

The Future of Social Security in the English-speaking Caribbean

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Most social security schemes in the English-speaking Caribbean would have attained maturity by the end of the twentieth century. In the case of the British Virgin Islands (BVI) scheme, this stage of development will be attained somewhat later because of the more recent establishment.

However, we suggest that similar considerations are applicable. Maturity in this context is defined with respect to the relation between contribution income and benefits, and the requirement of schemes to pay maximum long term benefits to persons who qualify. In these circumstances efficient management will be a critical factor in determining the viability of social security schemes in the Caribbean.

We discuss the dimensions of the management challenge paying particular attention to the following aspects (a) political (b) financial (c) client relations (d) information (e) human resources. In our view the single most important problem likely to impact on social security schemes is political in nature. Essentially, how can governments be persuaded to implement changes to schemes which are costly in short term political support, but are vital to the viability of schemes in the medium and long terms.

If fear of reduced political support was the sole obstacle to timely adjustment the problem would be easily resolved. However the Barbadian experience of the 1990's demonstrates that contributors resent reduction in benefits. Popular opposition to restructuring of schemes in order to achieve sustainability is rooted in an uninformed, narrow self interest. The harsh reality which policy makers must confront is that in an extended period of persistent economic decline the financial integrity of social security schemes is threatened. Unless timely policy action is implemented schemes cannot fulfill their primary role of paying benefits to qualified persons. In order to create the right environment which does not reward political procrastination, we need to invest more resources in research and development of continuing programmes of public education to enable the public to understand what is required in building viable social security schemes. Effective education programmes will assist in reducing unreasonable public demands with respect to rate structures, benefits and qualification regulations.

Education is an essential tool in developing better relations with the public, but an equally important aspect of client relations management pertains to treating the public as customers of the social security scheme. There is substantial evidence that social security managements in the Caribbean are becoming increasingly aware of the benefits to be derived from investing in improving relations with the public, but too often these programmes are "one off" efforts. In

our view there is a need for an on-going programme of staff training to strengthen relations between beneficiaries and providers of social security services.

A critical determination of the quality of social security services received by the public is the quality of human resources which administer the schemes. In this regard human resources management will assume an increasingly important role in the development of schemes within our region. The task of the human resource planner in social security development is to monitor and analyze trends in the supply and demand for skills, and project skill requirements over the medium and long terms in light of technological advances and efficiency targets, and make recommendations accordingly.

In the Caribbean both policy makers and the public tend to place an over emphasis on the social policy aspects of social security to the detriment of the economic and financial dimensions of our schemes. A fundamental restructuring of the management environment in which several schemes are existing is absolutely necessary in order to enhance their potential for achieving viability. Some social security schemes are appendages of public service ministries where the norm appears to be tardiness in decision making. Such an obsolete arrangement fails to adequately take note of the vast amount of financial resources entrusted to the schemes; the responsibilities placed upon the schemes; and the opportunities for maximizing the social and economic contribution of the social security schemes.

Several national insurance schemes are larger than many of the banking and non-banking financial institutions operating in their respective countries, and there can be no valid reasons to deny social security schemes an organizational environment which permits access to the best quality human resources. A restructuring along the lines suggested is essential in order to unlock the vast potential of our schemes. The new structure should permit social security Boards to compete in the marketplace without unnecessary restrictions for the highest quality resources to manage schemes. A necessary corollary of the opening up of management to competition is the placing upon management of responsibilities for recruitment and development of staff, as well as all aspects of our schemes.

Because of the massive volume of transactions conducted by a social security scheme, effective information management is essential to the efficiency of these systems. Social security managers in the Caribbean are concerned that existing information systems are serviced adequately, and they are also concerned with the development of information systems. Determining the most effective means of achieving both goals is critical to the efficiency and ultimately the viability of our schemes. Good quality information management personnel is in short supply, and unless Boards are permitted to compete for the best resources, attempting to satisfy the demands for routine service work as well as developmental work in-house will be an exercise in futility. Analysis of data is an essential precursor to efficient adjustment of policies and strategies. Unless

management is able to access reliable information in a timely manner it cannot enforce compliance effectively, and is likely to be reacting to events rather than adopting a proactive stance.

Efficient management of surpluses will become the life-blood of our schemes as they grow older. In recognition of this stage in the development of Caribbean social security schemes managements should be provided with sharp skill in investment management. It is critical that management know who are its constituents and enforce compliance fully. Enforcement of compliance is easy in theory, but in small Caribbean countries a major obstacle to effective enforcement is the existence of “untouchables”. We refer to certain influential groups of workers who argue that they will not comply because they can provide for themselves. Restoration of confidence in the compliance process requires that both social security managements and the courts deal promptly and firmly with these pockets of destabilization.

Secondly, the practice of governments using social security surpluses to provide a cheap source of public financing must be brought to an end immediately. Experience in our region shows that as schemes “break even” investment income become a critical factor to viability. To the extent that governments commandeer social security funds at below market rates, the schemes are denied an important source of investible funds. In addition to ensuring that market rates are available to fund managers there needs to be a relaxation of the existing restrictive conditions pertaining to options for investing funds. While we must minimize undue risks, there is no need to restrict options to certain local and regional securities. In the interest of assets diversification, and earning higher yields while avoiding undue risks, we need to fashion an investment strategy which permits fund managers to place investments in selected extra-regional hard currency first class securities.

Increasing longevity, high levels of unemployment, and continued expansion of the informal sector in most Caribbean countries present serious management. As people live longer the share of long term benefit expenditure in total expenditure is likely to increase. Unlike short term benefit expenditure which can fluctuate, long term benefits expenditure grows steadily. This group of beneficiaries is particularly attractive to political office seekers and their wooing of them through sizeable pre-election pension increases can create headaches for social security Boards and manager. In this regard we suggest that the relevant legislation be amended to require an actuarial review prior to adjustment in benefits of any class.

Together with chronic high levels of unemployment, increasing longevity increases the dependency burden. In essence, a smaller percentage of the population is required to provide the necessary resources to finance the operations of schemes. Chronic and mounting levels of unemployment (estimated at 30% in some Caribbean countries) present a difficult challenge to social security managements because it impacts adversely on the earnings base of

schemes. Unemployment benefit programmes are predicated on the assumption that displaced workers will be reabsorbed into the active workforce before the expiry of their eligibility for benefit. However the economic restructuring which has been taking place in the Caribbean during the last decade has increased the numbers of hard core unemployed substantially. The age range of many displaced workers makes it unlikely that they will be rehired. These developments place additional stress on our social security systems.

The growth of self-employment has increased rapidly in those countries affected by protracted economic difficulties. There is a tendency among some self-employed persons to exploit the liberal regulations pertaining to non-contributory old age pensions in most countries. Policing the self-employed is costly, and legislating to exclude those who do not contribute from receiving benefits while exerting pressure to comply does not solve the problem since viability of schemes depends on large numbers. Appropriate legislation supplemented by public awareness programmes and compilation of information on the self-employed appear to offer the best prospects for combating the problem of non-compliance by this class of worker.

A particularly difficult problem is presented by chronic illness among the young workforce. An obvious case in point is patients who are affected by the HIV. These workers become a drain on the system, and the youthful cohort of the workforce who would be expected to make a net contribution to reserves of the scheme constitutes a net drain.

Since we hold management accountable for the performance of schemes it is essential that managers be permitted to take responsibility for identifying skills needed, as well as recruitment, training, and discipline. The principle role of directors in this model is to work with the executive management to determine policy and require management to account for its actions. The “business as usual” approach to social security which is characterized by delaying adjustments until they cannot be delayed any longer, and employing benefits adjustments for partisan political advantage must be consigned to the past, otherwise schemes are likely to become insolvent thereby inviting social chaos and an increase in burden to the Consolidated Funds in our countries.

Not much progress has been made in the integration of private and public sector pension planning. This is an area which is in need of urgent attention in order to provide the private sector suppliers of pension plans with clear parameters for developing pension programmes. At least, clear guidelines for determining pension ceilings should be established by minister of social security. Additional fiscal inducements to encourage individuals, trade unions and employers to support the development of private pension plans is desirable because it reduces the pressure on public schemes to increase insurable earnings ceilings and stimulates saving in the economy.

Social insurance schemes are developed on specific assumptions pertaining to the needs of a society. As the values of a society change it will become necessary to reexamine our social security schemes. Of particular relevance is peoples' work ethic. To the extent that substantial numbers of the young workforce are opting for task work and are disinclined to view employment as continuing relationship with a workplace, social security planners must address this phenomenon which is emerging among young males in the Caribbean. Developments of this nature threaten the survival of our schemes in their present modes.

In today's world frequent job changers is the norm compared with the situation of the sixties when most Caribbean schemes were introduced. Frequent changes in employment and skill requirement calls for a rethinking of our severance and unemployment benefit schemes, with a view to placing increased emphasis on retraining of displaced workers. Unlike the generation entering the workforce three decades ago, several young workers view severance and unemployment benefit schemes as opportunities which should provide occasional access to sizeable sums of cash and additional leisure. On the other side of the coin we need to ensure that employers are prevented from exploiting liberal severance laws to the disadvantage of workers.

A healthy partnership needs to be developed embracing all parties whose actions impact on the sustainability of our schemes. In the past, Boards have directed much attention to compliance, but equal attention should be allocated to improving relations with legal and medical personnel whose opinions impact upon the schemes. In our view it is an unsatisfactory state of affairs when managers are required to make decisions on advice which is extremely vague, and at times borders on the tendentious.

It would be extremely naïve to believe that our social security schemes in the Caribbean are immune to developments in social security in Europe and North America. Inevitably, developments in the leading industrialized countries influence social security thinking in our region. As Caribbean countries turn to the international institutions in times of financial difficulties the conditionalities attached to loans may require substantial restructuring of our schemes. A social security scheme does not exist in an economic and social vacuum. Our discussion has focused on aspects of social security management, but a necessary precondition for success in social security planning and development is a stable economic environment. In this regard there is little small Caribbean countries can do to protect themselves from major adverse external economic developments, but much can be achieved through the pursuit of sound macroeconomic policies which generate investor confidence, and lay a firm foundation for sustainable economic development. Experience within the larger CARICOM countries during the last ten years demonstrated most vividly how unsustainable economic policies can exert pressures on social security schemes. In summary, we suggest that establishment of an environment which is conducive to efficient management is critical to the future viability of social security schemes in the CARICOM region.