for the average retired person to maintain the standard of living to which he/she was accustomed while working, approximately 80% of pre-retirement income is required. With National Insurance currently providing a maximum of 60% income replacement for low and middle-income workers, and lower for higher paid persons, most retired persons require additional sources of income for continued sustainability.

In its present form, and even if all of the recommendations made in the previous chapter are adopted, National Insurance is not designed to provide all of the income needs in old age for all retirees. It is estimated that some 20% of the Bahamian workforce is currently enrolled in a private pension plan sponsored by their employer. It is also widely accepted that as a nation, The Bahamas has very low savings rates, with few people having any substantial savings. As a result, many workers, even those formerly enrolled in pension plans, cannot

afford to retire given the substantial decline in regular income that would result.

In keeping with the Commission's mandate to provide better overall pensions for Bahamians, three options for ensuring adequate pension income in old-age were considered. These options and a brief description of how each would operate are described below:

1. **A Larger National Insurance:** NI contribution and benefit rules dictate how large pensions will be and up to what levels of income coverage is provided. These rules may be changed to create larger pensions to both high and low income workers with a commensurate increase in contributions. By changing the rules, NIB could provide a Retirement pension of 80% of pre-retirement income, the level considered adequate for most.
2. **A Public-Private Partnership:** Instead of having NI provide for almost all the pension needs of workers, a coordinated approach to pension coverage between NI and private providers could be created so that together, pensions from the two sources will meet the 80% income objective. Since NIB already has a reasonably successful collection mechanism, NIB could act as the collection agency for both pensions. With a higher total contribution rate and higher, or no, wage ceiling, NIB would collect all contributions but keep only the portion related to the benefits currently provided. The excess will then be transferred to the private sector pension fund of the worker's choice. Where an employer already has a

pension plan whose terms meet or exceed the minimum standard, no additional contributions would be required.

- 3. Mandatory Private Pensions:** Through legislation, require all employers in The Bahamas to establish a pension plan for their employees that provide certain basic minimum benefits, contributions and other requirements. These contributions and pension payments will complement NI pension to meet the overall income objective. Where an employer already has a pension plan whose terms meet or exceed the minimum standard, no additional contributions would be required.

Commission's Recommendations

While each of the options presented have merits and could achieve the suggested level of pension coverage and participation, the Commission recommends that a system of mandatory employer pension plans for all employers be established. Under such a system, all employers would be required to establish a pension plan with a minimum set of criteria. For defined contribution plans, it is proposed that the minimum contribution rate be 2% each for employees and employers for wages at/or below the NI wage ceiling and 5% by each for wages above the NI wage ceiling. For a defined benefit plan, minimum targeted benefits would be an accrual rate of 2% of final average earnings per annum for combined NI and private pension plans.

For workers in the hospitality industry who receive gratuities, pension plan contributions

on such gratuities should be made by the employee only at the rates prescribed for employees in other industries - 2% of gratuities below the NIB wage ceiling and 5% above the wage ceiling.

To achieve this, new and extensive pension legislation that covers minimum plan provisions and reporting requirements will have to be introduced. Also, a government department with adequately trained and qualified staff that will supervise & regulate private pensions in The Bahamas will have to be created.

With a better designed National Insurance scheme and well regulated mandatory system of employer pensions, the Commission is confident that together these systems will greatly enhance the retirement income for Bahamians.

The Commission is also interested in enhancing the level of personal savings in The Bahamas. However, without a personal income tax regime or similar mechanisms that provides explicit incentives for individuals to save for their retirement years, extensive and sustained public education on the need for long-term personal savings should be a priority for the government. If and/or when new sources of taxation are being considered for implementation, creating a system of tax credits or tax deductions for long-term savings is encouraged.

The report of the Commission's Sub-Committee formed to look more closely at the issue of private pension funds is presented in Appendix III.

Chapter 4 Investments

Under NI partial funding approach to financing future pension payments, annual surpluses for 30 years have accumulated into a large pool of invested assets. As at December 2004, NIF assets totalled \$1.3 billion. With such a large fund, the rate of return earned on these assets is an important factor that will influence the long-term sustainability of the NIF and the maintenance of an affordable pension system for future generations.

Over the past 20 years, there has been a gradual decline in prevailing interest rates in The Bahamas and for the NIF, returns on reserves have fallen from almost 10% in 1983 to below 6% in 2003. Several other factors that have also contributed to declining returns are the growing amount of funds that remain un-invested for extended periods, due mainly to the fact that all funds are invested locally, and the lack of suitable investment opportunities within this small market. During 2004, the average month-end balance of amounts held in non-interest bearing deposits at the Central Bank were \$91.1 million. Bonds issued many years ago by government corporations at below market rates have also negatively affected returns.

With investments limited to local securities, the National Insurance Fund is currently not well diversified having concentrations in short-term securities (t-bills and commercial bank deposits) and public sector securities (t-bills, Bahamas Government Registered Stock, loans and bonds to government corporations). With over 30% of the Fund held in

short-term assets, there is a severe mismatch between the time horizons of assets and liabilities. Also contributing to the Fund's inadequate diversification and horizon mismatch, is the lack of a documented and approved policy that guides the investment of National Insurance Fund. The Commission has also noted that because of the restrictions in the National Insurance Act that guide investments, Ministerial approval is required for most investments, thus increasing the time in which investment decisions take to be made.

To increase the assurance that NIF investments are kept in line with prudent investment objectives and that the Fund is able to realise greater returns thus enhancing the long-term sustainability of the Fund, the Commission recommends several steps, as listed below, aimed at improving all aspects of NIB's investments.

1. An Investment Policy Statement that sets out the Fund's goals, objectives and investment guidelines should be developed immediately. Once drafted, it should receive formal approval from the Investment Committee, the Board, the Minister and the Minister of Finance. Thereafter, it should be used as a guide for the selection of new investments and to evaluate the performance of the Fund. The Statement should also be reviewed periodically and updated whenever economic conditions or scheme-specific investment related positions warrant change.

2. To enhance the decision making process for new investments, the National Insurance Act should be amended to broaden the investment powers of the Board within the guidelines of the Investment Policy Statement. The constitution of the Investment Committee should comprise of two Board members and three independent members who are professionally trained and experienced in the field of investments. Increased delegated authority should also be given to the Director for certain types of investments.
3. While the Commission supports the view that emphasis should be placed first on investing National Insurance funds locally, the size of the NIF and the limited opportunities in The Bahamas warrant the investment of a part of the Fund overseas. Such investments would bring necessary diversification to the Fund. Any move to place funds outside The Bahamas, however, should be done gradually, so as not to affect foreign exchange reserve levels. Funds placed overseas should be made through and held by authorized agents so that should the reserves be required by the Central Bank, in the national interest these funds could be easily repatriated. The Commission recommends the investment of 2% of the Fund's assets per annum during each of the next 10 years in overseas investments consistent with the Board's investment policy guidelines.
4. The Commission also recommends that the portion of investments held in short-term instruments be reduced and that equities and real estate

investments make up a larger portion of the Fund. The following table shows the asset mix as at December 2003 and the recommended medium-term mix for the Fund.

Table 4.1. Asset Mix - December 2003 and Recommended Medium Term Target

	Dec. 2003	Recommended
Local Investments	100%	80% to 90%
Deposits, cash & t-bills	30.7%	10% to 20%
Fixed Income	60.9%	40% to 60%
Equities	0.7%	5% to 25%
Real Estate	7.7%	15% to 30%
Foreign Investments	0%	10% to 20%

5. It is recommended that local independent qualified managers be hired to provide professional management of the non-cash and non-government related investments of the Fund.
6. In view of the significant profits generated by the Bahamas Mortgage Corporation (BMC), the bonds held by the fund that were issued by BMC at below market rates, should where the contracts permit, be redeemed and reissued at market rate or the benefits of the below market rates should be passed on to BMC's borrowers by way of reduced lending rates.

The report of the Commission's Sub-Committee that reviewed National Insurance investments and made preliminary recommendations to the Commission may be found in Appendix IV.

Chapter 5 Unemployment Benefits

While almost all industrialised countries have some form of unemployment insurance (UI), Barbados remains the only Caribbean country with an unemployment insurance benefit, having introduced it in 1981. Such a benefit provides partial income replacement to eligible covered workers for short periods following involuntary unemployment. Like other contributory social security benefits, unemployment benefits are paid as a matter of right with no demonstration of need required.

Unemployment insurance programmes have both primary and secondary objectives as summarised below.

Primary Objectives
<ul style="list-style-type: none"> (1) Provide cash payments during involuntary unemployment, (2) Maintain to a substantial degree the unemployed worker's standard of living, (3) Provide time to find employment consistent with their skills and experience, (4) Help unemployed workers find jobs.
Secondary Objectives
<ul style="list-style-type: none"> (1) Stabilise economy during recessions by enabling unemployed workers to maintain their personal income & consumption, (2) Promote better utilisation of labour by encouraging unemployed workers to find appropriate jobs and, where necessary, helping them to improve their job skills, (3) Help employers maintain a skilled work force as skilled workers are not forced to seek other jobs, and thus are free to return when they are called back.

In 2003, it was estimated that the unemployment rate stood at 10.8% up from 7.8% in 1999. While it may be better to introduce an unemployment scheme when unemployment is falling, having a Fund in place as unemployment is rising may not be best from a financial perspective but it will bring added income security to those facing future unemployment.

On at least one prior occasion, The Bahamas Government considered the introduction of an unemployment benefit. In 1996, a report prepared by Hernando Perez Montas, an actuary, suggested that a contribution rate of at least 2.5% would be required to support an unemployment benefit with a 60% benefit rate and a maximum payment duration of 26 weeks. This report also provided guidelines for the provision of an unemployment benefit scheme. Shortly after the September 11 terrorists attack in the United States, the payment of unemployment assistance to persons in the hospitality industry was also considered as it was initially thought that there would have been significant job displacement. As employment levels in that sector stabilised rather quickly, the introduction of this weekly assistance was no longer considered necessary.

The Social Security Reform Commission considers The Bahamas' economy, and the employers and workers of The Bahamas, to be sufficiently mature for the introduction of an unemployment benefit. Given the mixed feedback that was observed during our public consultations, the Commission recommends that a modest benefit and low contribution rate be established at the outset.

In designing an appropriate unemployment insurance benefit for The Bahamas, the following issues should be considered.

5.1 Coverage

Unemployment insurance schemes usually cover only those who are in regular paid employment - that is, those most at risk of becoming involuntarily unemployed. Therefore, self-employed persons are generally not covered because they have complete control over whether they work or not and thus they could easily abuse the scheme.

Coverage for public sector workers varies but should be based on considerations of whether there truly is a need for insurance from job loss in this sector as well as on issues related to solidarity among workers. Including the largest single group of workers in The Bahamas will bring two key advantages - all workers will contribute and thus all will be entitled to benefits and the inclusion of an extra 13% of the workforce will broaden the collection base of the scheme, resulting in a lower contribution rate. In The Bahamas, though, the likelihood of permanent civil servants being made involuntarily unemployed may be quite small and thus being asked to contribute may not be well accepted. This discussion may also be extended to employees of government corporations.

Coverage for seasonal workers is also usually offered, but there may be special eligibility or benefit provisions that will allow them to receive full or partial benefits during the off-season.

5.2 Eligibility Conditions

Unemployment benefits are usually subject to the condition that the claimant is:

- involuntarily out of work;
- registered as unemployed with the Employment Exchange;
- capable of working;
- has not refused a job for which he/she is suitably qualified;
- available for and actually seeking employment.

Eligibility for benefits also depends on having been in insured employment for a certain qualifying period, such as at least 12 months since the person was registered with the UI scheme, and at least 8 months during the 12-month period immediately preceding unemployment. Provisions are also usually made for requiring a minimum time period between two successive periods of unemployment benefits.

When deciding on the eligibility criteria, special consideration may have to be given to typical employment patterns in sectors that are traditionally seasonal – fishing, hotels and other tourist-related activities, for example. This issue can be dealt with by either introducing contribution requirements that will prevent such workers from qualifying for benefits every year, or instead, receive partial benefits that are proportional to the number of contributions made in the preceding year.

Persons claiming an unemployment benefit should also be required to satisfy a minimum period of unemployment before a benefit award is made. This will ensure that only claims by those who are not able to find a job relatively quickly after being unemployed are considered. Initially, the waiting period may be up to 4 weeks, which

may later be reduced once experience is noted.

Also, given that NIB pays retirement benefits from age 60, unemployment benefits should not be paid for a worker who has attained this minimum pension age. Therefore, unemployment benefits would not be payable together with a retirement benefit. It should also not be paid if an insured is in receipt of an invalidity pension, sickness benefit or maternity benefit.

5.3 Level of Benefits

Like the sickness and maternity benefits presently offered by the NIB, an unemployment benefit should be designed to replace a portion of lost income for a limited period. In deciding on the benefit structure, consideration must be given to the benefit rate and to the earnings to be used as the basis for calculating the benefit. While the level of benefits should be sufficient to allow the recipient to maintain a certain standard of living, it should not be excessive so that it may serve as a disincentive to seek new employment.

For Sickness benefit, the benefit rate is now 60%. For an unemployment benefit, the rate could be lower, and it could also decline over time. For example, if the benefit is to be paid for a maximum of 26 weeks, the first half of the period may be paid at one rate and the remaining period at a lower rate. This structure often serves as an incentive for recipients to actively seek employment.

Upon introduction of an unemployment insurance benefit it may be best to provide a modest benefit at a rate of between 40% and 50%. This would limit the initial benefit cost to the scheme and would ensure that unemployed persons have an incentive to

return to work as soon as possible. Once the scheme has been established and experience observed, the benefit rate could then be raised to a high of 60% once adequate contribution rates and reserve levels are in place.

5.4 Financing Unemployment Benefits

The factors that have the greatest impact on the cost of an unemployment insurance benefit are:

1. Benefit rate or the rate applied to average wages;
2. Eligibility conditions, waiting period and maximum benefit duration;
3. Actual average benefit duration;
4. Actual percentage of contributors that will be awarded a benefit each year;
5. Relationship between the average wage of contributors and the average wage of beneficiaries.

Factors 1 and 2 are design factors and thus will be set by the government. Factors 3 and 4, however, will be influenced by scheme design but will also be impacted by economic conditions and changes in employment levels. Factor 5, meantime, will be determined by which classes of workers become unemployed and on the cyclical nature of various economic sectors.

There is little available data on the average duration of unemployment. Rough estimates of the incidence of unemployment claims and the likely average duration suggest that a contribution rate of 1.5% to 2% of insurable earnings should be sufficient to meet expenditure for a scheme that replaces 40% of earnings for an average of 10 to 13 weeks. The following matrix shows the contribution rates required for various

combinations of unemployment incidence rates and average benefit durations. For example, at a benefit level of 40% of previous earnings, incidence rate of 15% and average duration of 10 weeks would require a contribution rate of 1.5% plus administrative costs.

Sample Contribution Rates Required For Unemployment Benefits

Incidence Rates	Benefit Rate 40%		
	Avg. Benefit duration		
	7 wks	10 wks	13 wks
10%	0.7%	1.0%	1.3%
15%	1.1%	1.5%	2.0%
20%	1.4%	2.1%	2.7%

In addition to benefit costs, provisions should be made for costs related to administering an unemployment benefit. If NIB is selected as the administrator, there should be little additional costs as no new staff should have to be hired to effectively oversee the new benefit. The principal increase in administrative costs for the NIB would relate to creating computer systems and forms, and doing adequate public education.

If unemployment benefits are introduced, no portion of the current NIB contribution rate or monies from the National Insurance Fund should be used to meet expenditure. Instead, unemployment benefits should be financed with a separate contribution rate paid by both the employer and employee, and these payments should be held in a newly created Unemployment Benefits Fund. This fund would earn income on assets invested while charges to the fund would be unemployment benefits expenditure and administrative costs. To maintain simplicity, the earnings ceiling presently applied for NIB contributions and benefits should also apply to the unemployment scheme.

Given the need for a reasonable reserve to accumulate prior to the payment of benefits, payments out of the Fund should begin no sooner than 6 months after the first unemployment insurance contributions are collected. While a longer period may be preferred, especially if the initial contribution rate does not have much margin, 6 months will allow workers to quickly see the real benefits provided by the scheme.

The nature of unemployment benefits is that contributions made in the recent past qualify workers for a short-duration benefit, when the worker involuntarily ceases employment. Therefore, the most appropriate funding method for such a benefit is pay-as-you-go, similar to that of the Short-term Benefits Branch. Under this approach, current scheme income should be just sufficient to meet current expenditure. On the other hand, an unemployment benefit should be financed in such a way as to contribute to a counter-cyclical stabilization of the economy. Its revenue should remain as stable as possible over time and especially its contribution rate should not be increased with the onset of a recession, as this would only make the recession worse. This implies the need for some form of dedicated reserve that can be used during periods of recession and increased expenditure. Thus, a reserve of at least twelve months of scheme expenditure would be sufficient to leave time for an adjustment of the contribution rate in case of unfavourable experience. Some variation of the reserve below or above that level may be tolerated before considering a modification of the contribution rate.

Given the cyclical nature and volatility that is involved with unemployment benefits, frequent rate revisions may be necessary. Therefore, continued monitoring of

experience and informed short-term projections of expenditure are required. At a minimum, an actuary should review the contribution rate at three-year intervals so that rate revisions can be recommended to avoid either over funding or depletion of reserves. Such scheduled actuarial reviews should not, however, preclude rate changes from taking place between reviews, should they become necessary. The circumstances under which rates will be increased or decreased should be placed in Regulations.

5.5 Administering Unemployment Benefits

Unemployment benefits are one of the most difficult of all social security benefits to administer as benefit claims must be carefully checked, the reason for unemployment verified, and efforts of jobseekers to find employment closely monitored, necessitating a well staffed Employment Exchange. The combined efforts of NIB and the Employment Exchange would be required to properly administer this benefit in The Bahamas.

Since the National Insurance Board already performs most of these functions, NIB is the obvious choice for administrator of an unemployment benefit. However, for the initial verification of unemployment and continued eligibility to a benefit, a combined mechanism of NIB and the Employment Exchange should be used. While NIB may play a limited role, the Employment Exchange will be best suited to check the eligibility requirements related to the capacity and availability for work, as well as assist in the search for suitable re-employment. These include checking that unemployment was in fact involuntary, and that unemployment continues with the claimant being available for work and

seeking employment. Together with the typical NIB functions, these make the administration of an unemployment benefit more complex and difficult than the other regular tasks performed for other social security benefits. Therefore, proper planning leading to the selection and staffing of the employment agency, and a clear description of its mandate, is required.

For the Family Islands, NIB staff may have to perform all functions related to the processing and continued payment of unemployment benefits in the absence of an Employment Exchange Office.

5.6 Miscellaneous Issues

5.6.1 Role of Employers

Along with paying the employer portion and submitting monthly C-10's, additional cooperation between the employer and claims administrators will be required. If an employee becomes unemployed, the employer will be required to prepare a Termination Certificate that indicates the reason for the termination of employment, as well as the amount of earnings and NIB contributions made for the two months preceding unemployment, and the amount and classification(s) of termination benefits paid. The information on such a form will be very important in verifying the eligibility of the claimant to the benefit (reason for unemployment) and will provide the information not already recorded in the NIB database due to delays in contribution payment or processing. Termination Certificates should be completed even if the former employee does not have sufficient contributions to qualify for an unemployment benefit.

In addition, employers should be actively involved in a job-matching service where vacancies are publicised and individuals indicate their willingness to work. Employers could also play a pivotal role in any training aspect of an unemployment insurance programme. In this regard, special incentives may be created to enhance the interest and participation of employers, in coordination with national skills development efforts.

5.6.2 Appeals

An effective system through which claimants can appeal denied unemployment benefit claims would be essential as more appeals will be likely for unemployment than for other social security benefits.

5.6.3 Legal Framework

Prior to introducing an unemployment benefit scheme, appropriate legislation that contains all the provisions that govern the scheme should be put in place.

5.6.4 Coordination with Severance/ Redundancy Benefits

Labour legislation provides for the payment of Redundancy or Severance benefits for persons who have been employed for more than 12 months, in cases where the employee is made redundant. This benefit is equal to a multiple of the weekly pay per year of service. Therefore, consideration

may be given to having the 4-week waiting period that precedes the payment of an unemployment benefit to begin only after the number of weeks worth of redundancy/severance payments has expired.

5.6.5 Duplication with Sickness Benefits

Presently, depending on the date on which illness begins, an insured may qualify for a sickness benefit even though they have not worked for close to 18 months. This is a very generous provision for Sickness benefit and it is possible that persons may be using Sickness benefit as a form of unemployment benefit. Therefore, should an unemployment benefit be introduced, sickness benefit qualifying conditions should be tightened so that the insured must have worked in the very recent past, possibly even up to the day before the onset of the illness. This requirement is found in most Caribbean counties, even where there is no unemployment benefit.

5.6.6 Training

While the principal focus of an unemployment benefit is the replacement of lost earnings, the new program should also be used as part of an overall policy directed at promoting employment and facilitating training or retraining. Therefore, close coordination between skills development institutions, the Employment Exchange and NIB will be required to make sure that this function is undertaken with efficiency.

Commission's Recommendations For Unemployment Benefits

1. Cover all employed persons in the private sector, government corporations and non-pensionable civil servants.
 2. Benefits to be awarded to persons who are involuntarily unemployed, except when terminated for cause.
 3. Use the same wage ceiling and wage base as for other NIB contributions;
 4. Require at least 50 weekly contributions since last unemployment claim ceased or since inception before one can qualify (at inception, only need 26 weekly contributions and use other UI contributions as far back as required).
 5. Also need to have at least 35 weekly contributions in the last 50 weeks and at least 8 contributions in the last 16 weeks.
 6. Maximum benefit period of 10 weeks;
 7. Waiting period of 4 weeks before benefits commence;
 8. Benefit rate of 50% for the first 5 weeks and 40% for the final 5 weeks;
 9. Average wage for benefit purposes uses wages over last 26 weeks
 10. Contribution rate of 1.0% – 0.5% employer, 0.5% employee;
 11. NIB performs administration;
 12. Employment Exchange to coordinate training activities for unemployed persons.
 13. After 18 months, review experience and adjust contribution rate if necessary. If additional benefits can be afforded by the 1% contribution rate either raise benefit rate, increase maximum duration, or do both.
-

Appendix I: Summary of Commission’s Recommendations

The numbers shown below correspond to section numbers in Chapter 2 beginning on page 13.

Issue	Current Status	Commission’s Recommendation
2.1 Equity & Relevance		
2.1.1 Contribution Requirement for Retirement Pension	➤ To qualify for a Retirement Pension at least 150 weekly contributions are needed.	➤ Increase the minimum number of contributions required from 150 to 500 with immediate effect for persons making their first contribution after the change takes effect. In cases of those persons who have already contributed, increase the minimum number of contributions required from 150 to 500 in steps of 50 contributions each year, starting 2 years after the change takes effect.
2.1.2 Wage Ceiling	➤ Wage ceiling has been \$400 per week since January 1999.	➤ Increase the wage ceiling to \$500 per week in January 2006.
2.1.3 Annual Indexation of Wage Ceiling	➤ No current systematic method for adjustments.	➤ A national wage index should be created by the Government’s Department of Statistics ➤ Index the wage ceiling every July 1 by the average change in the national wage index (or change in retail price index if no wage index) over the previous three calendar years. ➤ The rules governing annual adjustments should be placed in Regulations.
2.1.4 Annual Indexation of Pensions & Grants	➤ No current systematic method for adjustments.	➤ Index all pensions, grants, minimum pension rates and all dollar value indices every July 1 by the average annual change in the Retail Price Index over the previous 3 calendar years up to a maximum of 5% without actuarial advice. ➤ The rules governing these increases should be placed in Regulations.

Issue	Current Status	Commission's Recommendation
2.1.5 Method of Calculating Retirement Pension	<ul style="list-style-type: none"> ➤ Calculation based only on average wages of the best 3 years in the last ten years. 	<ul style="list-style-type: none"> ➤ Replace the best 3-year average pension formula with an indexed career earnings approach with a 1.5% accrual rate. ➤ Eliminate the maximum pension of 60% of average insurable wage. ➤ Transition from the current to the new approach will occur over 10 years with a gradual phasing in of the new formula.
2.1.6 Government to Pay for Assistance Pensions	<ul style="list-style-type: none"> ➤ A grant from the Consolidated Fund represents 29% of total Assistance pension payments. 	<ul style="list-style-type: none"> ➤ If someone worked for sufficient years to qualify for a contributory pension but did not make sufficient contributions, then NIB should not award an Assistance pension. ➤ If someone worked for a period less than the minimum contribution requirement period for a contributory pension and made contributions, then they should be considered for Assistance once the test of resources and other criteria are met. ➤ NIB is to be reimbursed by the government for Assistance payments made to self-employed persons who failed to contribute.
2.1.7 Stricter Means Test	<ul style="list-style-type: none"> ➤ The test of resources is based on household income only, exclusive of capital resources. 	<ul style="list-style-type: none"> ➤ The test of resources applicable to Assistance pensions should be expanded to include cash, financial assets and real estate that exceed 5 times the annual amount of NIB assistance for which the claimant is beneficial owner. (Residence, personal property and tools of trade should be excluded.) ➤ The test of resources should not be applied to households that take in dependent children claiming Survivors Assistance.
2.1.8 Payment of Sickness, Maternity & Injury Benefits	<ul style="list-style-type: none"> ➤ Benefits are presently paid without consideration of amounts that are actually paid by the employer when an employee is off from work. 	<ul style="list-style-type: none"> ➤ Since Sickness, Maternity and Injury benefits are designed to replace lost income, NIB should not pay any benefits where the employee has no loss of income when off from work due to illness, maternity or job-related injury. ➤ Where there is loss of income for all or a portion of one's leave, then the relevant NIB benefit amount should represent the portion of wages that the has been lost up to the maximum benefit entitlement.

Issue	Current Status	Commission's Recommendation
2.2 Broadening The Scope		
2.2.1 Wage Ceiling for Pensionable Civil Servants	<ul style="list-style-type: none"> ➤ Wage ceiling for pensionable civil servants has been fixed at \$110/wk since 1974. ➤ The Retirement pension payable to former long-serving civil servants is much lower than the amount paid to former private sector workers with similar wages and contributions. 	<ul style="list-style-type: none"> ➤ All Government employees should contribute on wages up to the wage ceiling that applies for private sector workers (now \$400 per week) ➤ Government should review its pension plan provisions so that when combined, the National Insurance Retirement pension plus the Government's employer pension provides reasonable income replacement – around 80% for a 40-year career or 2% per year. NIB would be the first payor and government would “top up” so that the total pension for services of public officers meets the proposed target.
2.2.2 Insurable Wages for Hospitality Sector Workers	<ul style="list-style-type: none"> ➤ National Insurance contributions and benefits are based only on base wage. 	<ul style="list-style-type: none"> ➤ For persons who receive commissions and/or gratuities paid as part of their regular wages/salary, include in insurable earnings such commissions and gratuities. ➤ Contributions in respect of gratuities paid for by other-than-the employer shall now be payable at initial rates of 6.8% by the employee and 2.0% by the employer.
2.2.3 Multiple Employment	<ul style="list-style-type: none"> ➤ Under current rules, contributions are only required from the “first” employer where a worker has more than one job. 	<ul style="list-style-type: none"> ➤ Where a worker has more than one job, each employer should contribute on the total wages paid, regardless of the level of wages from other employment. ➤ At each year-end, if total insurable wages exceed the annual ceiling, NIB should make automatic and appropriate refunds to both employee and employers.

Issue	Current Status	Commission's Recommendation
2.2.4 Income/Age Limit for Receiving Retirement Pension	<ul style="list-style-type: none"> ➤ The monthly Retirement Pension is suspended if pensioners less than 70 years of age earn more than half the ceiling (\$200/wk). 	<ul style="list-style-type: none"> ➤ Remove the current income limit of \$200 per week so that persons receiving Retirement pension can earn any amount of wages and still receive their pension.
2.2.5 Receiving Survivors & Retirement Pensions	<ul style="list-style-type: none"> ➤ When the spouse of an NIB pensioner dies, he/she will be entitled to the greater of the pension being received or half of the deceased pensioner's entitlement. ➤ When a Survivors pensioner applies for a Retirement pension, he/she is only entitled to the higher of the two pensions. 	<ul style="list-style-type: none"> ➤ Persons entitled to their own Retirement/Invalidity pension who may also qualify for a Survivors pension should receive the following: <ul style="list-style-type: none"> • Where two Retirement pensions are being paid to a couple and one spouse dies, the higher of the two pensions should be paid to the surviving spouse, subject to a minimum of 60% of the combined pensions that were previously paid. • Where a Survivors spouse pension is paid before pension age is reached, the pension should be recalculated when a claim for Retirement or Invalidity benefit is made, and the new pension would be the higher of the pension that the deceased would have been entitled to upon his/her death or the living spouse's Retirement/Invalidity pension, subject to a minimum of 60% of the combined Retirement/Invalidity pensions.

Issue	Current Status	Commission's Recommendation
2.2.6 Survivors Pensions	<ul style="list-style-type: none"> ➤ Some individuals may not qualify for a Survivors pension following the death of his/her spouse depending on age, employment status and number of dependents. ➤ Survivors pensions are not payable at all if the marriage occurred after the deceased has been awarded Retirement or Invalidity pensions. 	<ul style="list-style-type: none"> ➤ If an individual who does not qualify for a Survivors pension following the death of his/her spouse who had made at least 150 contributions, a lump sum payment equivalent to one year's Survivors pension should be made. ➤ A spouse should be able to qualify for a Survivors pension even if the marriage occurred after the Retirement/Invalidity pension was awarded.

Issue	Current Status	Commission's Recommendation
2.2.7 Unemployment Benefits	➤ Not offered.	<p>➤ A modest scheme with the following key characteristics should be established for permanently employed persons.</p> <ul style="list-style-type: none"> • Workers in the private sector and government corporations would be covered, but not permanent public servants and self-employed persons • Payment of benefit to be made only in cases where the insured is involuntarily unemployed, except when terminated for cause. • Same wage ceiling and wage base as for NIB contributions • To qualify for a benefit a contributor needs to have the equivalent of at least 6 months contributions in the last 12 months prior to becoming unemployed. • For subsequent claims, at least 12 months of contributions must have been made since the last unemployment claim ceased. • Waiting period of 4 weeks plus the number of weeks for which notice, severance, redundancy, ex-gratia payments etc. are received, before benefits commence. For example, if such payments represent 9 weeks of wages, then the unemployment benefit will not commence until 13 weeks after unemployment began. • Maximum benefit duration of 10 weeks. • Benefit rate of 50% of insurable wage for first 5 weeks and 40% for next 5 weeks. • Contribution rate of 1% – ½% employer, ½% employee • NIB should perform the administration but a separate Unemployment Fund is to be created and the contribution rate should be differentiated from the NI contribution rate. <p>➤ The Employment Exchange (current government department that deals with job placements) should be expanded to adequately verify eligibility for unemployment benefit.</p>

Issue	Current Status	Commission's Recommendation
<p>2.2.8 Benefits for Persons with Disabilities</p>	<ul style="list-style-type: none"> ➤ To be eligible for an Invalidity Assistance Pension, children must be at least 16 years old. ➤ Invalidity pensioners who require constant care are not provided with a Constant Attendance Allowance. ➤ Disability assistance pension is currently not offered. 	<ul style="list-style-type: none"> ➤ Expand the eligibility conditions for Invalidity Assistance to allow children from ages 1 to 15 to qualify. The payment rate for such children will be the rate that applies to Survivors Assistance pensions to dependent children. ➤ Provide Constant Attendance Allowance (an extra 20% of pension) to Invalidity pensioners who require constant care. ➤ Introduce a Disability assistance pension designed to encourage persons with disabilities to seek employment and provide additional income. The following criteria should apply: <ul style="list-style-type: none"> • Disability must be assessed at 25% or more. • Persons with disabilities must register with NIB. • If gainfully employed, the pension will be allowed as long as weekly income does not exceed the monthly Assistance rate. • If not working but enrolled and participating in skills enhancement or job-training activities, the pension will be paid and will continue after completion for a period of one year provided he is registered with the Employment Exchange. • If not working and not enrolled and participating in job-training or skills enhancement, a pension may be paid if suitable employment cannot be found after one year of being registered with the Employment Exchange. • Pension amount to be based on the person's percentage of disability with guidance from the current rates that apply to Disablement pension. For example, if the pensioner is assessed with a disability of 50%, then the pension would be $\\$230 \times 50\% = \\115 per month, i.e., for partial disability, amounts less than the current minimum pension may be paid. • Persons who qualify for Disablement Benefit, resulting from Industrial Injury, will not qualify for this assistance pension. ➤ Construct and equip multi-purpose facilities that will promote skills-enhancement and provide diagnostic and other support for persons with disabilities with funds from the Medical Benefits Branch.

Issue	Current Status	Commission's Recommendation
2.2.9 Disaster Assistance Fund	➤ Not offered.	<ul style="list-style-type: none"> ➤ Fund to be established to provide financial assistance to persons who suffer damage to personal property in an area designated a Disaster Area by the government. This Fund will be managed by the National Insurance Board but will be separate from the National Insurance Fund. ➤ Contributions of \$1 per week by all employed and self-employed persons. ➤ Lump sum payment of up to \$7,500, depending on extent of damage as assessed by a relevant agency. ➤ Payments to be made to current contributors (20 contribution weeks in the last 52 weeks) and contributory pensioners.
2.3 Improving Operations		
2.3.1 NIB Administrative Costs	➤ 20% of contribution income in 2003.	➤ The Board should implement strategies designed to reduce administrative costs to 6% of contribution income or 0.7% of insurable wages in 10 years – 2015.
2.3.2 Contributions and Benefits for Self-employed Persons	<ul style="list-style-type: none"> ➤ Self-employed contributions must be made monthly, on prescribed forms, for every month and based on income in last calendar year, regardless of current earnings. ➤ Only certain groups of self-employed persons are covered for Industrial benefits. 	<ul style="list-style-type: none"> ➤ A new, simplified and flexible approach should be established for self-employed persons while maintaining the current structure for employed persons. Key elements of the revised structure should be: <ul style="list-style-type: none"> • indexed career earnings for Retirement pension • include industrial benefits for all self-employed persons • contribute without having to complete any forms • selection of a wage band for the purpose of identifying regular payments • allowed to pay as often as and how much they wish, without a ceiling; any excess payments can be carried forward to future periods and in the event of death, excess contributions will be refunded to the beneficiary. • when claiming for Short-term benefits, the weekly amount will be the maximum possible; given the amount of contributions paid and the highest wage band that produces sufficient “Effective Contribution Months”.

Issue	Current Status	Commission's Recommendation
2.3.3 Establishing Relationships with Public and Private Sector Agencies as a Means of Improving Compliance	➤ Only minimal collaboration with the Department of Immigration.	➤ Effect necessary legislation whereby businesses and self-employed persons need to secure a National Insurance Compliance Certificate prior to being awarded initial or renewed government issued licenses or permits. <ul style="list-style-type: none"> • Agencies for which this requirement will be effected include, but not limited to, Business License, Road Traffic, Immigration, Ministry of Tourism and Ministry of Trade & Industry. ➤ A NIB Compliance Certificate is to be issued only if the employer is not more than 3 months in arrears. These certificates are to be issued at all NIB offices by specifically authorised officers only. Regular audits are to be performed on all certificates issued.
2.3.4 Penalty for Late Payment of Contributions	➤ Interest at the Prime rate.	➤ \$1 per week per employee for each week that contributions are not paid plus interest at the Prime lending rate.
2.3.5 Issuance of NI#'s	➤ The National Insurance Board presently issues numbers to, and collects contributions from, persons who are not legally entitled to reside in The Bahamas.	➤ NIB should cease issuing numbers to, and collecting contributions from, persons who are not legally entitled to reside in The Bahamas.
2.3.6 Annual Contribution Statements	➤ Not provided.	➤ Issue annual statements to all contributors on record beginning in 2005 that will indicate details of contributions made during the previous year and summary information on contributions made in prior years. This statement should also indicate the current pension eligibility status of the insured along with an estimate of what accrued pension entitlements are.

Issue	Current Status	Commission's Recommendation
2.3.7 Appointment of Board Members	<ul style="list-style-type: none"> ➤ The National Insurance Board consists of 11 members. ➤ Three members each are to be appointed to represent unions and employers and five members are appointed by the Minister in his/her discretion. 	<ul style="list-style-type: none"> ➤ The National Insurance Board composition should be kept at 11 members but two of the three persons representing each of workers and employer associations should be nominated by their respective bodies. ➤ The five members for which the Minister now has full discretion to appoint should remain his/her nominees, with the added requirement that four of the five be chosen to represent retired persons, self-employed persons, the financial services industry and the public service (government). ➤ The term of the nominated members should be fixed at three years. Notwithstanding the three year appointment, a member's appointment may be revoked by The Minister in appropriate circumstances.
2.3.8 NIB Act & Regulations	<ul style="list-style-type: none"> ➤ A major review of the NIB Act & Regulations has never been conducted. 	<ul style="list-style-type: none"> ➤ Following submission of the Commission's final report, a comprehensive review of The National Insurance Act & Regulations should continue so that all necessary amendments required to facilitate proposed changes arising from the SSRC report could be made without delay.

Issue	Current Status	Commission's Recommendation
2.4 Improving Financial Sustainability		
2.4.1 Investments	<ul style="list-style-type: none"> ➤ International investments of the Fund are prohibited and no formal Investment Policy Statement. 	<ul style="list-style-type: none"> ➤ Amend the NI Act so as to broaden the powers of the Board to invest and to hire professional investment managers. ➤ Create and adopt an Investment Policy Statement. ➤ Allow NIB to gradually invest up to 20% of the Fund in overseas investments over the next 10 years. ➤ Engage local independent and qualified investment managers to provide professional management of a portion of the Fund's assets. ➤ Renegotiate rates on funds lent to Government Corporations at below market rates. ➤ Amend the Act to include the establishment of an Investment Committee which should comprise of two Board members and three independent members who are professionally trained and experienced in the field of investments. ➤ Increase the level of delegated authority to the Board so that it may approve investments, based on recommendations of the Investment Committee, within the guidelines of an approved Investment Policy Statement.
2.4.2 Normal Pension Age	<ul style="list-style-type: none"> ➤ Normal pension age is 65. ➤ For pensions awarded between ages 60 and normal pension age, the reduction factor is 4% for each year less than 65. 	<ul style="list-style-type: none"> ➤ Change the age at which full pension is first payable from 65 to 67. This increase is to be phased in over a 12-year period at the rate of 2 months per year commencing in 2007. ➤ Change the reduction factors applied to pensions awarded between ages 60 and normal pension age to $\frac{5}{12}\%$ for each month the pension start date precedes normal pension age. ➤ Introduce adjustment factors for pensions awarded after normal pension age of $\frac{1}{2}\%$ for each month the pension start date exceeds normal pension age.

Issue	Current Status	Commission's Recommendation
2.4.3 Contribution Rate	➤ 8.8% and has not been adjusted since inception in October 1974.	➤ Increase contribution rate as follows: <ul style="list-style-type: none"> • January 2011 – from 8.8% to 9.8% with ½% increase for employer and employee. • January 2012 – from 9.8% to 10.8% with ½% increase for employer and employee. • January 2013 – from 10.8% to 11.3% with ½% increase for employee only. • January 2014 – from 11.3% to 11.8% with ½% increase for employee only.
2.4.4 Medical Benefits Branch	➤ Excess funding given the limited scope of funds.	➤ Transfer \$40 million from the Medical Benefits Branch to the Pensions Branch. ➤ Reduce the annual allocation of contribution income to the Medical Benefits Branch from 1.1% to 0.5% and increase the allocation to the Pensions Branch from 73.9% to 74.5%.
3. Private Pensions		
Private Pensions	➤ It is estimated that only 20% of the workforce is covered by private pensions.	➤ Introduce a system of mandatory pensions whereby all employers would be required to establish a pension plan with a minimum set of criteria. ➤ For defined contributions, the minimum contribution rate would be 2% by employee and employer for basic wages below the NIB wage ceiling and 5% by employee and employer for basic wages above the NIB wage ceiling. ➤ Introduce new and extensive pension legislation that covers minimum plan provisions and reporting requirements. ➤ Establish a government department with adequately trained and qualified staff that will supervise & regulate private pensions in The Bahamas.

Appendix II: Summary of Public Relations Campaign & Survey Results



Opinion Poll

YOUR OPINION IS IMPORTANT TO US

As part of the consultative process, we would like to gather your opinion on the important issues of the National Insurance Board and pensions in The Bahamas. Please complete the following poll by ticking the box next to the answer that best represents your opinion or note your comments in the space provided.

1. Please indicate your gender:
 - Male Female
2. Please indicate your age:
 - Under 25 25 – 35 36 – 45
 - 46 – 55 56 – 65 65+
3. On which island do you currently live:
 - New Prov. & PI Gr. Bahama Abaco Exuma
 - Eleuthera Andros Long Island Other
4. Indicate your employment status:
 - Employee Retired Student Employer
 - Unemployed Self-employed NIB Staff Other
5. Do you support the idea of making reforms to NIB?
 - Yes No Undecided Do not know enough about it
6. To prevent the Fund from becoming exhausted in the next 30 years, what changes do you think would be best? (you may tick more than one)
 - Increase contributions Reduce benefits Increase pension age
 - Improve compliance Reduce admin. costs All of the above
 - None of the above If other please specify: _____
7. To prevent the Fund from becoming exhausted in 25 years time, when should NIB consider making changes?
 - Now In 10 years In 20 years In 30 years
8. Do you support the introduction of an unemployment insurance benefit?
 - Yes No Undecided Do not know enough about it
9. Do you support the view that only employers and self-employed persons who are up-to-date with NIB contributions should have their Business License renewed?
 - Yes No Not sure
10. Should National Insurance pay Old Age Non-Contributory pensions to persons who fail to meet the minimum qualifying conditions for a Retirement pension?
 - Yes No Not sure
11. Do you support investing a portion of the National Insurance Fund overseas to increase the Funds diversification and increased opportunities for higher returns?
 - Yes No Not sure
12. Do you believe that the NIB pension is sufficient to sustain you in old age?
 - Yes No Not sure
13. Of the three options being offered for consideration to provide better total pensions for retired persons, please indicate your preference.
 - Larger NIB – higher wage ceiling, higher contributions, higher pension rates.
 - Public-Private Partnership – NIB collects on full earnings with higher contribution rate but keeps only a certain portion with remainder transferred to private company or fund of your choice.
 - Mandatory Private Pensions – all employers required to have a pension plan with minimum standards to add to NIB’s pension.
 - None of the above
 - Do not know enough about it to make an informed decision
14. What, if any, are your fears, concerns, issues about reforming the Bahamas’ pension system?

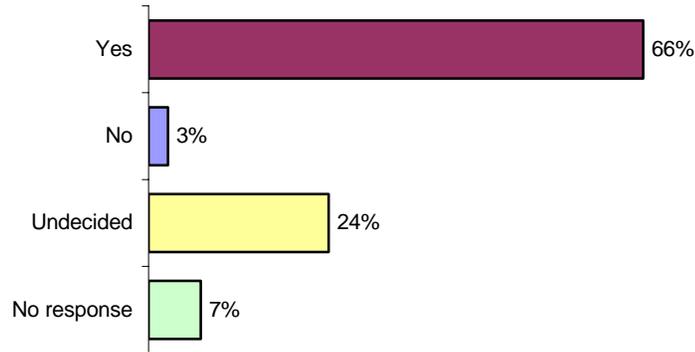
15. Do you have any final suggestions or comments that you would like to offer about the Commission’s mandate to improve income security in old age?

16. Provide additional comments here. _____

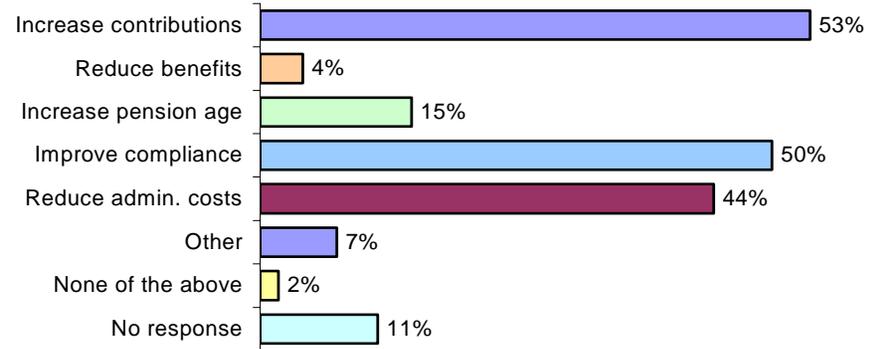
Visit our website at www.nib-bahamas.com/commission

Following is a summary of the survey results.

Do you support the idea of making reforms to NIB?

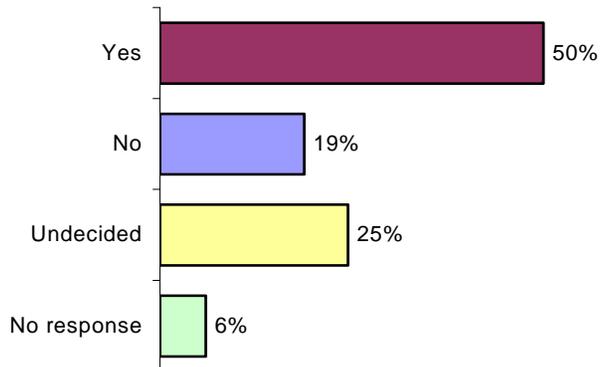


To prevent the National Insurance Fund from becoming exhausted within the next 30 years, what changes do you think would be best?

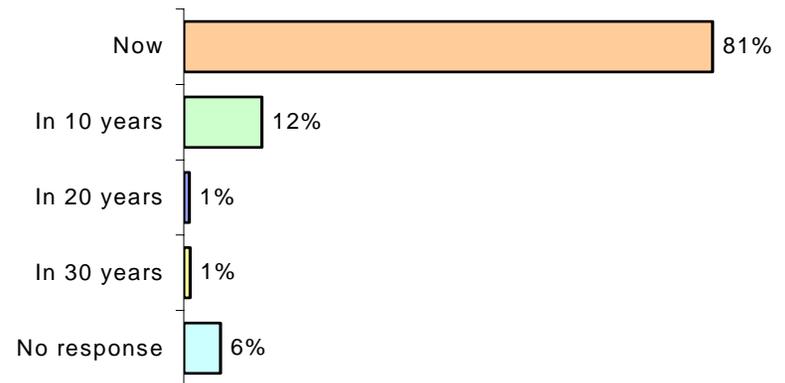


Note: Represents actual responses.

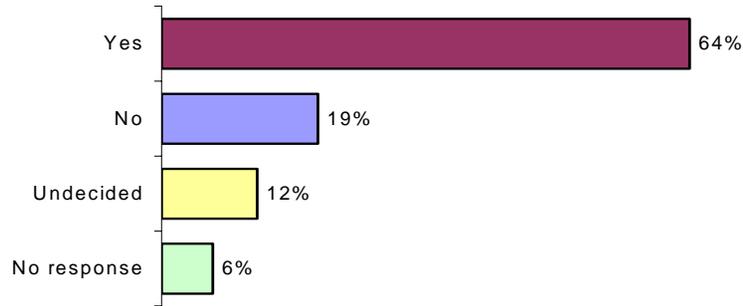
Do you support the introduction of an unemployment insurance benefit?



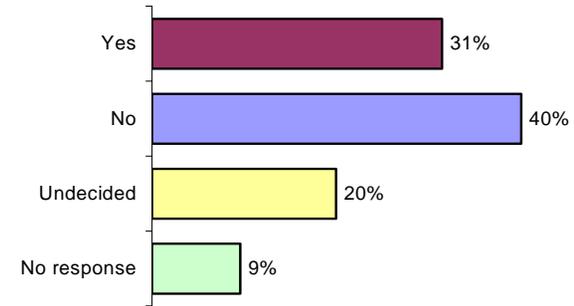
To prevent the Fund from becoming exhausted in 25 years time, when should NIB consider making changes?



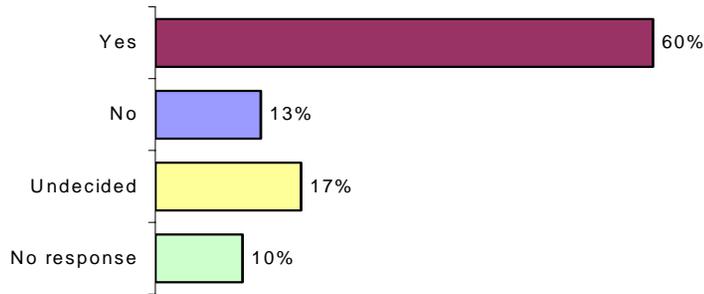
Do you support the view that only employers and self-employed persons who are up-to-date with their NIB contributions should be allowed to have their Business License renewed?



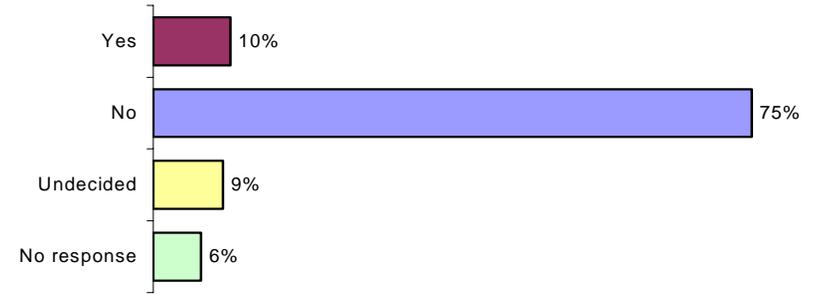
Should National Insurance pay Old Age Non-Contributory pensions to persons who fail to meet the minimum qualifying conditions for a Retirement pension?



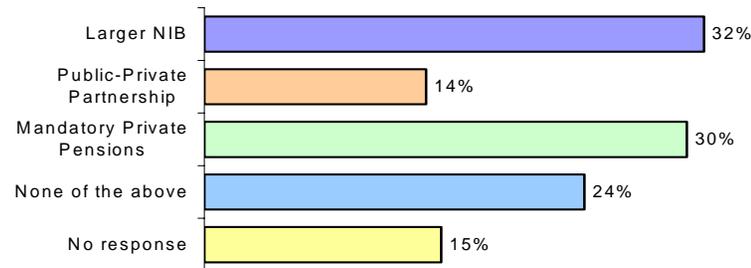
Do you support investing a portion of the National Insurance Fund overseas to increase the Funds diversification and increase opportunities for higher returns?



Do you believe that the National Insurance Board pension is sufficient to sustain you in old age?



Of the three options being offered for consideration to provide better total pensions for retired persons, please indicate your preference.



Note: Represents actual responses.

Appendix III: Options for Private Pension Reform: Regulatory Issues Facing The Bahamas

NIB Sub-Committee for Private Pensions Reform

Executive Summary

This Sub-Committee was established to explore the desirability of developing comprehensive recommendations for private pension schemes in The Bahamas and the scope of reforms, if any that would be necessary to address the myriad of issues relating to participation within and the administration of private schemes. The Sub-Committee has concluded that some system of mandatory private pension is necessary for The Bahamas.

There is a need for additional pension savings as current benefits provided under the National Insurance Scheme are insufficient, as the ceiling at which earnings are insured is less than the average income earned by a significant number of workers. Increased national savings are necessary to ensure that, in retirement, such affected households are able to uphold some minimum income level above that which would be permitted by NIB.

Although such increased benefits could be provided by raising the NIB contribution rate and increasing the wage ceiling, there are additional benefits in sharing this responsibility directly with private individuals and companies. The main reason is to encourage more responsible personal interest in retirement savings within the population. The discretion that would be exercised over the investment of such savings would also allow for diversification, tailored to the individual, group or sectoral risk profiles of workers. A mandatory system of supplementary retirement savings might be easier to implement than a voluntary one, as many tax incentives that would encourage voluntary savings do not exist in The Bahamas.

Having regard to the developing state of financial markets in The Bahamas and the relatively brief but growing experience with capital market instruments, it would not be advisable for private pension regulations to be too relaxed. The framework should ensure that rights of pension participants are protected and that minimum standards apply for those firms which administer pension funds or independently market retirement products.

Regulations should as a minimum address or require the following:

- Require all private pension plans to be registered and produce constitutive documents which provide some minimum level of details about plan features.
- Require mandatory participation in private/supplementary pension schemes.
- Determine whether plans will be structured as defined benefit or defined contribution.

- Identify/establish the regulatory agency and chief regulator for the private pension industry; outline supervisory responsibilities and authority with regard to pension plans, administrators and pension providers.
- Require a minimum “non-zero” contribution rate for private schemes of 10% salary divided equally between the employer and employee.
- Establish the permitted basis for harmonization with National Insurance.
- Establish minimum operational requirements for pension plans, including financial and accounting standards, funding rules, portability rules, vesting requirements and limits on early disposal of pension savings.

Eventually some attention also has to be given to how the unfunded public sector pension plan could become funded so that these long-term benefits can be assured.

The First part of this report gives summary rationales on the need for reforms and important issues that should be addressed in legislation. The list is non-exhaustive.

Why Private Schemes

Inadequacy of Pay-As-You-Go Schemes

In the past twenty years, countries the world over have been moving away from public pension schemes or pay-as-you go schemes to private pension fund systems. Several countries in Latin America, namely, Chile, Mexico¹, Uruguay, and Peru have opted for privately managed funds for their workers. OECD countries have also embraced this option, and more recently, Caribbean countries have begun researching and planning for private systems to supplement government pay-as-you-go schemes.

Demographic changes pose the most serious challenges for pay-as-you-go systems. According to the Center for Disease Control (CDC), the median age of the world's population is increasing because of a decline in fertility rates and a 20-year increase in the average life span during the second half of the 20th century. In essence, people are living longer and having fewer children. In addition they are opting for early retirement packages, increasing the number of retirees to be cared for by a decreasing number of workers. This cycle has eventually proven problematic for most countries with publicly managed systems.

¹ Key features of the Chilean and Mexican schemes are summarized in the matrixes in the Appendix, along with the examples of Barbados and the Cayman Islands.

Table 1: Demographic Trends in The Bahamas (1970-2015)					
Total Population (Million)		Urban Population (as % of total)		Population aged 65 and above (% of total)	
1975	0.2	1975	73.4	2001	5.2
2001	0.3	2001	88.8	2015	8.3
2015	0.4	2015	91.5		
Annual Population Growth rate (%)		Population under age 15 (as % of total)		Total fertility rate (per woman)	
1975-2001	1.9	2001	29.3	1970-75	3.4
2001-15	1.0	2015	24.5	2000-05	2.3
<i>Source: United Nations Development Programme, Human Development Report 2003</i>					

The Bahamas' mandatory pay-as-you-go system (NIB) was implemented in October 1974, and applies to permanent and temporary workers regardless of nationality or immigration status. The Bahamas' existing pay-as-you-go system of national insurance is one in which current benefits are paid, in part, from current income, and partly from returns on investments. If a higher contribution rate is not achieved, the Fund is expected to be depleted by 2029. Table 1 points to the demographic challenges posed to the Fund. Dependence on the working population is expected to increase in the future and with it the financial strain on the Fund. In particular, an increasing percentage of the population is being comprised of persons aged 65 and older, the fertility rate of females is decreasing, and the impact of HIV/AIDS among the young reduces the remaining working population. The presence of significant informal or undocumented economic activities also underscores the prevalence of uninsured and underinsured earnings for many workers in the population. The nature of the familial relationships is also changing, as fewer offspring are taking responsibility for their parent's welfare as compared to the past, increasing the need for reliance on personal savings at retirement. The dependency burden can be reduced by extending the average working age of employed persons, and creating disincentives against early retirement. Government's decision in 1997 to extend the age of retirement was a positive step in this direction.

Importance of Private Schemes

According to surveys done by the Central Bank, existing private pension assets are approaching \$1 billion, which at the end of 2001 were equivalent to 16.1% of the GDP, compared to the National Insurance Board's (NIB) invested assets of 20.2% of GDP. This in itself provides sufficient justification for the active regulation of private pensions, to protect the interests of the workforce already represented within these schemes. More local employers were also taking on the responsibility of sponsoring pension plans for their employees, as the share of the workforce covered by private schemes rose to 18.5% in 2001 from 18.3% in 1997.

Going beyond NIB

The partial labour force coverage in private schemes, in which, according to the Central Bank, some employees are not required to contribute, when coupled with the crisis faced by NIB, underscores the importance of encouraging an increased level of savings among the entire workforce. While this is primarily to ensure that the Fund is able to continue to provide the current levels of benefits promised to future retirees, it is also necessary so that retirees can supplement the income received from NIB, which now only fractionally insures the portion of earnings within the wage ceiling. Lifestyle issues are involved in the sense that the consumption levels of many households are based upon earnings substantially above the insurable ceiling.

Mandatory versus Voluntary Participation

In the absence of tax incentives, a mandatory savings system could be more effective than a voluntary one. The Bahamas has no income taxes that could be waived or reduced on the portion of private earnings channelled into long-term savings products. This is an important feature of many developed countries including Canada and the United States. In both countries the tax system permits minimum annual tax deductible contributions to personal retirement savings funds, and impose tax penalties when such resources are utilized before retirement date. Individual retirement savings plans in such countries also give more favourable tax treatment to the investment income earned and accumulated within such plans. Not having the instrument of taxation would therefore, require that The Bahamas apply more direct means of encouraging greater personal savings. Should participation in private schemes remain as a voluntary option, incentives would have to be provided to ensure an optimal level of participation. Whatever option is adopted, for small employers for whom internal administrative costs might be prohibitive, an adequate framework would also have to exist for products to be supplied by independent pension providers, to which even individual subscriptions could be made. The most common forms of such products currently in existence are the annuities offered by insurance companies.

Promoting Self Interested Behaviour

While it is possible to design a flexible NIB scheme that would insure any wage level, and therefore eliminate the supplementary need for private schemes this would not be economically or socially optimal. In the first instance, personal savings, over which discretionary control can be exercised, promotes more “interested” behaviour on the part of the population to ensure that such resources are being properly managed and invested. This provides a policing mechanism for the providers of financial services and could be just as, or more effective, in achieving the efficiencies which might be sought from privatising the management of any portion of the NIB portfolio.

A shared responsibility between the state and the private sector to ensure that adequate retirement provisions exist for the population can also mitigate against moral hazard problems, or encourage more financially responsible behaviour on the part of individuals. Moral hazard arises whenever the mechanisms that are designed to protect individuals from

risky outcomes, result in increased risk taking behaviour that imposes greater financial burden upon the insurance mechanism. In the case of NIB, such behaviour arises whenever individuals abdicate responsibility for personal savings, on the belief that the NIB system would fully cover them at retirement. To the extent that NIB is unable to deliver on this, because the Fund also presupposes that some minimum level of personal savings will accumulate within the economy, such behaviour increases the total cost of providing retirement benefits. By imposing some of this burden on the individual, the Government would be reducing such incidences of inadequate personal savings.

Greater Diversification of Personal Savings

The increased portfolio diversification from investment of personal savings is another reason for encouraging some privately controlled component in national savings. Long-term savings accumulated outside of the NIB could be invested using a different strategy than that used by the Fund; one more tailored to the risk profiles of individuals or employees (within specific industries). This would permit a more diversified savings portfolio than a sole dependence on NIB.

Limitations of Existing Legislation

Limited scope already exists under the Superannuation and Other Trust Funds (Validation) Act for some registration of private pension and annuity plans by the Office of the Registrar of Insurance Companies. However, there is no evidence that this act has ever been enforced. The Act also has its limitations in not addressing the full range of prudential and fiduciary issues involved with the administration of private pension funds. Ensuring that these schemes are adequately supervised will require more oversight resources than currently exist within any single financial sector regulatory agency. The NIB Act also acknowledges the existence of employer sponsored defined benefit schemes and has provisions for the pensions payable under these plans to be co-integrated with the NIB's payouts, therefore economising on such employers' total retirement benefits costs.

Regulatory Options

A country's choice of regulation depends on the sophistication of its capital markets, the adequacy of its financial regulations, the capacity of its financial institutions, and the extent of the population's experience with private pension schemes. Regulations must also speak to the nature of benefits desired from the systems (variants of defined contribution or defined benefit plans) and whether private schemes will be employer-based versus non-employer initiated.

Determining the Nature of Benefits

Whether schemes will be benefits or contribution-based imposes a trade-offs between the expected funding costs and the certainty of future retirement benefits. The two options are defined benefits (DB) and defined contribution (DC). The savings accumulation rate for *defined contribution plans* can be specified in advance, imposing known funding costs on

sponsors and participants. However, retirement benefits are less certain, as these depend on the returns over the life of contributions. At retirement, the accumulated entitlement can either be paid out in lump-sum fashion (in the case of provident schemes) or converted to an annuity, which provides a pension over a specified future period. In contrast, *defined benefit plans* provide guaranteed retirement benefits, specified up front. The cost of providing these benefits is less known, depending on the actual returns experienced and a number of demographic factors that could affect the rate at which plan assets accumulate, such as the average working age of plan participants and ratio of retirees to active plan contributors (the dependency rate). When these factors unfavourably impact the rate at which plan assets accumulate, the employer/sponsor is required to provide increased contribution to maintain fully funded status on an actuarial basis. Favourable actuarial assumptions about expected future rates of return and plan demographics can reduce sponsors' funding costs.

The Minimum Savings (Contribution) Rate

Making participation in private pensions mandatory, must come with the understanding that it is a supplement to the NIB scheme and therefore these schemes would be required to accumulate some minimum level of savings relative to total earnings--which in the hospitality sector should also be factored against the gratuities payments which form a sizeable component of many persons income. Formulas used to determine the minimum contribution rates for plans should therefore be calibrated against NIB's contributing rates and benefits. This is particularly the case for defined contribution plans which could be viewed as providing a lower guaranteed retirement benefit than defined benefit schemes. The most common contribution rate for private pension schemes is 10% of the employer's salary, divided equally between the employee and the employer. In defined benefit schemes, the employer's contribution can often exceed the employee's to maintain fully funded status. If the 5% minimum contribution rate is established in The Bahamas, a transitional period would also have to be established to permit existing plans which do not pay-in at this rate on either the employer or employee side to become compliant.

The Appropriate Mix of Relaxed and Draconian Regulation

The two extremes of the kind of regulatory framework which may be adopted for The Bahamas are the relaxed and draconian approaches. The best regime for The Bahamas lies somewhere between these two extremes (see Table 2). Relaxed regulatory frameworks are more common in countries with financial systems at an advanced stage of development, with established experience with private pension plans and capital markets instruments. There is more employee flexibility in the selection of pension products, the construction of the investments portfolio and more portability, given the active involvement of outside financial institutions in providing such products. Draconian prescriptions have been applied in countries with relatively immature capital markets with little experience in operating private pension funds. Insurance policies are characterised by similar protective and prudential rules as in relaxed frameworks, however, policyholders experience less choice, stricter rules on portability and independent providers of pension plans face tighter supervision. This more prescriptive approach is more justified in the presence of underdeveloped capital markets; when tradition of private pension funds is lacking; and there is little familiarity among

workers with capital market instruments. Capital markets are in a developmental stage in The Bahamas, and consumer awareness of capital market products and alternative savings instruments is increasing.

Table 2: Comparative Features of Relaxed versus Draconian Regulations	
Relaxed Regulations	Draconian Regulations
Voluntary Regime	Worker mandate
High degree of Individual choice	Some individual choice (changing management company)
No special authorizations for participating institutions	Special authorizations.
Ability to hold Multiple Accounts	One account per worker
Ability to operate Multiple Funds, w/ individual choice of investment fund.	One fund per company
Ability to levy any type of fee (entry, exit, asset, based, etc.) and to offer loyalty and group discounts	One pricing rule
Application of prudent person rule on investments w/no detailed investment limits	Regulation of types of fees (though not of the level)
No minimum profitability requirements and no state guarantees other than against fraud.	Detailed rules on investments (but with maximum limits to avoid concentration of risks) Minimum relative profitability requirements State guarantees for profitability shortfalls
Source: Dimitri Vittas (1998) "Regulatory Controversies of Private Pension Funds"	

Ensuring Plan Solvency

Whatever features are adopted from the two frameworks, it is also advisable to ensure that pension plans are protected against the insolvency of the sponsors. Companies should therefore constitute their fund as separate legal entities. For non-employer sponsored funds, it is important that plan providers are properly capitalized and qualified to manage the assets. An element of solvency for defined benefit plans is ensuring that plans always remain fully funded. The assumptions underlying actuarial valuations need to be closely scrutinized as these can inflate or deflate projected liabilities of the pension fund.

Pension Portability

The portability of savings, which adds to labour market flexibility, should also be encouraged in private pension vehicles. Portability is enabled when the accumulated pension benefits can be transferable between different plans, or remain with a preferred provider with savings continuing to accumulate when the employee changes job. Rules governing vested rights are also important in this process, since these determine when access or entitlement to the employer's contribution in the scheme will be possible. This comes in the form of explicit guarantees as to the years of service that employees must give to qualify for the employer contribution. Integral to the success of private pension plans in this instance, is the guarantee that plans will remain solvent with secure and stable funding, and that if and/or when required, sufficient liquidity will exist for lump-sum payments of accumulated benefits.

Risk-Based Supervision

The centralised management, normally associated with draconian systems has to be approached cautiously. Supervisory controls over independent institutions permitted to offer private pension services or over firms which opt to administer these plans in-house should be consistent with international best practices, which prescribe more risk-based approaches, emphasising capital adequacy and broad prudential operating parameters, and market-based mechanisms that encourage transparent competitive behaviour on the part of independent pension providers. Sufficient competency must also exist at the level of the regulator to handle such an approach.

Observing the “Prudent Investor” Rule

With regard to any tendency towards imposing investment limits and minimum profitability rules which might be prescribed under draconian frameworks, and which could result in sub-optimally invested portfolios, the modern approach to investment emphasises the prudent investor rule. In particular, plan administrators should be required to invest pension assets in a manner that balances risks and returns for the entire portfolio as opposed to strict quantitative limits on individual investments or asset classes.

Transparency

In any system, transparency is achieved by ensuring that participants enjoy an optimal flow of and access to information about the schemes to which they contribute. Participants should be knowledgeable about all of the important operational aspects of their plans, including all rights to which they are entitled. There should also be regular disclosures on the contributions being made by or on behalf of participants, and on the accumulated benefits of the participants. For independent pension plan providers, transparency should also have to apply to the manner in which products are marketed to businesses and employees, particularly in terms of the actuarial and other assumptions that govern the minimum benefits or returns promised.

Role of the Regulator

Having addressed the prescriptive features of the regulatory system, the role of the regulator has to be precise. The role of the regulator of a private pension system is somewhat similar to the role played by insurance company regulators. One of these functions is the inspection of pension plans to ensure that no significant mismatches exist between the expected maturity of assets and liabilities. There is also a responsibility to ensure that firms which provide pension administration services or sell products meet minimum prudential standards and that principals of these operations are competent, fit and proper. Carrying out these functions requires a significant level of industry competence by the chief regulator and key technical staff of the regulatory agency. The regulator should also be authorized to take pre-emptive measures to intervene in pension plans and in the affairs of administrators to protect the interest of the public and plan participants.

Other issues

This Report was only intended to shed light on the most important issues involved with developing a regulatory framework for private pension plans. It is not always the case that the Government can find incentives to encourage positive behaviour on the part of private individuals. Nevertheless, the need for supplementary savings in the economy should rank higher than the short-term increase in payroll cost in funding them. In the medium and long-term, these increased savings would also be an abundant source of capital for business investments and position the economy to better finance expansions in its productive capacity.

Beyond the financing cost issue more national discussion will be necessary on the disposal of pension savings, particularly in the case of death or divorce. In The Bahamas, more attention is now being given to the inheritance rights of women, spouses and children. The rules governing disposal of pension savings in the event of the participant's death or in the case of divorce therefore have to be consistent with the inheritance laws of the Bahamas.

How the public sector's pension schemes ties into private schemes also has to be eventually tackled. To the extent that there is not direct funding of the public sector's scheme, its long-term sustainability comes into question as these benefits could be endangered by budgetary difficulties which confront the government. In its present form a trust or equivalent segregated fund does not exist for public sector employees. Portability while not yet compromised, since the Government has been able to finance lump sum withdrawals could also be impeded if a funded system is not devised.

Consideration might also be given to how mandatory private schemes could provide new opportunities for NIB. In particular, the Board might be able to function as the collection agency for self employed persons and small firms. On the direction of employers and employees, additional mechanism might be devised to govern the private placement and management of these supplementary resources, separately from any funds contributed from the insured component of wages.

Recommendations

It is clear that more work needs to be done on the appropriate framework for The Bahamas. As part of the reform, the Superannuation and Other Trust Funds (Validation) Act should be repealed and replaced by the more comprehensive framework prescribed below. A well thought-out set of rules should cover:

Who should or must participate (mandatory versus voluntary)

The legislation should provide for mandatory participation of all employed persons within The Bahamas, with a shared responsibility for contribution by the employers and employees. Non-Bahamians or temporary workers with contracts that exceed a certain length of time should also be required to participate, as well as Bahamian workers employed on a contractual basis where the duration of the contract exceeds some specified length of time.

Types of plans permitted

Having regard to their advantages and disadvantages a mandatory system might permit either one or both of defined benefit or defined contribution plans. If there is a preference for one type of plan over the other, consensus would also have to be reached on whether existing plans which differ from this type would be allowed to continue to operate or be required to convert to this format by a specified date.

Structure of regulatory regime and minimum qualifications of head regulator

Legislation should identify or define the regulatory agency for private pension funds and its structure. For efficiency these functions might be delegated to an existing agency, which should have adequate human and financial resources for this purpose. Should The Bahamas move the establishment of a unified regulator for the financial sector, these functions should rest with the same agency. The legislation should also define the minimum qualifications that would apply for the principal regulator, senior supervisory officers, the board of directors which oversee the operations of the regulator, and bodies charged with developing and promulgating pension sector regulations. In all cases some minimum level of financial sector experience and competence should be necessary.

Powers of regulator (to give orders, intervene or wind up pension plans)

The regulator should be able to intervene directly in the operations of pension funds, administrators and independent plan providers when it becomes necessary to protect the interest of plan participants and to take whatever action is necessary to wind up funds or to ensure their continuance, if necessary, under alternative arrangements.

Registration of plans

All private pension plans should be required to register with the regulator and pay some specified annual registration fee. The registration fee could be scaled to the size of the pension plan, determined on the basis of an appropriate formula related to the total number of participants, assets or both. During the initial registration process, plan providers should produce documents which define all significant aspects of the schemes' operations, including provisions for trustees, investment policy, eligibility, contributions etc. A proactive way to facilitate this would be for the Government to prepare model constitutive documents which plan sponsors might adopt.

Establishment of who may function as official plan administrators and independent pension providers

Many firms will find it convenient to have their employee pension plans administered by professionals. In other cases, businesses and employees might opt to join or purchase independently supplied retirement products. The requirement for administrators could be different from those which apply to outside providers. The law should make a determination of the conditions under which financial firms might be permitted to carry out both types of activities. Plan administrators who might also perform investment services should possess minimum professional qualifications and experience, and satisfy minimum capital requirements proportionate to the total value of the assets that they are permitted to administer. Pension providers on the other hand could be subject to more stringent requirements similar to those which apply on the balance sheets of insurance companies.

Requirement for annual statements to members

In the interest of transparency, plan administrators should be required to report to participants at some minimum frequency concerning activities on their accounts. These statements should provide a minimum level of details, among others, on the accumulated savings of the participant, vested benefits, and employer and employee contributions.

Minimum contribution rates

It is recommended that both employer and employee make minimum non-zero contribution to the plans, expressed as a percentage of the total wages. This rate should be established at 5%, and in cases where it is not currently satisfied, the law should provide a transition period for plans to become compliant. The employee's minimum contribution rate should be applied both to the sum of salaried wages and gratuities.

Accounting/Financial standards for pension plans

Accounting standards for pension funds should meet international best practices. These should address among other things:

- Minimum frequency of an actuarial valuation for defined benefit plans (which might be annual in the case of large plans)
- Disposal of surplus (ongoing and winding up) and funding of deficits
- Disclosure standards that should apply for defined contribution schemes as regards projections, historical performance, etc,
- Minimum frequency of audits (which should be annual for large plans)

Retirement age restriction (to prevent abuse)

A minimum retirement age should be established, before which, participants should not be allowed to withdraw lump sum savings or begin receiving pension benefits. Regulations should also limit the maximum amount of lump sum benefits that plans can payout, subject to whether these are used to purchase annuities or other similar products.

Lock-in and Vesting Rules – Vesting Schedule Minimum

There should be a minimum vesting period to qualify participants for benefits entitled under pension plans.

Portability rules (transferring basis for employees moving to other plans)

Regulations should contain provisions for actuarial and other appropriate valuations to be undertaken, so that accumulated individual savings can be transferred and credited towards benefits in other registered pension plans; or give individuals the right to retain existing independent providers as they move about the workforce.

Permitted basis for harmonization with National Insurance

To reduce the cost of providing defined benefits pensions, the legislation might encourage employers to take advantage of the co-integration which is currently available under the NIB Act, and to structure alternative guarantees that focus on the uninsured portion of income.

Winding up regulations

Appropriate parameters should be placed on how pension assets might be disposed of, in the event of the dissolution of a fund, which might occur as a result of regulatory directives, or be sponsor initiated.

Investment standards

Overly restrictive investment standards should not be imposed on the management of pension assets. The accepted industry standard of the “prudent investor rule” should be applied, requiring that pension assets are optimally invested to obtain balanced risk and return relative to the entire portfolio as opposed to individual limits on asset exposures.

The way forward

Having agreed on the basic principles which should apply in regulating private pension schemes, the next step for The Bahamas would be to develop an outline of the legislation and regulations that would apply for such a system. This would also be the appropriate stage to define the operational details involved with implementation of the framework, and to codify international best practices.

Appendix of Country Experiences

A: CAYMAN ISLANDS PRIVATE PENSION FUND FRAMEWORK					
CURRENT FEATURES OF PENSIONS LAW	TYPES OF BENEFITS & PENSIONS OFFERED	REGULATORY CONCERNS	AMENDMENTS TO SYSTEM (CI Pension Providers Association)	ROLE OF GOVERNMENT	FUTURE CHALLENGES (Legislative) <i>CI Pension Providers Association</i>
REGULATORY FRAME-WORK: Draconian (Employer Mandate, Prudent Investment Rules) YEARS OPERATIONAL: Chamber of Commerce instituted the Private Pensions Plan ² in 1992 (12 years)					
<p>All employees (Self-employed, part-time, probationary staff, casual, short-term contracts) persons are required to contribute to a PPF³</p> <p>All employers already offering a pension plan must register with the Superintendent.</p> <p>Most PPFs in CI are DC</p> <p>Payments are required on only the first CI\$60,000</p> <p>Each employee must have contributions paid on their behalf by their employer</p> <p>Full portability rights are upheld within Chamber companies</p> <p>Retirement age is 60</p>	<p><u>Benefits:</u></p> <p>Old Age Pension</p> <p>Disability Pension</p> <p>Joint and Survivors Pension</p> <p>Early Retirement</p> <p><u>Types of Pensions:</u></p> <p>Life Annuity</p> <p>Programmed Withdrawals</p>	<p>Possible funding shortfall due to possible invalid mortality assumptions</p> <p>No 2nd pillar of retirement savings in Cayman to promote discretionary savings/investing</p> <p>Entry levels of capital to start investing are very high and usually not accumulated until later in life</p>	<p>Codefied process of regulation for investment – too time consuming when amending</p> <p>Tight investment regulation inhibits market competition</p> <p>Investment analysis inconsistent w/ modern portfolio theory which allows for alternative investment techniques</p> <p>Alternative investment defined too broad</p> <p>Overall regulations too restrictive and do not contemplate diverse needs of members nor investment managers.</p> <p>Restrictions prohibiting investment in non-profitable companies in last 3-5 yrs.</p> <p>Sets maximums and minimums on asset allocation</p>	<p>Plan controlled by Board of Trustees who hire an Administrator to manage the PPF</p> <p>Portfolio Manager is the Bank of Butterfield Intl. (Cayman) Ltd.</p> <p>Superintendent administers the National Pensions Law and reports to the Minister in relation to pension matters</p>	<p>Prudent investment regulations to be based on whole portfolio and allow for investment diversification and discretionary investing</p> <p>Regulation to effectively monitor portfolio structures to protect from incompetent fiduciaries</p> <p>Adopting recommendations to provide courts and Trustees w/standards to mitigate against frivolous claims</p> <p>Amend Sect. 42 of Nat. Pension Law to permit cash lump sum payouts of nominal benefits</p> <p>Determine whether funding shortfall will exist – revise rate of contribution</p> <p>Increase Max Pensionable Earnings Threshold</p> <p>Allow 1st time home buyers to borrow from their voluntary contributions for purchase</p> <p>Increase retirement age to 65 due to mortality rates</p> <p>Allow a legal will to override Pensions law w/ respect to surviving pension benefit</p> <p>Redefine when marriage is dissolved</p> <p>Allow a named beneficiary; in absence, default to joint and survivor rule</p>

²The Chamber of Commerce is established as a non-profit org. with no front-end, back-end or account fees. Fees for the management and administration of the fund are deducted from the assets of the fund.

³An employee who is employed by more than one employer, each employer shall be liable to pay contributions to a pension plan for that employee. Expatriates who have been working in the Islands for a continuous period of nine months are required by law to become a part of an employer's pension plan. Voluntary members are given special consideration and are not required by law to be a member of a pension plan or contribute to a pension plan ie. Self-employed with assets over a certain range.

B: BARBADOS OCCUPATIONAL PENSION BENEFITS ACT (OPBA) 2003 / PRIVATE PENSION FRAMEWORK						
FEATURES OF ACT (prior implementation)	FEATURES OF SYSTEM (after implementation)	CURRENT ISSUES w/ ACT	TYPES OF BENEFITS & PENSIONS OFFERED	REGULATORY WEAKNESS	ROLE OF GOVERNMENT	FUTURE CHALLENGES (Legislative)
REGULATORY FRAME- WORK: Employer Mandate – Relaxed Regime YEARS OPERATIONAL: Occupational Pension Benefits Act 2003 (Passed through parliament in 2003; dormant for 13 years)						
<p>Full portability rights for deferred pensions</p> <p>Provisions to prevent employer abuses (late payments, non-payments)⁴</p> <p>Payment of pensions shall not be less than 60% of dependent spouse's pension or deferred pension</p> <p>Increase of benefits to take account of inflation</p>	<p>Automatic rights to spouses benefits (no disqualification upon remarriage)</p> <p>Eligibility for immediate payment of deferred benefits within 10 years of retirement</p> <p>Discontinuance and winding up of pensions</p> <p>Treatment of surpluses</p> <p>Pensions rights after restructuring by the employer</p> <p>Strict reporting requirements</p> <p>Full portability rights</p>	<p>Discrimination based on part-time employment, sex or disability will be outlawed⁵</p> <p>Vesting periods too high (10-13yrs)</p>	<p><u>Benefits:</u></p> <p>Old Age Pension</p> <p>Disability Pension</p> <p>Survivors Pension</p> <p><u>Ancillary benefits:</u> <i>Bridging benefits</i></p> <p><i>Supplemental benefits</i></p> <p><i>Pre-retirement death benefits</i></p> <p><i>Postponed retirement options & benefits</i></p> <p><u>Types of Pensions:</u></p> <p>Life Annuity</p> <p>Programmed Withdrawals</p>	<p>Workers Change jobs frequently</p>	<p>Introduction of new regulator, the Supervisor of Pensions⁶</p>	<p>Reduce vesting periods to 3yrs</p> <p>Retirement age reduced to 55</p> <p>Pension rights for common law spouses to be addressed</p> <p>Pension rights following divorce</p> <p>Investment Policy to be detailed in a Statement of Investment Principles</p> <p>Act may impose minimum increases to pensions</p> <p>Act may impose a minimum period to fund deficits and place restrictions on assets w/ pension funds</p>

Glossary: PPF – Private Pension Fund, PF-Pension Fund

Vesting periods – The long vesting periods in Barbados resulted in a situation where employees who move employment several times in their working lives, reach retirement without building up any rights to a retirement benefit and becoming wholly dependent on state supervision and support from their children.

Retirement Age - The government plans to make gradual increases in the age of retirement over the next few years. These plans have already been implemented in the Barbados tax legislation.

⁴ *Provisions to prevent Employer Abuses* – payment of contributions will have to be made within 30 days of the end of the month to which contributions relate.

⁵ *Discrimination based on part-time employment* – to address this situation, the Act will make compulsory the participation of part-time employees with their employer once 1,000 hours of employment have been completed.

⁶ *Supervisor of Pensions* – Additionally, this new regulatory authority for Barbados, will have a wide ranging approval and regulatory powers. There will also be an appeals procedure against its rulings involving recourse to the courts.

C: CHILEAN MODEL OF PENSION REFORM						
FEATURES OF SYSTEM (before reform)	FEATURES OF SYSTEM (after reform)	CURRENT ISSUES w/ SYSTEM	TYPES OF BENEFITS & PENSIONS OFFERED	REGULATORY WEAKNESS	ROLE OF GOVERNMENT	FUTURE CHALLENGES (Legislative)
FEATURES OF SYSTEM (prior to reform) Draconian – worker mandate YEARS OPERATIONAL: 23 years						
Fully funded DC Mandatory for all workers Private admin. of accounts Some Individual choice Defined property rights in contributions	Mandatory for dependent workers optional for self-employed workers, employers make contract deposit contributions freedom of choice w/stay requirements single-purpose PPF PPF are separate legal entities PPF required by law to have a legal reserve, a cash reserve, profitability reserve, PPFs charge monthly commission	High admin. costs Lack of portfolio choice Lg. number of transfers to other funds	<u>*Benefits:</u> Old Age Pensions Early-Retirement Pensions Disability and Survivor's Benefits <u>**Types of Pensions:</u> Lifetime Annuity Programmed Withdrawals Temporary Programmed Withdrawals w/ a Deferred Lifetime Annuity	Similar investments offered by PPFs High Administrative Costs Commission Structure is Rigid Workers Change PPFs frequently Transition Costs (govt to PPF) are too high Too Few Members of Workforce Covered Lg. future Costs for Govt.	Regulator of the System Financial Guarantor of Last Resort also provides a safety net <i>(*Regulation also carried out by independent agency, The Superintendency of Pension Fund Administrators (SAFP))</i>	Instituting a more relaxed reform as a result of growth of professional expertise Commissions for workers are heavily regulated leading to lack of competition Return on investments are heavily regulated due to minimum returns guarantee enforced by govt leading to high marketing costs Costs associated w/ minimum pension guarantee Will pension minimum be adequate? Approve legislation to allow different combination of price and quality of service, greater competition Liberalise rules regarding risk to increase fund options Allow Administrators for PF manage more than one fund

Glossary: PPF – Private Pension Fund, PF-Pension Fund, DC – Defined Contribution

Benefits:

Old Age Pensions – Male workers must reach the age of 65 and female workers must reach the age of 60 to qualify for this pension. However, it is not necessary for men and women who reach those ages to retire, nor are they penalized if they choose to retire at a later date.

Early Retirement Pensions – To qualify for this option, a worker must have enough capital accumulated in his account to purchase an annuity that is equal to at least 50% of his average salary over the last ten years. Additionally, they must have at least 110% of the minimum pension guaranteed by the state.

Disability and Survivors Benefits – To qualify for a full disability, a worker must have lost at least two-thirds of his working ability; to qualify for a partial disability pension, a worker must have lost between half and two thirds of working ability. Survivor's benefits are awarded to a worker's dependents after the death of the worker. If he did not have any dependents, whatever funds remain in the pension savings accounts belong to the beneficiaries of the estate.

Types of Pensions:

Lifetime Annuity – Workers may use the money accumulated in their accounts to purchase lifetime annuities from insurance companies. Those annuities provide a constant income in real terms.

Programmed Withdrawals – A second option is to leave the money in the account and make programmed withdrawals, the amount of which depends on the worker's life expectancy and those of his dependents. If a worker choosing this option dies before the funds in his account are depleted, the remaining balance belongs to the beneficiaries of his estate, since workers now have property rights in their contributions.

Temporary Programmed Withdrawals – This option is basically a combination of the first two. A worker who chooses this option contracts with an insurance company for a lifetime annuity scheduled to begin at a future date. Between the start of retirement and the day a worker starts receiving the annuity payments, the worker makes programmed withdrawals from his account.

Legislative Challenges

Approve the commission-liberalization bill introduced in June 1997, which would allow managers to offer different combinations of price and quality of service, introduce greater price competition, and possibly reduce administrative costs to the benefit of all workers. Beyond that, the restrictions introduced in 1987 should be lifted as well so that AFPs may charge commissions on inactive accounts as well as a percentage of assets under management.

Let other financial institutions enter the AFP industry. The resulting synergies would lower the prices of the services being provided and, thus, benefit consumers.

Eliminate the minimum return guarantee, or, at the very least, lengthen the investment period over which it is computed.

Further liberalize the investment rules, so that workers with different tolerances for risk can choose funds that are suited to their preferences.

Let AFPs manage more than one fund. One simple way to do that would be to allow the AFPs to offer a short menu of funds that range from very low risk to high risk. That could reduce administrative costs if workers were allowed to invest in more than one fund within the same AFP. This adjustment would also allow workers to make prudent changes to the risk profiles of their portfolios as they get older. For instance, they could invest all the mandatory savings in a low-risk fund and the voluntary savings in a riskier fund. Or they could invest in higher-risk funds in their early working years and then transfer their savings to more conservative funds as they approached retirement. Allowing the AFPs to manage more than one fund would contribute to lower administrative costs, if rotation of workers among the AFPs were less frequent (as should be expected).

As Latin American markets become more integrated, expand consumer sovereignty by allowing workers to choose among the systems in Latin America that have been privatized, which would put an immediate (and very effective) check on excessive regulations.

Give workers the option of personally administering their pension savings accounts.

Reduce the moral hazard created by the government safety net by linking the minimum pension to the number of years (months) workers contribute.

Adjust contribution rates in such a way that workers have to contribute only that percentage of their incomes that will allow them to purchase an annuity equal to the minimum pension. In other words, if a high-income worker can obtain an annuity equal to the minimum pension by contributing only 1 percent of his income, he should be able to do so and decide for himself how to allocate the rest of his resources between present and future consumption.

D: MEXICAN MODEL OF PENSION REFORM						
FEATURES OF SYSTEM (prior to reform)	FEATURES OF SYSTEM (after reform)	CURRENT ISSUES w/ SYSTEM	TYPES OF BENEFITS & PENSIONS OFFERED	REGULATORY WEAKNESS	ROLE OF GOVERNMENT	FUTURE CHALLENGES (Legislative)
REGULATORY FRAME-WORK: Draconian – worker Mandate, mandatory system YEARS OPERATIONAL: 7 years (since July 1997)						
<p>Managed by Mexican Institution of Social Security (IMSS)</p> <p>Old age financial security depended on political process</p> <p>Different retirement systems for different types of workers</p> <p>IMSS covered only private sector dependent workers or independent private sector workers who decide to register</p> <p>Significant portability losses for private sector workers</p> <p>Inconsistency in payments from retirement packages</p> <p>Corruption</p> <p>Bureaucratic mismanagement</p> <p>Inefficiency</p> <p>Assets from the old-age systems used to aid the national health care system</p>	<p>Fully funded DC</p> <p>Administered by single purpose private companies Administradoras de Fondos para el Retiro (AFORES)</p> <p>Retirement age 65</p> <p>AFORES are requiring to invest a minimum investment of 65% of workers savings in govt instruments, cannot invest in equities, cannot invest abroad</p> <p>AFORES are registered as separate legal entities to aid in the protection of workers assets from insolvency</p> <p>The IMSS also manages a fund called SIEFORES. AFORES must maintain a reserve fund that is to be invested in the SIEFORES they manage</p> <p>Mexican banks and financial intuitions are free to enter the market; foreign ownership is limited to those w/ a free trade agreement w/Mexico</p> <p>AFORES charge commissions</p> <p>Discounts offered for product differentiation and voluntary savings</p> <p>Portability requires workers to remain w/ a fund for a least one year prior to switching.</p> <p>Pension guarantee after 25 years of contributions</p>	<p>Discrimination against early retirees</p>	<p><u>*Benefits:</u></p> <p>Old Age Pensions</p> <p>Early-Retirement Pensions⁷</p> <p>Disability and Survivor's Benefits</p> <p><u>**Types of Pensions:</u></p> <p>Lifetime Annuity</p> <p>Programmed Withdrawals</p>	<p>Prohibiting investment inequities or abroad</p> <p>Allowing govt agency that administered the pay-as-you-go system to establish a pension fund company while retaining some regulatory control</p> <p>Prohibiting public sector workers from participating in the PPF</p> <p>Requiring a minimum investment of 65% of workers savings in govt instruments</p> <p>The govt subsidizes every workers retirement account – politics can come into play here</p>	<p>Establishing a regulatory framework and the provision of a minimum safety net for those in need of it, leaving most individuals the responsibility to providing for their own retirement.</p> <p>An independent and specialized govt agency, Comision Nactional del Sisema de Ahorro para el Retiro (CONSAR) regulates the industry</p>	<p>Need to liberalise the investment rules to allow for investment in bonds and equities and investment abroad</p> <p>The requirement to invest in government instruments is inconsistent with privatization of pension schemes</p> <p>No incentive for workers to save voluntarily –no benefits in terms of taxation or diversification</p> <p>The IMSS performs too many functions to be efficient and effective; collection system is centralised which could lead to govt using assets to fund other govt programs</p> <p>Eliminate the social contribution by govt; it does not establish a link between taxes paid and benefits received</p> <p>Extend option to private sector workers to join the PPF</p> <p>Allow AFORES to go beyond their allowed 17% market share, thereby allowing workers more choice in how AFORE manages their pension account</p> <p>Institute an adequate education campaign around the new PPF</p>

⁷ Early Retirement Pensions are guaranteed after contributing for 25 years. However, early retirees are discriminated against as they do not qualify for the government guaranteed minimum pension even if they have contributed to the systems for 1,250 weeks (25 years).

References

Bahamas Investment Authority (BIA), www.bia.gov.bs

The Cayman Islands Chamber of Commerce

The Central Bank of The Bahamas' Economic Review (June 2003), "Survey of Private Pension Plans in The Bahamas" (2000 & 2001)

The Center for Disease Control, www.cdc.gov

Davis, Philip E. (2000), "Regulation of Private Pensions – A Case Study of the UK", The Pensions Institute, Birkbeck University, <http://www.bbk.ac.uk/res/pi/wp/wp0009.pdf>

Dowers, Kenroy (2003), "Pension Reform in Small Emerging Economies: Issues and Challenges", Caribbean Development Bank.

Marquez, Gustavo (1997), "An Assessment of Pension System Reform in Uruguay", Sustainable Development Department, The Inter-American Development Bank.

Mitchell, Olivia (1998), "International Models for Pension Reform", Pension Research Council, Pennsylvania.

National Insurance Board of The Bahamas (NIB), "Pension Commission Website", <http://www.nib-bahamas.com/nib/commission/index.html>

Organisation for Economic Co-operation and Development (OECD) a, "Insurance and Private Pensions Compendium for Emerging Economies: Book 2, Part 1:1)a"

Organisation for Economic Co-operation and Development (OECD) b, "Insurance and Private Pensions Compendium for Emerging Economies: Book 2, Part 2:1)c"

Organisation for Economic Co-operation and Development (OECD), “Ageing Societies and the Looming Pensions Crisis”,

http://www.oecd.org/document/59/0,2340,en_2649_37411_2512699_70870_119699_1_37411,00.html

Rabelo, F (date unknown), “Comparative Regulation of Private Pension Plans – Logic of the Regulation of Private Pension Schemes”, Sao Paulo Business School.

Turner, J & Watanabe, N (date unknown), “Private Pensions Policies in Industrialised Countries: A Comparative Analysis”, Upjohn Institute for Employment Research

Vittas, Dimitri (1998), “Regulatory Controversies of Private Pensions Funds”, Development Research Group, The World Bank.

Vittas, Dimitri and Estelle James (1999), “Pension Fund Regulation in Other Countries”, The World Bank, <http://www.brookings.edu/es/events/erisa/99papers/erisa6.pdf>

Appendix IV: Investments Sub-Committee Report

Background information

The National Insurance Board (the “Fund”) was established by the National Insurance Act 1972. The objective is to provide its members with benefits in respect of old age, sickness, invalidity, retirement, maternity, death, industrial injury, medical care, pension, and social assistance.

Contributions paid into the Fund must be prudently managed and invested so as to meet future benefit claims. It is important that the investment program take into account the incidence of inflation and the imminent reduction in the number of contributors versus pensioners due to changing demographics.

The actuarial report of December 2001 suggests that on its current trend, and based on certain actuarial assumptions, the Fund would reach a point in about 2019 where expenditures start to exceed income, and reserves would be depleted in about 2029.

The Fund had assets totaling \$1.3 billion as of December 2004, with over 35% of its investments in low yielding deposits and short-term Treasury Bills. There is a severe and imprudent mismatch in the maturity of assets and liabilities, with long-term liabilities being matched by short-term assets. This enormous maturity mismatch, places significant long term risk upon the long term viability of the National Insurance Fund, as it is presently structured. The mere size of the NIB portfolio represents a challenge based on the lack of appropriate investment opportunities in the local market:

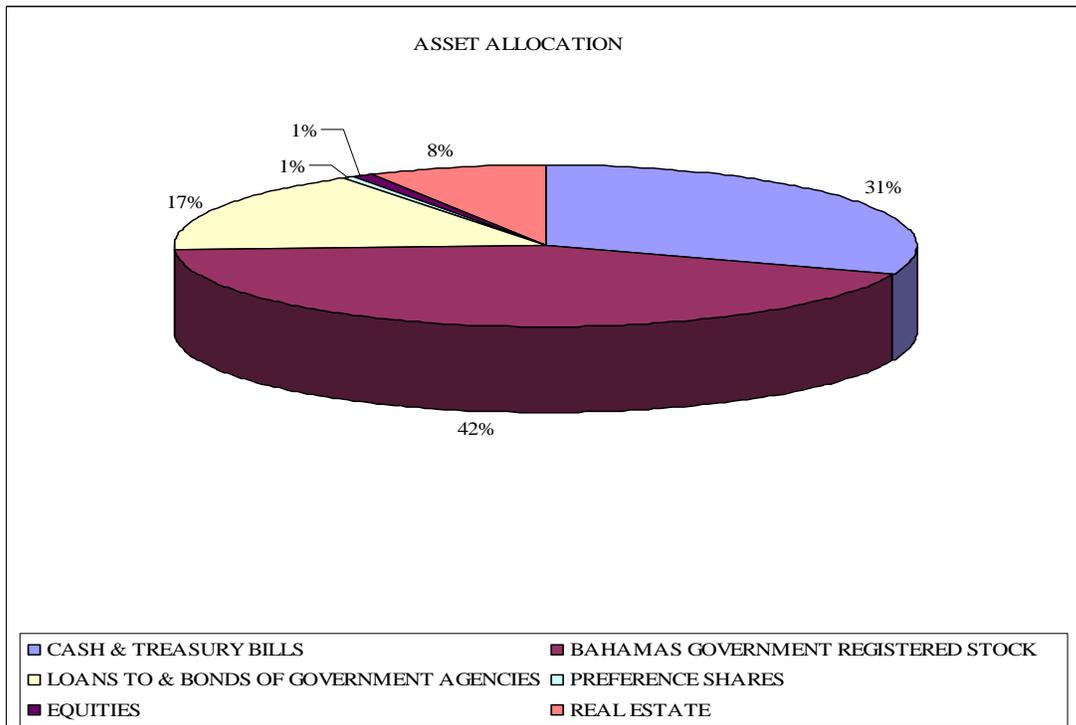
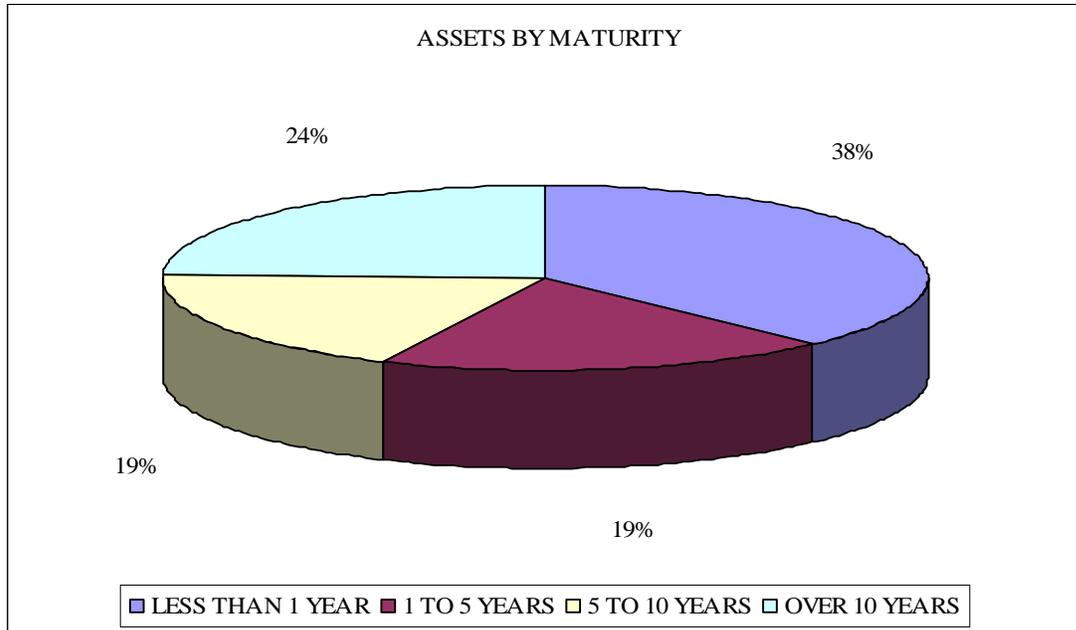
- The Fund is faced with re-investment risk, as new investment opportunities have to be identified for maturing investments which is a continuous struggle in a declining interest rate environment.
- The assets of the Fund are very significant both to the banks and capital market sector and can significantly influence both.

Stated another way, only 24% of NIB’s investment portfolio has a maturity of 10 years or more, yet it is known that more than 86% of liabilities and commitments extend more than 10 years into the future. In the 2004 fiscal year, some \$60 million of investments are due to mature, not including \$350 million of bank deposits and Treasury Bills that will also need to be renewed.

The need for an investment plan is exacerbated by the fact that for the next ten years net inflows of funds of about \$60 million a year are expected, which need to be placed where they can generate the required returns. The Actuarial Review suggests that under the moderate scenario, the required contribution rate of 15.5% twenty years hence could be

reduced to 14.7%, if return on reserves is increased from 6% to 7%. Therefore, investment income is one of the factors that impacts the longevity of the fund, and apart from being diligent in trying to increase the return on the Fund, efforts must simultaneously be expended in reducing the chances of further reductions in returns, especially given the low interest rate environment.

At present the Fund does not have an Investment Policy Statement which outlines the main investment objectives and provides guidelines for its investment.



Summary of existing portfolio and limitations

The current situation of being heavily invested in cash, (i.e. fixed deposits and T- Bills) evolved because of the limited authority that management and the Board of Directors have, coupled with the shortage of suitable investments in the local economy. Apart from cash, another significant portion of the Fund is invested in Government paper or loans to Government agencies or corporations.

Consideration must also be given to the asset allocation and what amount of funds will be allotted to social objectives. While the Fund does have a social objective, funding of these initiatives provide significantly lower than market returns, and as such should be limited. Presently, the Fund has invested in Bahamas Mortgage Corporation Bonds to a large extent and at rates substantially below the Fund's required actuarial rate of return. Over time these rates should be renegotiated to reflect a better alignment with market rates.

There is limited opportunity for equity investments in the local capital market as there are only 19 public companies that exist, and Government paper (or any other fixed income paper) is not traded on the secondary market. Therefore, the opportunities in the Bahamian market are extremely finite and the Fund presently has no foreign investments.

There can be no 'soft pedalling' of the fact that any contemplated change to the National Insurance Fund, must include the appropriate allowances for the inclusion of international (non-Bahamian) assets in the portfolio. This would allow the Fund to benefit from enhanced diversification opportunities (by asset class, currency, and maturity); expanded investment options; and the opportunity for better long- term rates of return. Over time, the foreign currency component of the National Insurance Fund could provide an important and growing source of additional long-term foreign currency reserves to our economic system.

This point is demonstrated by the reality that the Fund has very little diversification as too great an exposure is to the banking system (via fixed deposits) and to the Government itself (via registered stock and T- Bills). The risk involved is that if the banks do not need the funds it affects the Fund's ability to negotiate better rates. One can argue that the Fund is systematically disadvantaged in many instances by the banking system as either the funds end up being placed at lower interest rates or sitting idle at The Central Bank. At the end of December 2004, the Fund had \$83.2 million on deposit at the Central Bank Of The Bahamas, earning no interest at all. Over the twelve months leading up to this, the month end balances averaged \$91.1 million. If these funds were invested, incremental income of \$4.5 million could have been derived. At an average of \$250 per month, that incremental interest income alone could have paid the annual pensions of 1,500 pensioners.

Because all investments of the Fund are in The Bahamas, the Fund is very exposed to country risk. Foreign investment would provide more opportunities to invest idle cash and improve the diversification. The investment portfolio is extremely rate sensitive. With \$640 million of the investments directly tied to Bahamas Prime Rate and another \$350 million indirectly exposed through short-term maturities, a small change in Prime could have a significant impact on the earnings of the Fund.

Investment Objectives

The investment objectives of the Fund are essentially similar to those of defined benefit pension plans and comprise safety, liquidity, yield and an infinite time horizon.

Safety

The Fund must balance the need to optimize investment returns against the requirement to manage risk to a tolerable level. The Fund's basic characteristic as a quasi pension plan and its fiduciary responsibility to its stake-holders, gives it a low risk tolerance level. Safety of the principal is paramount, and the fund must be structured in such a manner as to ensure the preservation of capital as a primary objective. This objective may be facilitated through:

1. Maintaining a diversified portfolio.
2. Restricting investments in instruments exposed to significant risks and/or volatility.
3. Performing the appropriate level of analysis and due diligence on potential investments.
4. Qualification procedures to properly screen the financial institutions, advisors and others with whom the Fund conducts business.
5. Ongoing and diligent monitoring of the investment portfolio.

Liquidity

In the short term, liquidity is not a major concern as the current cash in-flows are adequate to meet required out-flows. In the longer term, after 2019 liquidity becomes more of an issue for attention.

The Fund must at all times remain sufficiently liquid to finance any cash requirements that arise, yet at the same time its liquidity position should not be excessive as excess liquidity comes at the expense of improved returns. The right balance in terms of liquidity may be achieved by:

- Matching the maturity of assets with the maturity of liabilities; and
- Ensuring that the majority of the investments can be actively re-sold in the secondary markets.

In the near term, the Fund should reasonably be able to meet any liquidity needs through the net annual inflow of contributions.

Yield

Against the constraints of safety & liquidity the fund must ensure that it earns a real rate of return sufficient to grow its reserves and stem off the depletion of reserves that it currently faces in the next twenty five years.

The Fund should establish a hurdle rate which will be used in assessing any potential investments. The expected return, coupled with the expected standard deviation (expected volatility) of new investments should be measured against this and the investment only undertaken if it meets or exceeds the hurdle rate.

Recognizing, however, that The National Insurance Board has certain specific social objectives, a determination should be made as to the percentage of the Fund that may be employed in pursuit of such objectives and the balance invested by reference to the hurdle rate.

Infinite time horizon

The Fund must at all times be viewed as having an infinite time horizon. Investments should be structured with a view to ensuring perpetual growth with compounded future returns, plus contributions always being more than sufficient to fund current expenses. This would put the Fund in a position to invest in assets with longer maturities and thereby reduce interest rate risks and maturity mismatch.

Asset Allocation/Recommendation

The asset allocation decision is generally considered to be the most important part of the investment process, and itself usually provides some level of diversification. Currently, the Fund is almost entirely a fixed income portfolio. Whilst fixed income investments provides a high level of safety, the trade off comes in the form of a lower level of return. The Fund has arrived at its present composition partly because of the unavailability of a good pool of suitable local investments, and partly because of management's lack of authority to pursue other types of investments. Several years of declining interest rates and reduced availability of government paper has caused the Fund to now be over exposed to cash with the inherent reinvestment risk.

Generally speaking, defined benefit pensions funds in the United States typically have 60/40 fixed income/equity mix, with cash being included as part of the fixed income component, whereas in the United Kingdom the asset allocation is much more heavily skewed towards equities. This greater bias towards equities is currently being painfully revisited as UK pension plans face the largest funding deficit (estimated to be about GBP 27 billion) in history.

The National Insurance Fund has only 0.7% of its portfolio in equities. With only 19 public companies traded on BISX and only a few of these being suitable for the Fund's investments, it is going to take a very long time before the Fund can significantly and prudently increase its exposure to local equities in a meaningful aggregate manner. Additionally because of the size of the Fund, if it does become active in local equities it could in effect "be the market." However, this risk could be mitigated by putting limits on the percentage of the float of a company that NIB can acquire e.g. limit the Fund's investment to a maximum 20% of the sub-portfolio or 15% of that company's float. Liquidity must factor prominently in maximum exposure limits which may be established.

Whilst it is recommended that an increasing amount of funds be allocated to local equities over a period of years, it is essential that this component of the portfolio be invested by professionals who fully understand the nuances of the local market, and who are not conflicted or can otherwise be properly managed through a system of checks and balances.

It is recommended that the Fund engage the services of independent qualified investment managers to provide professional management of the Fund's assets. Ultimately, internal management should be responsible for managing the short-term liquidity needs of the Fund and external managers have responsibility for the management of long term funds.

The Bahamas Electricity Corporation (BEC) recently divided their pension fund assets with extremely strict investment guidelines among all registered investment managers.

Bahamas Telecommunications Company (BTC) after an exhaustive investment manager search selected one manager with a broad investment mandate. BTC however, retained the bond portfolio and is letting it run off and passing the cash flow to the investment manager – thus avoiding incurring management fees on that portion.

The engagement of independent managers raises two issues:

- External management essentially involves costs, however due to the limited potential for active management; the Fund should be able to negotiate reduced fees for such services.
- Secondly, there would have to be put in place within the Fund an appropriate body of competent persons capable of monitoring and policing the activities of the independent managers.

The current position and prospects for the future clearly indicate that the Fund would have great difficulty in finding suitable investments in the local economy. The situation of having idle non-interest bearing funds must be arrested.

It is proposed that representations be made to the proper authorities to allow the fund to invest up to 10% of its portfolio in non-Bahamian dollar investments over the next five years increasing to 20% within ten years. It is further proposed, that a comprehensive and separate asset allocation policy is developed for international investments, which would include fixed income, equities, currencies, and principal-guaranteed structured products. The Central

Bank, for instance, has significant investments in foreign securities, principally U.S. Treasury notes, as the main investment of our national foreign currency reserves.

While overseas investments often raises the question of the impact on foreign reserves, the overseas investment by the Fund should be considered as part and parcel of the national reserves, being invested for the national good. It may be possible to do this and still have these funds under control of The Central Bank whereby the Fund does a form of “back to back” arrangement whereby it places certain funds with the Central Bank on the condition that the Central Bank invests such funds in foreign securities for the account of, and as prescribed by the Fund. It would be a requirement that such investments are in the most liquid assets in the event they need to be converted for reasons relating to the national reserves.

A summary of the proposed investment allocation is provided in appendix A.

Selection and Supervision of External Fund Managers

All assets in the externally managed portion of the Fund will be managed under the supervision of qualified investment managers, registered under the prevailing legislation. The selection process would include reference to the character, financial strength, and experience of the entity, potential for conflict and the ability of the Fund’s own personnel to manage the relationship.

Subject to certain terms and conditions, external managers shall have full discretionary power to direct the investment, exchange and liquidate of the assets of the independently managed accounts within the terms set by the Board of Directors. They shall provide regular reports to the directors as prescribed.

Reporting

The external manager will provide clear and precise reports including, but not limited to the following:

- A quarterly analysis of the portfolio showing for each security both initial cost and current market value
- A transaction history for all activities since the previous report
- Return data showing the rate of return for the recent quarter, year-to-date and since inception
- Quarterly written statements including actions taken in the portfolio, current outlook and expectations
- All pertinent changes affecting the investment manager as they occur. Such changes include, but are not limited to

- Changes in key personnel

- Major changes in areas of responsibility
- Significant changes in assets under management
- Changes in Investment Policy or strategy

The External Investment Manager will satisfy the Board's External Auditor's request for financial information related to the Fund's Investment Portfolio.

Delegation of Authority

At present, the authority to invest is set out in the National Insurance Act section 44(5), and the Third Schedule of the Act. Historically, because of the restrictions in the Act, Ministerial approval was required for most investments, under section 44(6). See Appendix B for summary of the third schedule.

It is recommended that the Board of Directors be given full delegated authority to approve investments, based on recommendation of the Investment Committee. This authority should include the power to direct, allocate, rebalance or liquidate the Fund's investments in compliance with the terms of the established Investment Policy.

Investment Committee

It is recommended that the Act be amended to include the establishment of an Investment Committee. This Committee will serve as advisor to the Board of Directors, and shall only have authority as delegated to it by the Board of Directors.

The Investment Committee should comprise of two members of the Board of Directors, and three other persons ("Independent members") who are professionally trained and experienced in the field. Two persons from senior management should serve as resource persons to the Committee, one of whom shall be the Financial Controller.

To provide continuity to this Committee, independent members should be appointed for a period of three years with no more than two members serving longer than five years from the date the Committee is established. The period of such appointments should be independent of the duration of board appointments.

Investment Policy

The Investment Policy will outline the main investment objectives and guidelines for investments. The Investment Policy will be recommended by the Investment Committee, with ultimate approval by the Minister, after consultation with the Minister of Finance.

The third schedule as referenced in the Act should be replaced by reference to the Investment Policy.

Director

The Director of the Fund should have authority to make investments as directed by the Board of Directors acting upon the advice of the Investment Committee. The Director should have delegated authority to invest in:

- Short-term cash and cash equivalents with domestic financial institutions
- Bahamas Government Registered Stocks and Treasury Bills
- Other instruments or bonds directly guaranteed by The Government of The Bahamas.

APPENDIX A PROPOSED ASSET ALLOCATION

Given our comments above, and having full regard for the fact that it would take the Fund several years to effectively change its asset allocation to reflect these recommendations, we sought to propose investment bands for the various asset classes. It is our view that over a five-year time horizon, the anticipated transformation can take place.

We took the view that the adoption of minimum and maximum exposure limits was the preferred method because while it assists with risk management and diversification, it also provides the Fund the flexibility to respond to changes in market conditions as they may arise.

We further recommend that criteria be established governing investments in each major grouping and sub-groupings.

The table below summarizes the present asset allocation of the Fund along with the proposed allocations.

THE NATIONAL INSURANCE FUND ASSET ALLOCATION MATRIX					
ASSET CLASS	EXISTING 31.12.03		Expected Return	Standard Deviation	PROPOSED
	%	\$			
<u>LOCAL INVESTMENTS</u>					60% to 90%
CASH & TREASURY BILLS	30.7%	\$ 355.9	3.6%	0.0%	10% to 20%
FIXED INCOME	60.9%	\$ 706.6			40% to 60%
GOVT DEBT	57.7%	\$ 669.1	6.5%	0.5%	
LOANS TO PUBLIC CORPS	2.7%	\$ 31.0	7.9%	0.5%	
PREFERENCE SHARES	0.6%	\$ 6.5	7.8%	1.0%	
EQUITIES	0.7%	\$ 8.2	10.0%	3.0%	5% to 25%
DOMESTIC	0.7%	\$ 8.2			
REAL ESTATE	7.7%	\$ 89.3	7.8%	3.0%	5% to 15%
REAL ESTATE SOCIAL INVESTMENTS					
OTHER	0.0%	\$ -			0 to 5%
<u>INTERNATIONAL INVESTMENTS</u>					10% to 20%
FIXED INCOME	0.0%	\$ -	5.0%	10.0%	10% to 20%
EQUITIES	0.0%	\$ -	10.0%	3.0%	5% to 20%
OTHER	0.0%	\$ -			0 to 5%
TOTAL	100.0%	\$ 1,159.7			

Cash & Treasury Bills

At 31 December 2004, there was \$151.7 million in cash and \$152.6 million in Treasury Bills. Although at year-end the balance with the Central Bank was only \$83.2 million, during the year balances at some points were much higher and attracted no interest. Treasury Bills are by definition intended only as a holding place for short-term funds and as such pay very little interest.

The only requirement to hold assets in this class is to ensure the liquidity of the Fund; however, this issue may also be addressed through the holding of highly liquid Government paper.

Government debt

Comprising primarily of issues of Bahamas Government Registered Stock, the Fund should seek to aggressively secure these as available. However, it is expected that as the local pension fund business continues to develop there will be more competition for these issues.

Investments in Government paper will be structured so that maturities are laddered, thereby providing a smooth and predictable pattern of securities to take advantage of different interest rate conditions over the years.

Loans to public corporations

This comprises loans to Bahamasair, BEC, Water & Sewerage Corporation (one loan is secured by Government guarantee) and Bahamas Development Bank. Generally, these pay attractive rates of interest; however, two entities are presently in default. It is anticipated that notwithstanding the fact that there is no Government guarantee, this loan will be repaid by the Government. The Fund would benefit from continuous investment into these loans, assuming the appropriate government guarantees, however it is anticipated that with the development of capital markets, more Government funding would take place through capital markets and like the registered stock issues exposing the Fund to more competition and uncertainty in terms of securing investments. There is no objection to this asset category provided that any further issuance would be subject to meeting established criteria for business lending on its own merit and are not simply politically directed. Unless this is done, the Fund would be doing a disservice to the national interest of the country and future beneficiaries.

Preference shares

Currently, the Fund is only invested in preference shares of Cable Bahamas and Caribbean Crossings with a weighted average return of 7.8%. Opportunities to invest large amounts in preference shares of “blue chip” entities while currently limited will increase over time with the development and expansion of our capital markets.

Equities

The Fund has historically adopted a very conservative posture in investing in local equities at this stage in the development of the local capital market. The local equities market is still in its infancy and many stocks have seen considerable volatility and price erosion. Notwithstanding the present challenges of the local market, we reiterate that in the long-term equities provide a superior return than other asset classes.

The Fund has 0.7% of its assets in equities with Bank of The Bahamas being the bulk of this and smaller investments in ICD Utilities and Commonwealth Bank. The Fund should be permitted to increase its present allocation in local equities to 25% over time with further investment in this class focused on high quality companies. The Fund should negotiate special prices for large purchases, recognizing the challenge of finding suitable investments in this class. It may take a few years for the Fund to reach this target allocation.

Foreign investments

The Fund currently has no foreign investments in its portfolio. Representation should be made to the appropriate authorities to permit the Fund to invest up to 10% to 20% of its portfolio in foreign investments. This will provide the Fund with some country risk diversification, and reduce some of the pressure of finding suitable local investments. Again, criteria will be established for each asset class and subset thereof. For example, investment in the sovereign debt or corporate bonds must have a minimum rating of BBB (investment grade) or better.

Many of the disadvantages of local equities are not relevant when looking at the more efficient and liquid markets of larger countries with more mature capital markets. Here is where the Fund may enjoy some additional benefit from long-term investment in “blue chip” companies by buying right and holding for the long-term.

It goes without saying that any foreign mandate will be done exclusively by external investment managers.

The Fund should be willing to allow these investments to take place via some accommodation with the Central Bank with the understanding that in the event of external shocks to our level of foreign reserves; all or a portion of these reserves could be called upon in the national interest. This understanding would fall away once exchange controls are relaxed or eliminated.

Other investments including venture capital

The government announced in its 2004 budget that it is in the process of establishing a Venture Capital Fund. Venture capital is a very volatile form of investment with the potential for significant gains or losses for start-up companies. It is generally accepted that the few that do succeed, do so in a big way and in the long-term venture capital investments offer a high return, but with a high risk. This proposal is for a total investment of up to 5.0%

in both local and international investments in other investments which will include venture capital. The Investment Committee along with the external managers would have to thoroughly scrutinize any planned investments paying close attention to the characteristics of Character, Capacity, Collateral, Conditions and Cash-flow.

Real estate

The Fund presently enjoys good investment income from several real estate projects where the tenants/purchasers are Government agencies. As these existing projects begin to mature they should be replaced with similar investments.

Obviously, it would not be likely that new Government buildings will be sufficient to help meet this allocation and it is proposed that the Fund be permitted to invest in some non-public sector real estate opportunities.

It is proposed, that this class be considered in its two components i.e. commercial real estate and social investing (clinics) with each being limited to a maximum of 10% of the Fund.

APPENDIX B SUMMARY OF THIRD SCHEDULE

Guidelines as specified in the Third Schedule of the Act

1. The assets of the National Insurance Fund (the Fund) may be invested as per Section 44(5) of the National Insurance Act. This section refers to the **Third Schedule of the Act**.

The schedule is summarized below.

Paragraph 2 – The Board may invest a part of the Fund in accordance with the Schedule, except that the Board shall not invest outside The Bahamas without the general or specific direction of the Minister, with the concurrence of the Minister of Finance.

Paragraph 3 – The Board can invest in trustee securities, being instruments issued by The Bahamas Government.

Paragraph 4 – The Board has the power to invest in securities other than trustee securities provided such securities are NOT:

- a) securities that accept repayments in other than Bahamian Currency.
- b) securities which are not quoted on a recognized stock exchange.
- c) shares that are not fully paid up.
- d) shares or debentures of company with paid up share capital of less than \$1m.
- e) shares of a company that has not paid dividends in each of the last five years.
- f) further investments in the company would exceed 5% of the total investment of the Fund.
- g) In excess of proportion of total investments of the Fund as may be set by the Minister, with concurrence of the Minister of Finance. (*Note: Currently there are no such limits in place.*)