

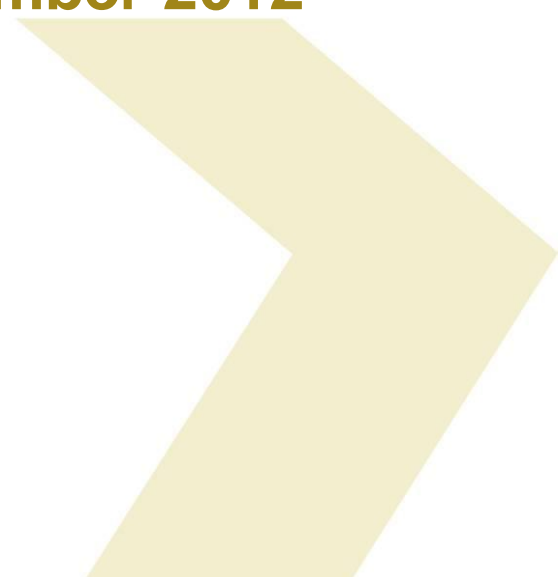


Barbados Chamber of Commerce and Industry Breakfast Meeting

Wednesday 14th November 2012

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CONSULTANTS + ACTUARIES





Retirement Preparation – What are the issues currently being faced?



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A MEMBER OF ABELICA GLOBAL

Overview

- **How much income do we need in retirement?**
- **Where can we expect income in retirement to come from?**
- **Who pays for retirement benefits?**
- **Challenges**
- **Recommendations**

How much do we need?

> Acceptable replacement ratio of between 60% and 70%

Where will pension come from?

- > NIS
- > Employer Sponsored Plans
- > Individual Plans
- > Other Investments

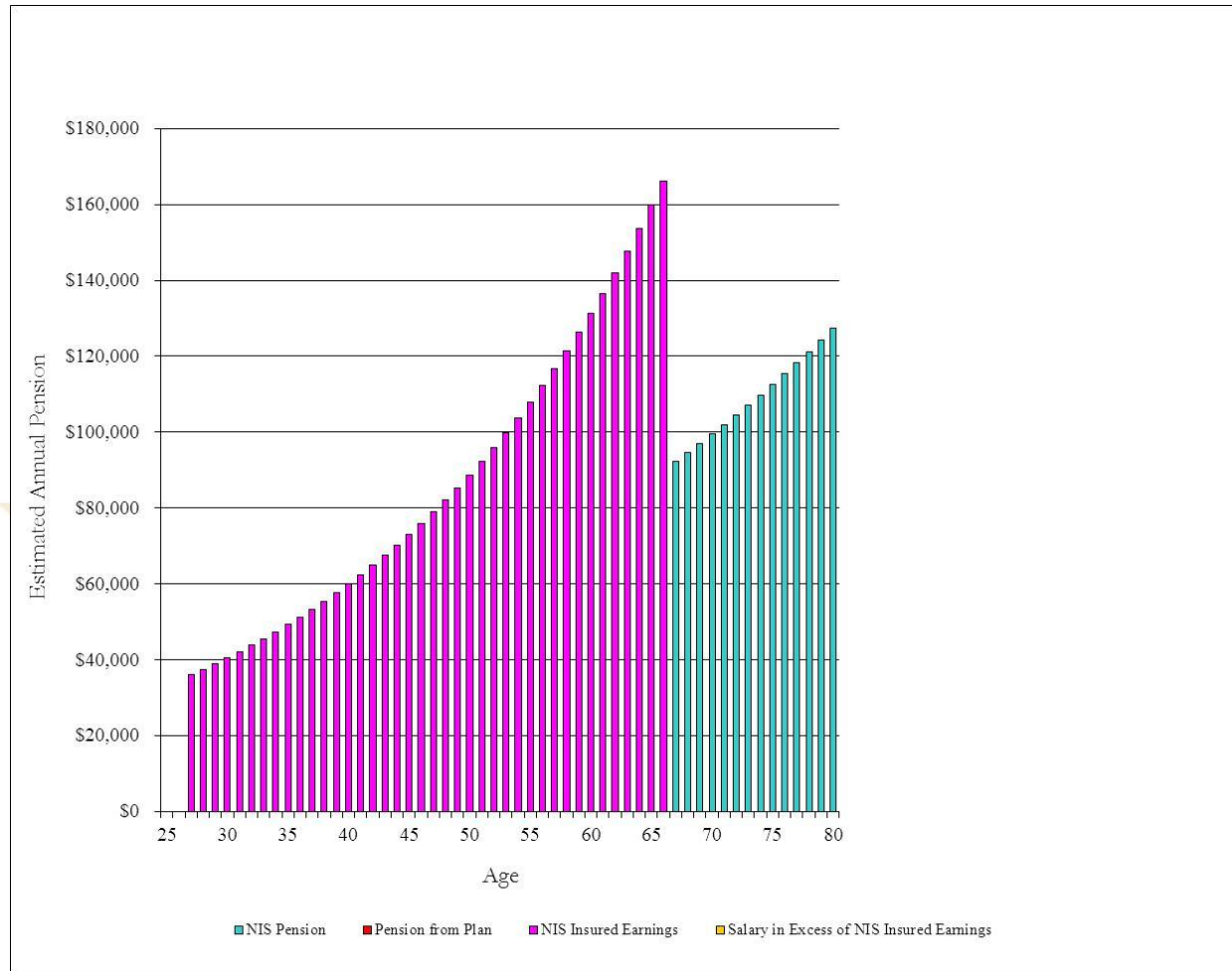
NIS Pension

- > **Funded by Employee and Employer Contributions**
- > **Governed by NIS**
- > **Generous Retirement Benefits**
- > **Insured Earnings – currently \$4,180 but moving to \$4,270 from January 1.**
- > **Pension payable anytime between ages 60 and 70 but unreduced pension age will rise to 67 from 2018**

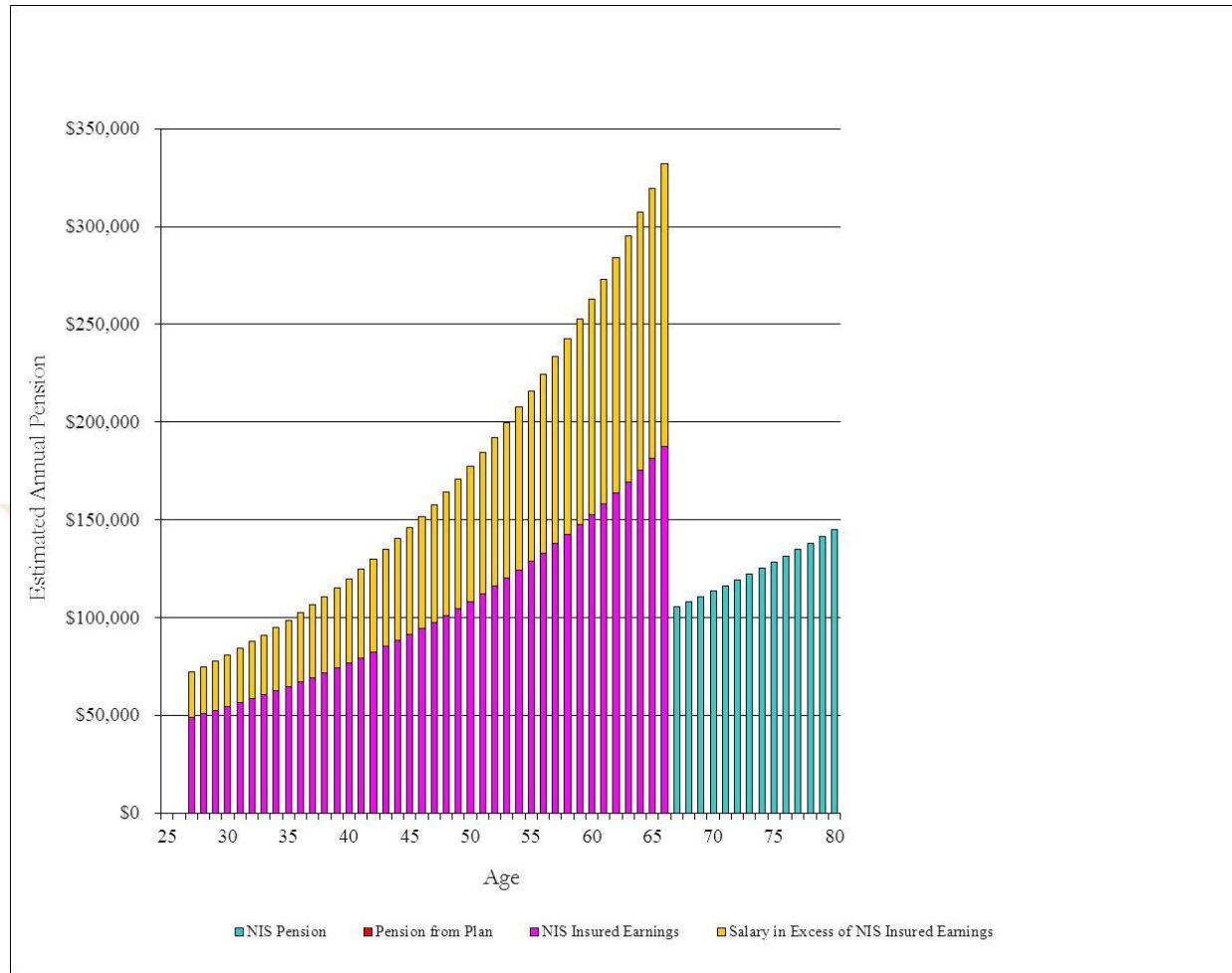
NIS Pension - continued

- > Expect 60% of Final 5 Year average insured earnings (FAE) as pension at age unreduced pension payable
- > Adjustment of ½% per month for early or late receipt
- > At age 65 can expect around 55% of FAE
- > Some examples

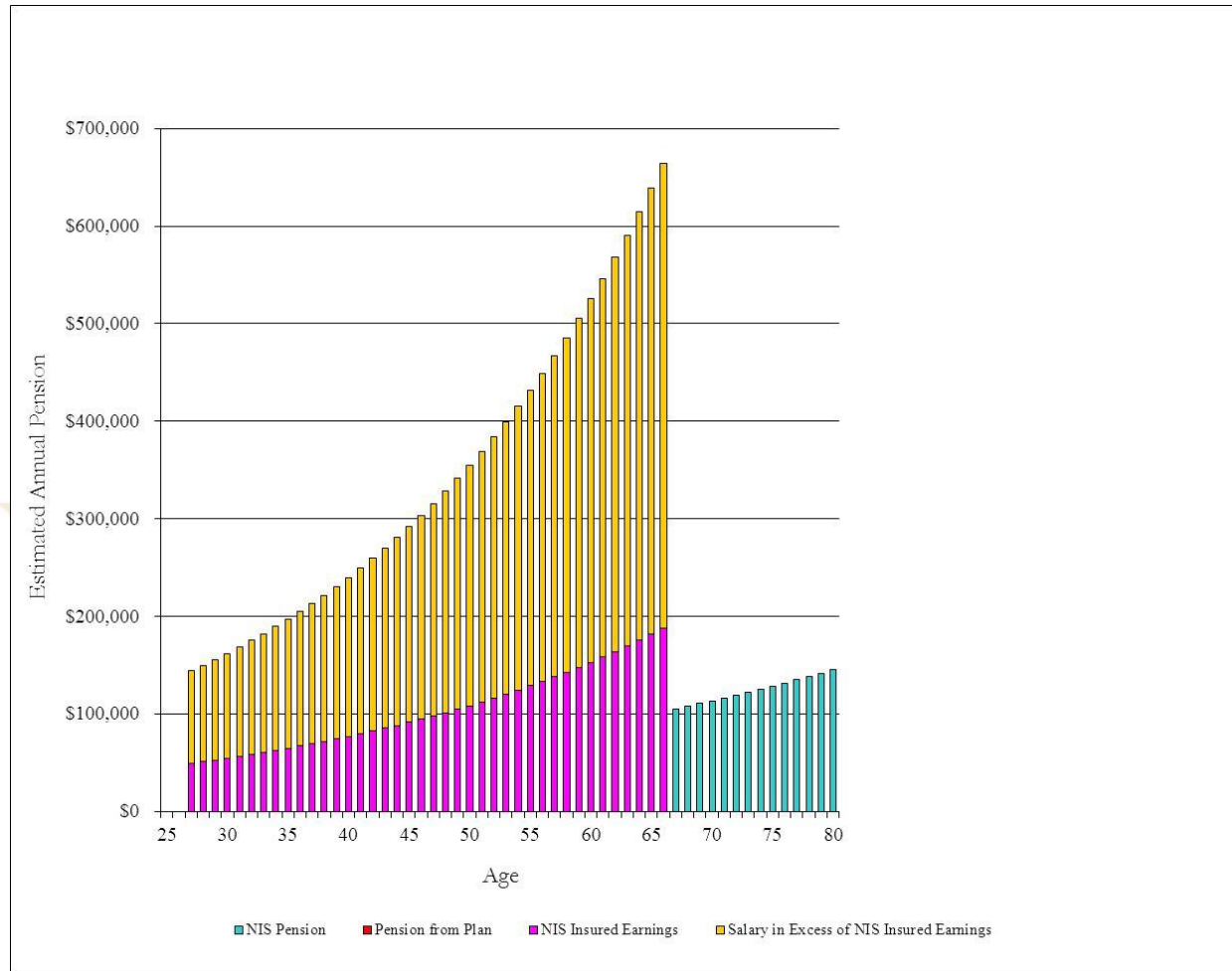
NIS Pension - \$3k p.m. 55%



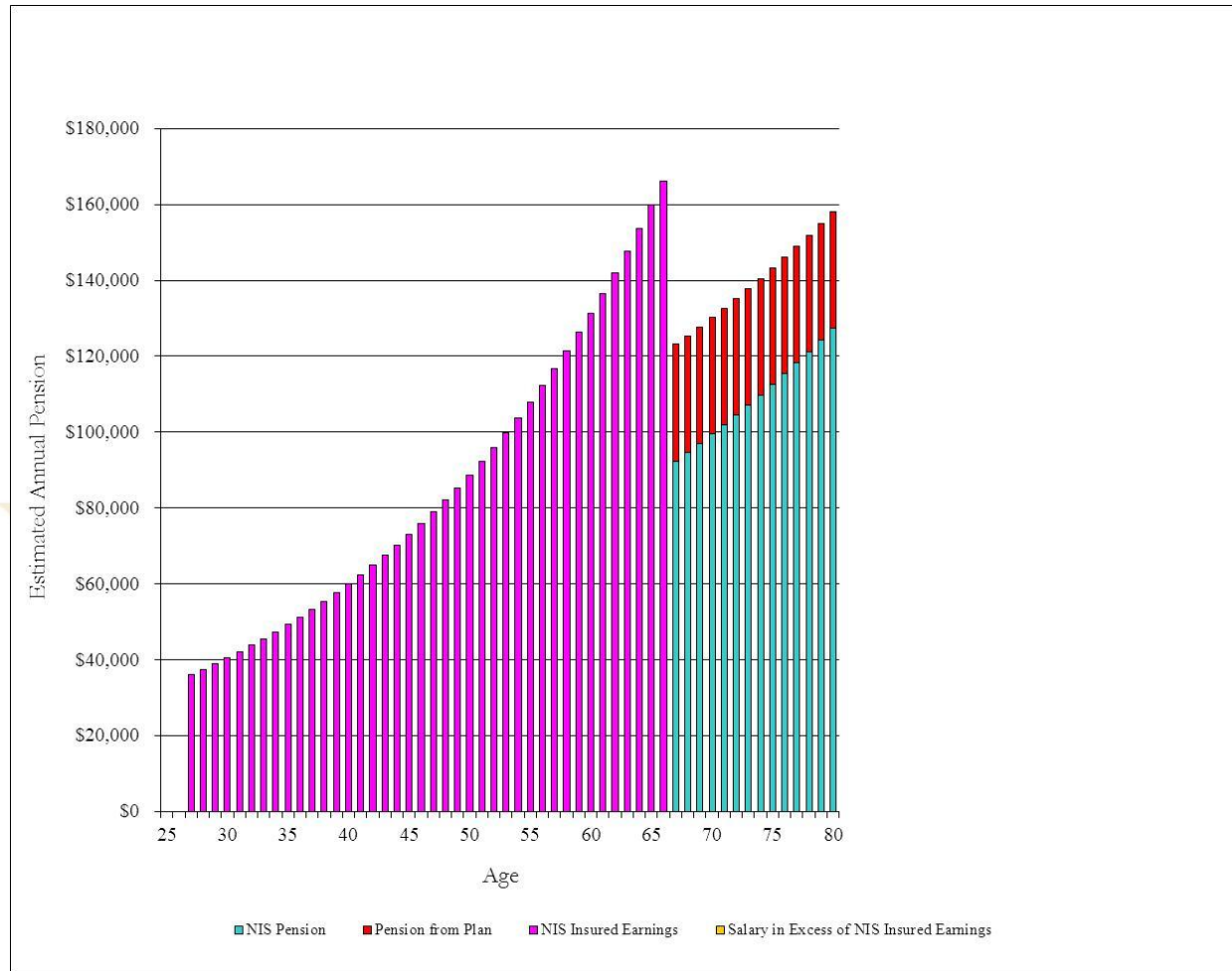
NIS Pension - \$6k p.m. 37%



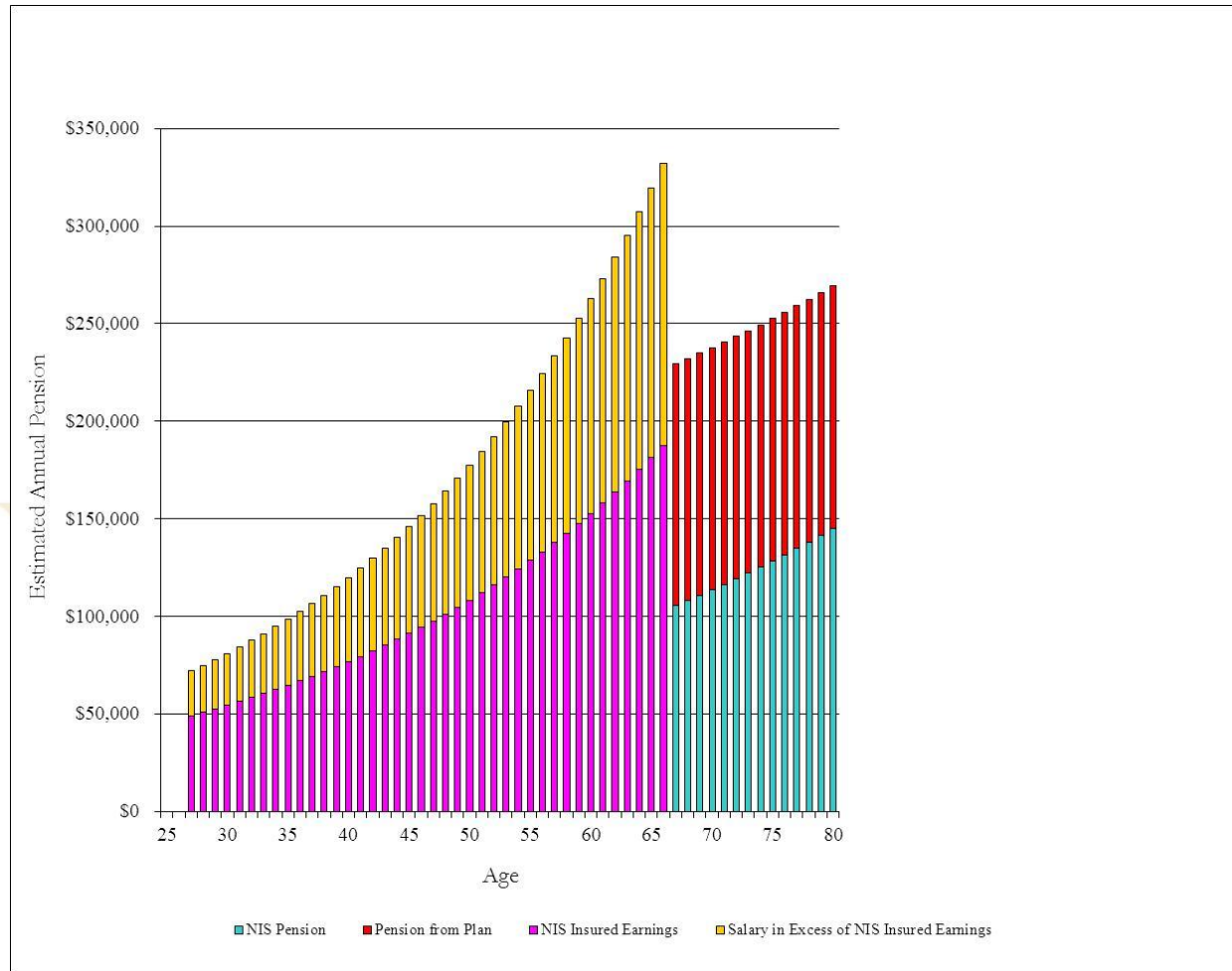
NIS Pension - \$12k p.m. 16%



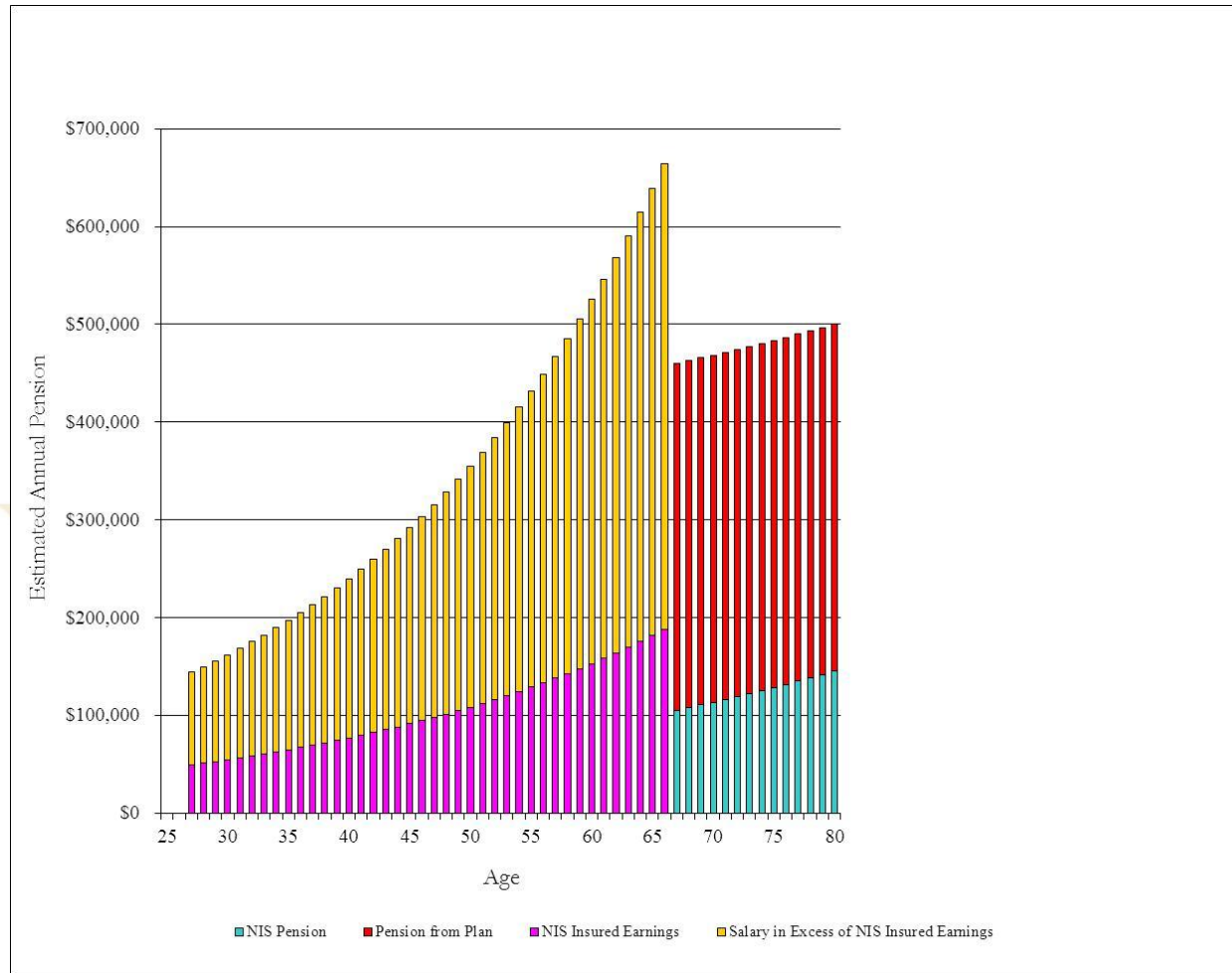
Harmonized \$3k p.m. 74%



Harmonized \$6k p.m. 69%



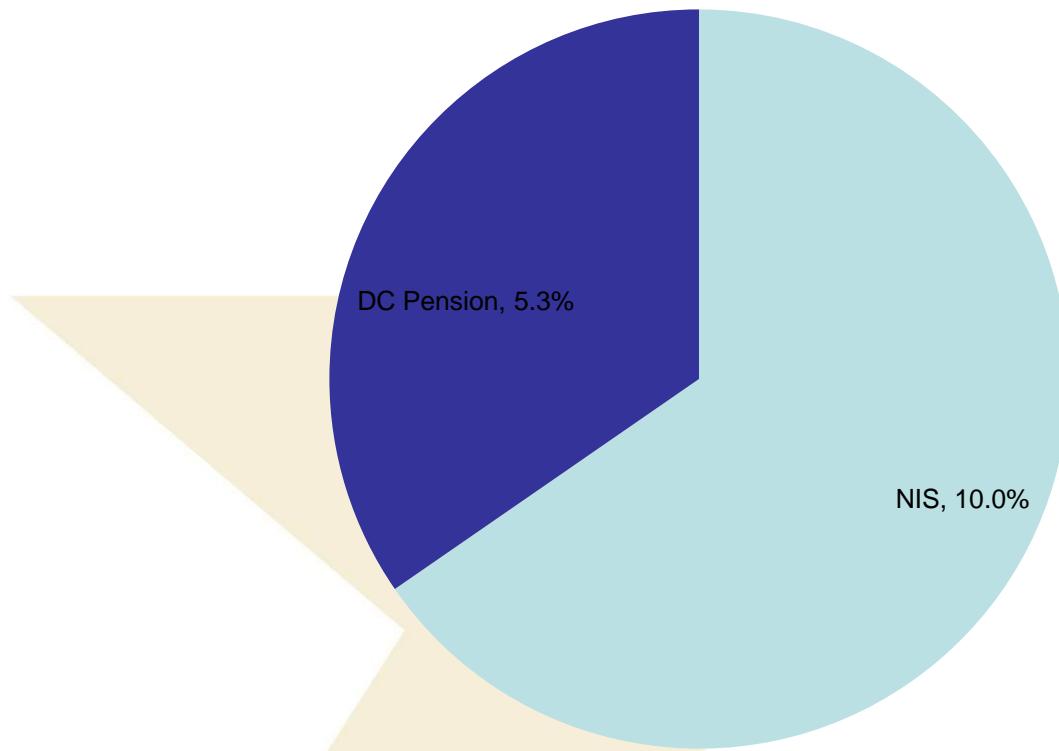
Harmonized \$12k p.m. 69%



Who pays for pension benefits?

- **NIS – partly Employee and Employer**
- **Employer sponsored Plan – sometimes Employer only but mostly employee and employer**
- **Private Plans – usually employee only**
- **Other instruments – Employee only**

Total Pension Cost – Typical Company



Does the NIS/Private balance matter?

- > No NIS means no pension for many employed persons.
- > Too much NIS means that too high proportion of individuals' savings are managed/controlled by Government.
- > Do we have the balance right?

Challenges to NIS and private pensions

> Sustained low interest rates

- Not much impact on NIS since it is only partially funded.

Extract from NIS 13th Actuarial Review 2008

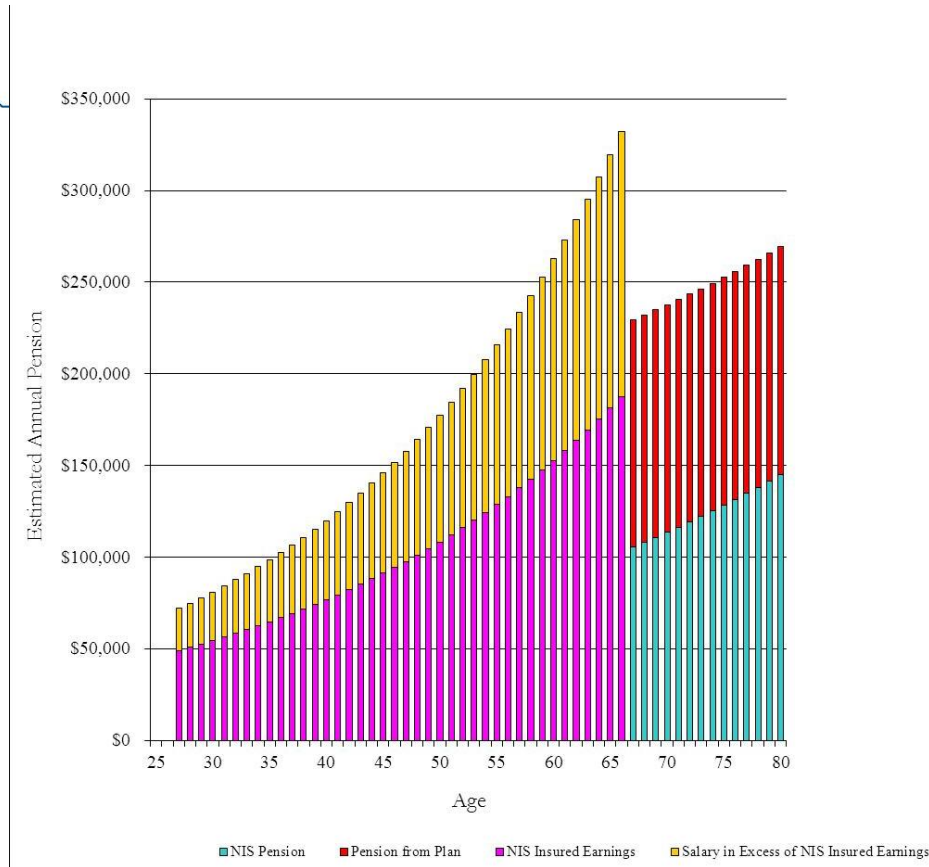
Table 3.7. Sensitivity Tests – Best Estimate

Assumption	Scenario	Reserve-Exp. Ratio in 2030	General Average Premium	PAYG Rate in 2030	Year Fund Exhausted
	Best Estimate	7.9	20.9%	21.1%	2068
Long-term Yield on Reserves	½% lower (5.0%)	7.3	21.2%	21.1%	2062
	1% lower (4.5%)	6.8	21.5%	21.1%	2058
Benefit Increases (Price Inflation)	½% higher	7.1	21.8%	22.0%	2058

Risks to NIS and private pensions

> Sustained low interest rates

- Not much impact on NIS since it is only partially funded.
- Very high impact on benefits from DC plans and cost to DB Plans

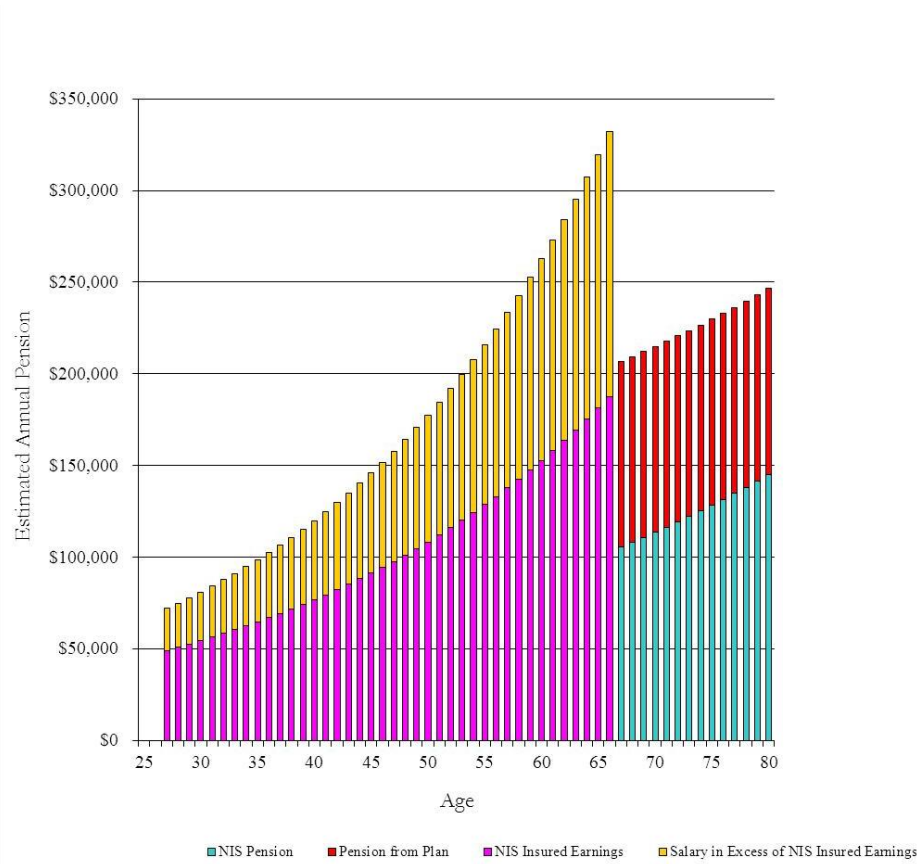


Impact on DC Plan – returns 6%

NIS Provides 32%

DC Plan provides 37%

Total Pension 69%



Impact on DC Plan – returns 5%

NIS Provides 32%

DC Plan provides 31%

Total Pension 63%

Impact on DB Plan

- > For a 1% fall in returns current service cost rises by 10 to 15% say from 7% to 8%
- > Past contributions are no longer adequate and a large past service deficit emerges of approx 7% - 10% of liabilities.
- > Results in higher contributions by employer and reduced/no pension increases.

Risks to NIS and private pensions continued

- **NIS assets are not realisable and contributions must be increased prematurely (or benefits reduced)**
- **Finding suitable investments – major challenge for NIS and private plans**

Perhaps the greatest challenge that the National Insurance Fund will face in the coming years is the ability to find suitable investment opportunities. Already representing almost 40% of GDP, National Insurance Fund reserves are projected to grow at a faster rate than the local economy for many more years. With government borrowing heavily in the past few years and national debt now approaching 100% of GDP, the National Insurance Board should limit additional lending to government to amounts that will not allow the percentage of the Fund now held in government securities (57%) to grow any further. The ability of the National Insurance Fund to consistently meet its obligations when contributions are not sufficient to meet expenditure will depend on its ability to liquidate its various investments. Therefore, new avenues for investments, both local and foreign, that are consistent with projected cash flow needs and Fund diversification, should be sought.

Extract from NIS 13th Actuarial Review 2008

The actuary issues a warning in 2008!

Risks to NIS and private pensions - continued

> **Aging Population – major challenge
for NIS and private pensions**

Extract from NIS 13th Actuarial Review 2008

Table 3.2. Projected Barbados Population (Best-Estimate Scenario)

Year	Total	Age 0 – 15	Age 16 – 64	Age 65 & Over	Ratio of Persons 16 – 64 to 65 & Over
2000	268,792	61,948	174,323	32,521	5.4
2005	276,412	60,394	182,122	33,896	5.4
2010	283,357	58,442	189,591	35,324	5.4
2015	289,656	57,608	191,970	40,078	4.8
2020	295,060	56,840	191,206	47,014	4.1
2025	299,439	56,075	187,304	56,061	3.3
2030	302,432	55,144	182,347	64,941	2.8
2035	303,724	54,047	178,912	70,765	2.5
2045	300,790	51,857	172,992	75,941	2.3
2055	292,633	50,083	166,321	76,229	2.2
2065	283,557	48,256	160,331	74,970	2.1
2070	279,307	47,345	157,696	74,265	2.1

Risks to NIS and private pensions - continued

- **Affordability – NIS compulsory but Private plans optional**
- **Economic environment – both employers and employees cannot afford current levels of contributions**
- **Regulations – new Act means more costs**

Recommendation

- Plan for a modest retirement.
- Plan to work longer.
- NIS Pension will not be enough on its own. Save in a personal or employer plan.
- Resist any expansion by NIS.



Thank You.

