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RETHINKING PENSION INCLUSION IN **JAMAICA**

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BACKGROUND

DEMOGRAPHIC CHARACTERISTICS

Jamaica is a developing independent island state in the Caribbean, with an estimated population of over 2.7 million (July 2016). Population growth rates have tapered to less than 0.5% in recent years, primarily due to the impact of net emigration and declining birth rates. Over the past 50 years, life expectancy at birth has increased from 67 to 76 years, while fertility rates have declined from six to two births per woman. The World Bank projects that in Jamaica, as in many other developing nations, factors such as increasing life expectancy and declining fertility rates will transform the population profoundly over the next few decades.

By 2050, the number of elderly (65 years or older) is expected to more than double, crossing the half million for the first time in Jamaica's history. By that time, the number of persons aged 80 years or above is expected to more than triple. To illustrate the scale of the demographic shift, consider that in 1970, Jamaica had less than 16,000 persons aged over 80 years. By 2050, this group is expected to increase 10 - fold to 163,000 persons.

In line with historic demographic trends observed in Jamaica and elsewhere, it is anticipated that most of this growing population of the elderly will be female. The gender difference is expected to continue to be particularly acute in the highest age brackets. For example, very elderly women (80 years and older) are estimated to outnumber their male counterparts by more than 1.5 to 1.

Increasing prevalence of chronic diseases among the elderly in Jamaica is expected to amplify the impact of these shifting demographics. A recent study (Eldemire-Shearer, 2012) revealed that the majority of Jamaican senior citizens suffer from at least one of the following chronic diseases -- high blood pressure, diabetes, stroke and heart disease. Therefore, there has to be prudent retirement planning to reflect the associated health care costs.

The trends in birth, mortality, and migration rates suggest that the aged population of the future may have different experiences than those faced by seniors, past and present. Jamaica's senior population will be larger in absolute and relative size than ever before. The elderly will be less likely to have the support of a large family unit than their counterparts did in the past. Their children (if indeed they have any) are quite likely to be overseas, instead of living nearby. They will live longer on average, despite their health challenges but with an increased need for means of income and financial support.

LABOUR MARKETS

FORMAL LABOUR MARKET

As of July 2016, the Jamaican labour force stood at 1.4 million. The number of people of working age outside the labour force was 0.7 million. The pool of female workers has increased marginally more quickly than the pool of male workers in recent years; currently, almost half the labour force is female.

The agriculture industry is the largest employer of male Jamaican workers; in contrast, most females are employed in the services sector, particularly in the wholesale and retail trade; hotels and restaurant services; and in private households. Of critical concern is that the industries that are the largest employers of Jamaican workers (such as agriculture and tourism) are particularly susceptible to natural disasters such as hurricanes, which present annual risks to the country. The vulnerability of these industries can, in turn, harm the earning (and saving) potential of workers who rely on them for their livelihood.

Women are a significant part of the Jamaican work force (46%) and since 1975 have enjoyed protection from pay discrimination under the Employment (Equal Pay for Men and Women) Act. Statistics related to education suggest women are doing relatively well with respect to measures of literacy for adults aged 15 years and over (female: 93%, male: 83%), completion of lower secondary school features similar differentiation (female: 65%, male: 57%) and attainment of at least a bachelor's degree or its equivalent (female: 8%, male: 5%).

Approximately 40% of the labour force is classified as self-employed; whereas 60% is classified as salaried or wage workers. Women are more likely to be salaried or wage workers (self-employed female workers: 33%, salaried female workers: 67%). However, men are almost evenly split between both categories (self-employed male workers: 47%, salaried male workers: 53%).

As in the future most of the very elderly will be females, the question of the inclusion of the female worker in planning and preparing for retirement is a profound practical consideration.

UNEMPLOYMENT RATE

The national unemployment rate, as measured and reported by the Statistical Institute of Jamaica, as of July 2016, is 13%. Unemployment is particularly acute among the youth and females. Despite the relatively promising educational statistics for Jamaican women, the unemployment rate for female workers stands at 17%, almost twice as high as the corresponding figure for males, which is 9.5%; the unemployment rate among young workers aged 20 – 24 years is 27%; and workers under 20 years old have an unemployment rate of almost 40%. Unemployment rates are highest among youth who have left school without attaining any qualifications.

INFORMAL LABOUR MARKET

Jamaica's informal economy is significant and has been reported by a 2006 Inter-American Development Bank (IDB) Economic and Sector study[1] to represent over 40% of the overall national economy. The Ministry of Labour and Social Security (MLSS) reported the lack of employment opportunities in the formal sector as a major reason for informal

[1] Inter-American Development Bank, " The Informal Sector in Jamaica" (2006)

employment. The International Labour Organization (ILO) also cites low levels of formal education as a cause of ineligibility for formal employment and a reason for informal employment.

INCOME DISTRIBUTION

As of 2004, the lowest 20% of the Jamaican population was estimated to hold 5% of the national income, while the highest quintile held 52%. In 2001, Haiti's corresponding figures were 2% and 65% respectively; in 2004, the Dominican Republic featured figures of 4% and 57% respectively. The most recent income inequality distribution data reported by the International Monetary Fund (IMF) using the GINI coefficient was 59.9 in Jamaica, 59.2 in Haiti and 48.9 in the Dominican Republic.

At a global level, some characteristics of the labour market that may adversely affect the outcome of retirement planning or pension inclusion efforts are:

- **High Unemployment.** Planning a smooth stream of pre-retirement and post-retirement income is moot when there are extended periods of no income at all.
- **Sizable Informal Economy.** Informal workers are often excluded from tools that promote inclusion in the pension market including: access to information; automatic enrolment in the social security system or other pension schemes; and predictable, periodic payroll payments that can be deposited directly to a pension fund. Furthermore, general information such as the pension needs and level of preparation of informal workers is difficult to monitor because their data is not necessarily captured through official means – this is precisely why the ideas in this book are so important.
- **Significant Level of Self-Employment.** Non-salaried workers do not have employers who may set up a pension plan or contribute to a pension on their behalf. A different approach is needed to reach out to this large share of the Jamaican labour force.
- **Seasonal Major Industries.** Agriculture, hotel and restaurant services are among the largest employment industries in Jamaica. Workers in these large sectors are subject to periods of unemployment or reduced income due to, for example, low hotel occupancy or natural disasters. Therefore, in these industries incomes are less predictable.
- **Income Inequality.** There is a large income gap between the richest 20% and poorest 20% of the labour force. In terms of size and administrative expenses, pension products that are appropriate for the highest income earners are not the right fit for the lowest income earners.

INCOME, **SAVINGS**

INCOME TAX INCENTIVES

Members of private pension plans have additional saving benefits via tax exemptions on contributions (up to 20% on pensionable salaries) and on investments to facilitate accumulation of funds. Upon retirement, tax is charged on pension payable with the exception of a tax free lump sum payment. Tax exempt vehicles are offered by deposit taking institutions; however, this may be subject to a minimum amount and other restrictions that do not provide universal access.

FINANCIAL INCLUSION

The World Bank reports that just over three quarters of Jamaicans aged 15 years or older have an account at a financial institution.[2] This helps create the potential for a digital pension coverage initiative. However, only about 30% of the same group responded that they actually saved at a financial institution in the previous year and about 45% of the cohort has a debit card.

Also of importance is the "partner" system, which is an informal collective savings scheme comparable to the West African "sou sou". In this, one member is selected as the banker and each member contributes a specified amount at an agreed frequency to the banker. Then, in the order determined by the banker, each member receives a disbursement.

LIFE AND NON-LIFE INSURANCE

There are currently six life insurance and nine non-life insurance companies that are active in the Jamaican market. Motor and property are the two largest classes of non-life business, while Universal Life is the largest class of life business. In aggregate, Gross Premium Written is trending upwards; also, the industry's loss ratio remains below 100%. As of December 2015, all fifteen companies satisfied the regulatory capital adequacy requirements of the Financial Services Commission(FSC), the integrated regulator of insurance, pension and securities industries in Jamaica.

A 2012 study examining the risk management practices taken from a sample of Caribbean agriculture and tourism workers confirmed the vulnerability of its participants to financial losses that stem from events influenced by the weather. The study also found that Jamaican respondents were most likely to handle financial losses that resulted from such events by depleting their savings. A significant percentage of respondents did nothing or adopted a "wait and see" strategy. Other popular coping mechanisms identified in the study included borrowing and using remittances from overseas. The use of insurance as a

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2 World Bank Development Indicators

risk management tool was not widespread among respondents. These findings highlight, among other things, the adverse impact of retained risk exposures (such as weather risk) on long term savings, including retirement.

ANNUITY MARKETS

Old-age incomes may be supported by pension plans that provide legally required streams of payments. Trustees of pension plans may either pay a pension directly from the plan or purchase an annuity from an insurance company on behalf of the member. Other forms of pension payments such as programmed withdrawals have been recently introduced to the Jamaican marketplace. Where pensions are purchased from an insurance company, the normal form of pension is commonly an annuity paid for a guaranteed period of five years and life thereafter.

STATUS OF MORTALITY TABLES

Currently, the actuarial community relies on actuarial tables from larger jurisdictions, modified to reflect the experience observed in the Jamaican market. The Caribbean Actuarial Association has begun work on the development of a Caribbean life table.

FINANCIAL SERVICES AND MOBILE PENETRATION

Mobile cellular telephone technology has proliferated in the Jamaican market. Between 1995 and 2005, the mobile penetration rate increased more than forty-fold from 1.8% to 73.9%; and by 2008, the penetration rate had surpassed 100%. The majority of cellular subscribers are connected on a prepaid basis. Air-time minutes, commonly called credit, is easily accessible for purchase from businesses or individuals and may be transferred between subscribers. Credit is often used as a means of exchange between users.

The high level of mobile penetration has created opportunities to deliver financial services via this platform. In 2013, the Bank of Jamaica (BOJ) published Guidelines for Electronic Retail Payment Services which became effective in April of that year. By 2015, the BOJ had approved five mobile money pilot projects, including mobile wallets. Since the publication of the Guidelines, at least two mobile money solutions have been launched in the Jamaican market.

EXISTING OUTREACH AND SERVICE DELIVERY INFRASTRUCTURE

Jamaica features a rich array of traditional financial services with significant customer support and assets. Jamaican deposit taking institutions are regulated by the BOJ. These include but are not limited to: Commercial Banks (2015: assets JMD 906 billion (USD 7 billion)), Building Societies (2015 assets: JMD 248 billion (USD 2 billion)) and Credit Unions (2015: assets JMD 89 billion (USD 0.7 billion)).

Commercial Banks constitute the largest category of deposit taking financial institutions, as measured by assets held. There are six banks in operation, with over 100 branches across the island. The BOJ reports there are 19 ATMs and 896 point of sale terminals per 100,000 inhabitants.

Non deposit taking institutions that are regulated by the Financial Services Commission include but are not limited to: Insurance Companies (2015 assets: JMD 347 billion (USD 3 billion)), Pension Plans (2015 assets: JMD 397 billion (USD 3 billion) and Securities Dealers (2015 assets: JMD 531 billion (USD 4 billion)).

HISTORICAL INFLATION LEVELS AND INVESTMENT RETURNS

Competing with the savings efforts has been the challenge of high historical inflation rates. In 2015, the annual inflation rate was 3.7%. However, the ten year average annual inflation rate was 9.8%; the twenty year average annual rate was 10.5%; and over the last thirty years, the average annual inflation rate was 16.1%. Thus, the Jamaican economy has experienced multiple decades of high inflation that has only declined in recent years.

This period of prolonged high inflation has eroded the purchasing power of fixed income pensions and has lessened the value of pension benefits that are based on career average salaries, as opposed to final annual incomes. This has also increased the cost of inflation-indexed pensions.

The impact of decades of eroding purchasing power has also had an adverse effect on the national savings culture. Due to the high inflation rate environment, a generation of Jamaicans has found itself worse off in real terms by saving in financial vehicles that did not provide a positive real return rather than consuming immediately. This is exactly contrary to the need to promote a culture of long term savings.

PENSION AND SOCIAL SECURITY **ARRANGEMENTS**

In Jamaica, as in other jurisdictions, the financial vehicles used to provide for retirement income can be categorized into three tiers: a compulsory public pension scheme, namely the National Insurance Scheme (NIS); occupational pension plans, including the public sector pension plan as well as voluntary private superannuation funds and retirement schemes; and other private pension arrangements such as real estate or personal savings.

TIER ONE: NATIONAL INSURANCE SCHEME

The foundation of pension inclusion in Jamaica is the NIS, a compulsory, contributory funded social security scheme. It covers employed, self-employed, and voluntary participants whose contributions are used to fund a range of benefits including an old age pension and NI Gold, a pensioner's health plan. The NIS provides the greatest reach to Jamaicans in preparing for retirement as it requires mandatory participation whereas other contributory arrangements are voluntary.

The NIS old age pension is earned by members who have made at least 156 weekly contributions and consists of a flat component (that is the same for all persons regardless of salary) and a wage related component (based on career average salary). At the time of writing, the NIS benefit is JMD 2,800 (approximately USD 20) per week, which is equivalent to approximately 50% of the minimum wage.

NIS pension benefits are generally progressive, providing greater replacement rates to low-income earners than all other contributors. The benefits are not calculated to be actuarially equivalent to members' contributions. A recent actuarial study has pointed out that the cost of NIS benefits exceeds the contributions made by NIS members. In addition, they are increased in an ad hoc fashion that is not a function of the funded objectives of the plan.

A report by the IDB highlights that, despite the compulsory nature of the NIS, only 40% of the employed labour force (i.e. 34% of the total labour force) contributed to the scheme as of 2012. This coverage is below comparable statistics for several Caribbean neighbours.

The social security programmes, referred to as the NIS across the Caribbean, are largely similar in design with variations in certain countries. Based on an IMF working paper on National Insurance Scheme Reforms in the Caribbean,[3] membership in the social security programmes is compulsory for salaried workers and the self-employed (with the exception of Trinidad and Tobago). The paper noted that enforcement of contributions for self-employment is not as stringent as for salaried workers. It was also noted that the benefits being offered under these arrangements have increased over the years to include, for example, unemployment (Barbados and the Bahamas) and partial health benefits (Belize, Jamaica, and the Bahamas).

The paper attributes the low NIS contribution level in Jamaica to the large informal labour force. In contrast, coverage in Barbados, the Bahamas, Trinidad and Tobago, and Jamaica are reported to be relatively high. Notably, in Barbados, 90% of employed workers contribute to the scheme.

The paper concluded by recommending certain actions that could be taken to improve coverage that include increasing the retirement age, freezing benefits, and increasing contribution rates. The implications of these actions were also noted and depended on the specific circumstances of each country. It was also highlighted that Jamaica may have to expand coverage prior to implementing the suggested actions.

TIER TWO: OCCUPATIONAL PENSION PLANS

PUBLIC SECTOR PENSION SCHEME

Jamaica's public sector pension system is governed by more than thirty pieces of legislation. A range of pension schemes exist for public sector workers: both contributory and non-contributory; both defined benefit (DB) and defined contribution (DC). Most of the schemes within this category are non-contributory DB plans. Some public sector workers (such as police officers, parliamentarians, and councillors) participate in contributory DB plans, but their contributions bear no relation to the benefits received.

[3] Koffie Nassar, Joel Okwuokei, Mike Li, Timothy Robinson, and Saji Thomas, IMF Working Paper- "National Insurance Scheme Reforms in the Caribbean"-WP/16/206

Pension benefits are paid from the consolidated fund. The cost of these benefits as a percentage of GDP has been climbing sharply and, in its current form, the public sector pension plan is unsustainable. The unsustainability of this current system is a major reason for the reform of the public pension system that will be further discussed.

SUPERANNUATION FUNDS

A superannuation fund is a voluntary arrangement established by an employer on behalf of the employees under a trust that is administered by a board of trustees in accordance with a trust deed and rules as well as applicable legislation. Superannuation funds may be either contributory or non-contributory; DB, DC, or a combination of both.

As of June 2016, the Financial Services Commission (FSC), the regulator of the private pension industry, reported that of the 412 active pension plans in the private pension industry, approximately 97% represent superannuation funds. These superannuation funds account for 95% of the assets in the private pension industry. However, they include only 58% of the 105,832 active members in private pension plans.

RETIREMENT SCHEMES

Retirement Schemes are voluntary pension arrangements that provide a broader reach to Jamaicans who are self-employed and who are not in a pensionable post to provide for their retirement. Persons upon termination of pensionable employment may also transfer pension refunds to a retirement scheme. Members are required to contribute to the retirement scheme at least once per year up to a predetermined maximum amount. Employers may contribute on behalf of employees, however, this is not mandatory as in the superannuation fund.

The retirement scheme is set up under a master trust deed and rules and, similar to superannuation funds, is regulated by the FSC. Only registered life insurers or licensed investment managers may set up a retirement scheme. Retirement schemes are accessible throughout the island at the head offices or branches of these entities.

SPECIALIZED RETIREMENT PLANS

Currently, only 6% of tourism workers are covered by a pension plan. Therefore, the overwhelming majority of one of the largest employment sectors is excluded from the voluntary private pension market. To address this, the establishment of a tourism workers' pension scheme is anticipated by September 2017.

Other industries that are large employers of Jamaican workers -- such as agriculture, manufacturing and construction – also reflect low membership in the private pension industry and are, therefore, target industries for pension inclusion.

TIER THREE: OTHER PRIVATE PENSION ARRANGEMENTS

PERSONAL SAVINGS

The third tier of the pension system represents personal savings by Jamaicans through sources such as real estate or other types of retirement savings approved under the Income Tax Act. Some people use the equity from real estate to leverage retirement savings. Acquiring a house may take precedence over retirement savings in a financial institution. Others may save through bank accounts and, with the exception of tax free savings accounts, will not benefit from favourable tax treatments offered in a retirement scheme.

SOCIAL SECURITY

The 'Programme of Advancement Through Health and Education' (PATH) provides payments for elderly persons who meet the specified financial need criteria. This acts as a pension of last resort. Like the NIS, this programme is administered by the Ministry of Labour and Social Security, however, it is non-contributory.

REMITTANCES

Remittances from Jamaicans living out of the country (the Jamaican Diaspora) remain one of Jamaica's main sources of foreign exchange earnings and contributed 16% to the GDP in 2015. This alternative income stream, which is accessed by many Jamaicans, presents an interesting aspect of financial inclusion via external support. As in India, it should be possible in theory to allow the diaspora to contribute directly into a family members' pension plan if they wanted to be sure the finances were being saved for a specific purpose – or to contribute to their own pension plan if they planned to retire in Jamaica.

PENSION SYSTEM **REFORMS**

PENSION REFORM ACROSS THE CARIBBEAN

The countries of the Caribbean and wider region are at various stages of reform in the private pension industry. Jamaica, Barbados, Belize, Bermuda, Cayman Islands and Suriname have enacted specific legislation to monitor and supervise the pension industry. Trinidad and Tobago and the Bahamas are in the process of proposing or have proposed legislative reforms. The rest of the Caribbean countries, including those that have proposed legislation, continue to operate under legislation enacted over decades ago. The Eastern Caribbean Countries are actively working on implementing a unified pension legislative reform.

PENSION REFORM IN JAMAICA

Before delving further into the context of Jamaica's pension infrastructure, it is important to note past events that have influenced reforms in the pension industry and subsequently the development of the current pension system. In this vein, the reform of the private pension industry cannot be mentioned without reference to the financial sector meltdown in Jamaica in the 1990's. This period of instability within the financial sector culminated in significant liquidity and solvency issues among Jamaica's indigenous financial institutions; these led to the implementation of tighter regulations and may have also weakened the confidence of some Jamaicans in the security of the financial system.

As the indigenous market consisted of groups that housed banks, insurance companies and pension funds, adversities within the banking arm affected the entire conglomerate. An extract from the Financial Sector Adjustment Company Limited (FINSAC) states that "by late 1996, the Jamaican Government recognized that the whole indigenous financial system had reached a state of such considerable distress, that the investments of Jamaican depositors, policyholders and pensioners were now at risk."

Consequently, FINSAC was established in 1997 to restore stability to Jamaica's financial institutions given the financial state amongst banks and insurance companies in the 1990s that were experiencing solvency and liquidity problems as well as low consumer confidence.[4]

REFORM OF THE PRIVATE PENSION INDUSTRY

The financial crisis led to the birth of various regulatory reforms in the financial sector. Subsequent to FINSAC, the FSC was established on 2nd August 2001 to monitor and supervise the insurance, pension, and securities industries. The FSC was given broad powers to supervise, investigate and sanction entities falling under its jurisdiction in order to fulfil its main objective of protecting consumers of the financial services. This includes the approval and registration of superannuation funds, retirement schemes, trustees, and responsible officers; and the licensing of administrators and investment managers.

In addition to the FSC Act, the FSC relies on the Pensions (Superannuation Funds and Retirement Schemes) Act, 2004 (the "Pensions Act") and its attendant regulations (the "Pension Legislation"), which came into effect in 2006. Similar to other jurisdictions, Jamaica's private pension industry had previously been largely unregulated with limited oversight from the tax authorities; legislation pertaining to the pension industry was contained in the Income Tax Act, which was concerned mainly with the tax treatment of pension cash flows. Neither were issues such as fund sustainability, pension coverage, and benefit adequacy considered by the legislation of the time; nor were specific matters affecting members' benefits such as late or outstanding contributions, non-disclosure to members, and incorrect benefits.

Neither was there evidence of a strong demand for pension products amongst the wider labour force, nor was it apparent that there was an understanding of the nuanced issues of retirement planning. Coverage by voluntary pension plans was anemic at 5%. Covered persons were mainly salaried workers who participated in employer plans. Self-employed persons and members of the informal economy did not have the same access to pension products.

[4] FINSAC website, (http://www.finsac.com)

Phase I of the pension reform subsequently became effective in 2006. The drafting of provisions to conclude Phase II of the pension reform is now at an advanced stage of completion. Since the first phase of pension reform, pension coverage has increased from 5% to 10% of the employed labour force.

With the reform of the private pension industry, requirements such as: the registration of plans, trustees and their agents; disclosure of pertinent information to members; the inclusion of a member trustee on the board of trustees; broad investment limits; and prescribed reports to be submitted to the FSC have contributed to the industry becoming more transparent and accountable in pension plan management. The FSC uses the submitted reports to monitor and supervise the plans on an ongoing basis for risk assessment of the industry. Trustees and investments managers are now required to prudently invest plan assets within broad investment guidelines prescribed in the Investment Regulations, which among other things minimize related party transactions and encourage diversification of assets. Specific governance regulations are also in place, which guide the behaviour of trustees, sponsors and their agents, with respect to information disclosure to members and matters such as conflicts of interest and complaints resolution. The FSC also conducts onsite examinations of pension plans and licensees and reviews, amongst other things, the governance and operational activities of both plans and their agents.

Although the management of private pension plans has improved over time as a result of pension legislation and the supervision of the FSC; substantive provisions, such as vesting and locking-in that are intended to preserve the adequacy of pensions are excluded from the current legislation. The adverse effects of the exclusion of these provisions from the pension legislation on members' benefits will be discussed in detail as a challenge that may inhibit pension inclusion efforts, if not properly addressed.

REFORM OF THE PUBLIC PENSION INDUSTRY

Jamaica is currently in the process of reforming the government funded pension system that emerged from the recognition that the pension system was fiscally unsustainable. Amidst the economic challenges and in keeping with commitments made to the IMF under Jamaica's Economic and Financial Policies, the implementation of the reform was scheduled to become effective on 1st April 2016.[5] However, the implementation date was revised to 1st April 2017.[6]

Some proposals of the reform include:[7] compulsory contributions of 5% of an employee's salary; the establishment of a segregated fund held in trust; special contributions by the government for a span of 40 years to fund the shortfall; triennial actuarial review; and retirement age increases (with the exception of the security forces).

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[5] Ministry of Finance and Planning, White Paper, "The Reform of the Public Sector Pension System".
[6] McIntosh, Douglas, "New Public Sector Pension Scheme by April 2017".
[7] Ministry of Finance and Planning, White Paper, "The Reform of the Public Sector Pension System".

FINANCIAL SECTOR REFORMS

NATIONAL FINANCIAL INCLUSION STRATEGY

In 2015, Jamaica embarked on a national financial inclusion strategy under the sponsorship of the central bank, the BOJ, with the assistance of the World Bank, acting as consultant to the project.

The rationale for the national financial inclusion strategy is:

- Promotion of economic growth and greater participation in the formal sector and
- Creation of an environment for delivery of cost effective and regulated financial services and products to underserved Jamaican individuals and Micro, Small and Medium Enterprises (MSMEs)

The intended target beneficiaries are low-income Jamaicans, MSMEs, businesses, and individuals operating in the informal sector. The main pillars of the strategy are as follows:

- Financial access and usage through electronic transaction instruments such as card networks, electronic bank transfers, and mobile financial services;
- Financial resilience through introduction of targeted savings, insurance (micro-insurance), and retirement products (micro-pensions);
- Financing for growth through micro-financing, agriculture, and housing finance and
- Responsible finance through enhancement of consumer protection and financial capability.

It should be noted that several pieces of legislation are currently being developed to support the financial inclusion strategy:

- Payments, Clearing and Settlements Act that provides guidelines for new payment services such mobile financial services.
- National Identification System (NIDS) that is set to roll out in January, 2018. This strategic priority comprises a cradle-to-grave biometric identification system with a unique identification number to be used for every Jamaican with appropriate anti-fraud features. It is expected that NIDS will result in improved governance and management of social, economic, and security programmes. As highlighted in other chapters in this volume this will be a critical step in enabling a new approach to digital pension inclusion.
- Develop the legal and regulatory framework and infrastructure to facilitate investment in private equity and venture capital
- Agency banking whereby other non-financial entities may act as agents for banks to extend the reach of financial services

- Micro-Insurance – Up to May 2016, Jamaica had participated in an 18 month long inclusive insurance project. The project, jointly sponsored by the Inter American Bank and the Access to Insurance Initiative, aimed to promote insurance regulations that are conducive to encouraging increased insurance access by the wider population. As a direct outcome of this work, Jamaica is drafting micro-insurance legislation; partnering with the industry through an Inclusive Insurance Committee; and hosting a range of capacity building events targeting industry and members of the micro-insurance target market.

Action items include pension products designed for low-income and informally employed workers (micro-pensions), development of lending programmes by banks and credit unions to serve the agricultural sector, development of a consumer protection framework inclusive of dispute resolution, broadening of the financial literacy programme, data protection, and credit reporting.

CHALLENGES AND **KEY LESSONS**

DEFICIENCIES IN THE EXISTING PENSION SYSTEM

NATIONAL INSURANCE SCHEME (NIS)

Based on the results of an Actuarial Analysis of the Sustainability of the NIS as of 31st March 2013,[8] the scheme was in a deficit position and will be exhausted by 2033 if no actions are taken. The report further highlighted that NIS benefits are inadequate with a replacement ratio of 10% to 11%. It was also noted that, although the plan is considered to be mandatory, it is effectively only applicable to employed people who have to pay income tax. The report concluded that for the scheme to be considered successful, it should have wide coverage, adequate pensions, and be sustainable over the long term. Increases in contribution rates were recommended as a means to bolster the viability of the scheme.

The NIS is intended to contribute to only a part of an individual's pension at retirement. Therefore, contributions to other retirement vehicles are required to promote pension adequacy at retirement. Financial education would alleviate misconceptions regarding expectations surrounding the contribution of NIS to an individual's retirement.

Jamaica has begun to take steps to address some of the deficiencies of the NIS, including the modernization of operations (including new software to reduce processing times) and the establishment of a Reform Committee (comprising representatives of the Ministry of Labour and Social Security and the Ministry of Finance). Additionally, the actuarial report highlights the need for compliance to ensure that all employed Jamaicans contribute to the scheme, as well as comprehensive governance and financial management if the NIS is to

[8] Constance Hall, Eckler, "Actuarial Analysis of the Sustainability of the National Insurance Scheme in Jamaica" (2014).

support the retirement needs of Jamaicans and remain a worthwhile building block for retirement planning.

SUPERANNUATION FUNDS

Despite the strides made in Phase I of the pension reform, substantive provisions have been proposed in Phase II of the private pension reform in order to safeguard and preserve the level of benefits to be received by members (such as vesting, locking-in and solvency, and funding regulations). The implications of the absence of some of these substantive provisions and the effect upon the accumulation of pension by members are quite evident.

Effectively, the small minority who participate in Superannuation Funds are not necessarily lifetime participants in the pension market. It is commonplace for employees, upon leaving employment, to accept a refund of their accumulated contributions. These amounts are often not invested for retirement as originally intended and may be used for consumption purposes. After a lifetime of repeating this practice, it is not unusual for a retiree to find himself/herself with a pension benefit accumulated only during the last few years of employment rather than over his/her entire life.

Additionally, sponsors of Superannuation Funds currently determine the vesting period by which a members will become entitled to the employers' portion of the contributions made on their behalf. On the basis that the vesting period is not set by legislation, the vesting period varies widely; consequently a member may not qualify for the employer's contribution upon termination of employment. Additionally, in some cases, a vested member may forfeit the benefits derived from employer's contributions if the member opts to take a refund of his own contributions upon termination.

In effect, even those workers who were initially counted as members of Superannuation Funds can be included as a members of a Superannuation Funds for only a portion of their working lives due to their own practices. Consequently, a reference to pension coverage statistics at any point in time may not necessarily be reflective of the future but rather a short period of pension inclusion. These loopholes in the current legislation will only serve to stifle pension coverage and inclusion efforts overtime if not properly addressed.

RETIREMENT SCHEMES

The statistics indicate that retirement schemes are grossly under utilized as a means of retirement savings despite their seeming benefits. To promote the importance of retirement planning to the general public, the FSC has been airing advertisements on major television networks and the print media. The 'FSC Minute' which is also aired on television is geared at educating the general population on pension matters. Coupled with the FSC's advertising, licensed entities also advertise the retirement products being offered.

The FSC has refined the provisions governing retirement schemes in its proposal to the Act (Phase II) as described below:

- Allow members of retirement schemes to have concurrent membership in both a superannuation fund and a retirement scheme subject to income tax limits. Currently, members of superannuation funds cannot make contributions to retirement schemes;
- Allow the portability of funds from other jurisdictions; particularly, acceptance of accrued benefits from other jurisdictions; and
- Provide a pension to members under specified circumstances; withdrawal of funds is currently not permitted under any circumstances. Although prohibiting the withdrawal of contributions will encourage the accumulation of contributions to assist in providing an adequate pension, the flip side may be the reluctance of Jamaicans to participate, particularly self-employed persons, who may be in need of funds when faced with extenuating circumstances such as terminal illness.

The retirement scheme, although open to the general Jamaican public, by the nature of the product, may also deter participation for the following reasons:

- The benefits of saving in a retirement scheme may not be understood by the majority despite the advertisements;
- People in the informal sector may not want to be identified by the tax authorities and thereby may opt to save under the radar per se;
- Low confidence in the ability of the financial sector to secure pension benefits may still exist; and
- Fear of providing disclosure requirements as required by the Anti-Money Laundering Act (AML) which requires retirement schemes to request certain detailed information under the Know Your Customer (KYC) requirement such as source of funds and the nature of a customer's business.

The retirement scheme has the capacity to provide widespread benefits to Jamaicans and may be improved upon as a major retirement vehicle in pension inclusion efforts.

THE PUBLIC SECTOR PENSION SYSTEM

In addition to the unsustainability of the public pension system on a whole, the White Paper also cited the erosion of pensions due to consistent high inflation rates, administrative inefficiencies, and legal inconsistencies as specific challenges. Given the current reform initiatives, the challenge lies with how well the implementation will be handled in terms of administrative capabilities (staff and systems) and acquiring or training staff to carry out the technical functions required to manage the operations of the pension plan. High inflation rates affect all pension benefits and any effort by the government to control these rates will be beneficial to all members of pension plans.

PERSONAL SAVINGS

Statistics are limited regarding how effectively Jamaicans, who are not members of a pension plan, are saving for retirement. If the recommendation of the FSC to allow members of superannuation funds to also become a member of retirement schemes is approved, the retirement scheme may also be a means of voluntary savings among these persons.

Given the low pension coverage, Jamaica has to grapple with how best to improve upon the current pension system in order to reach the underserved sector (informal sector and persons who are not in a pensionable job). Additionally, cultural behaviour, low financial knowledge, and the lack of confidence in the financial sector may be underlying factors to be considered.

A look at Jamaica's overall pension system highlights the need for a cohesive approach in addressing the deficiencies noted and to progress towards ensuring that all sectors/persons on the island are considered in the retirement planning process. Jamaica has gone through or is in the process of reforming both the private and the public systems with a view to addressing deficiencies, promoting sustainability, affordability, adequacy, and compliance with the IMF requirements, in some cases.

FINANCIAL EDUCATION

In 2012, the FSC in association with the Organization of Economic Cooperation and Development (OECD) conducted a survey that aimed to measure the financial literacy of Jamaicans, specifically their financial knowledge, behaviour, and attitudes. The study revealed that Jamaicans possess less than an average level of financial knowledge and exhibit even less knowledge on more complex issues. When compared to other countries, Jamaicans scored above average on financial behaviour (approximately 60%), as this relates to long term planning but less so for short term purposes such as payment of bills on time and the use of credit cards as additional income. Overall, the findings highlight that out of four Jamaicans, only one would be considered to possess above-average financial knowledge, behaviour, and attitudes. In comparison to other countries, the report found no distinction between genders in the responses provided.

In 2010, the Caribbean Regional Technical Assistance Centre (CARTAC) partnered with Jamaica's central bank, the BOJ and the FSC to launch its Regional Financial Literacy Programme website and Public Education Programme.

The national financial literacy programme was launched as a means to educate Jamaicans on the importance of financial matters and thereby positively influencing the culture. In keeping with its objective of advancing financial education in Jamaica, the FSC implemented the School's Financial Education Programme in association with Junior Achievement Jamaica in 2011. The programme is largely funded by the FSC in collaboration with other partners who make major contributions towards non-financial activities. The FSC also collaborates with Child & Youth Finance International and

Global Money Week; the programme is structured to provide consistency with these international initiatives. The FSC partners with the central bank, BOJ and the Stock Exchange to facilitate educational tours as part of the curriculum.

The Ministry of Education in 2015 announced its intention to make financial education a part of the school's curriculum, which will allow for widespread infiltration across the island. This is a major boost to the initiative; however, the challenge lies with funding and motivating current workers and the wider community to plan for retirement, to insure properties or self against loss and to utilize credit responsibly.

Other regional financial literacy initiatives have taken place in Trinidad and Tobago and the Eastern Caribbean Central Bank (ECCB). Trinidad and Tobago launched its National Financial Literacy Programme in 2007.[9] The programme covers a broad cross section of the country including financial classes in primary and high schools; employer sponsored "lunch and learn" sessions; financial management conducted by trade unions in instances where employees may have received lump-sum or retroactive payments; financial interventions at the community level and through advertisements in the print and electronic media aimed at providing basic financial information to consumers.

The ECCB spearheads financial education programmes with the view to promoting the understanding and importance of money matters and investing, stimulating discussion on economic and financial matters, creating awareness and interest in emerging financial matters, as well as to encourage the public to take advantage of investment opportunities. The ECCB collaborates with financial institutions, Ministries of Education and Finance, the media and community groups during the month of October to celebrate Financial Information Month. The month forms part of the ECCB's initiatives to promote financial educational programmes for its citizens.[10]

JAMAICANS' COMPETING ECONOMIC PRIORITIES

It remains a challenging prospect to convince constituents – in developed and developing economies alike -- to postpone immediate consumption in order to save for retirement. Recent research into the applicability of the tenets of behavioural economics to this problem is instructive. However, in developing economies, there exist additional challenges that compound common human biases that discourage appropriate retirement preparation.

Notably, for significant numbers of the population stretching their income to span one's working lifetime is not an urgent concern merely because there is not enough to meet even immediate needs. Between 1997 and 2007, Jamaica's national poverty rate declined from 20% to 10%. However, by 2012 this rate was restored to 20%, primarily due to the impact of the global financial crisis. At the time of writing, the poverty rate is near 20% and is highest in the rural areas.

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9 Ewart S Williams: National Financial Literacy Programme of Trinidad and Tobago (2008)

10 Central Bank of the Eastern Caribbean Countries: http://www.eccb-centralbank.org/publicawareness

The very poor, when faced with satisfying their urgent basic survival needs, may not consider saving for old age as one of their highest priorities. After all, the requirement for food and shelter is immediate, while survival to old age is statistically uncertain and, further, the likelihood reduced by poverty. In addition, by saving for a pension, these citizens would actually render themselves ineligible for needs-based social security programs such as PATH, which is payable to recipients over 60 years old who are not in receipt of a pension.

Besides this, maintaining pension savings at the forefront of the minds of the Jamaican middle class is not without its own difficulties. Years of high inflation have eroded the earning power of the Jamaican worker resulting in stagnant and declining real wages over select periods. This in turn has forced prioritization of expenditure that only serves to amplify the fairly common human habit of valuing current consumption more highly than delaying consumption to provide for future needs.

ATTRACTING MEMBERS OF DIFFERENT SUB-SETS OF THE INFORMAL MARKET

Jamaica's informal economy is not at all homogenous: the diverse range of participants includes peddlers to sophisticated entrepreneurs. The IDB's study[11] that estimated the informal sector to be 40% of GDP in 2001 also highlights that work in the informal economy provides its participants with the benefit of a livelihood and hypothesizes that the rapid growth in Jamaica's informal economy in the 1990's likely contributed to the poverty reduction observed during the period. On the other hand, the tax evasive nature of the informal market deprives the government of funds which could ostensibly be used for social benefits. Also, due to the nature of this market – including the lack of formal contracts and full-time work – informal workers are sometimes financially excluded and exposed to hardships as they have no legal protection.

Recommendations to address the informal economy, such as implementing stricter compliance measures and ongoing monitoring of corrective actions were provided. The study concluded that the characteristics of the informal sector should be considered when prescribing new policies or programmes.

THE WAY **FORWARD**

Jamaica has made great strides in strengthening the financial infrastructure around retirement savings, increasing transparency and accountability as well as improving overall education of the general populace with regard to preparing for retirement. Recent reform initiatives in the public sector pension system, the insurance industry, and the national financial inclusion strategy signal Jamaica's ability to respond to the dynamic economic environment and its commitment to improving the quality of lives of Jamaicans.

[11] The Informal Sector in Jamaica-Inter-American Development Bank—December 2006- RE3-06-010

The foregoing discussion, however, highlights the colossal challenge Jamaica faces in closing the pension gap, that is, to address the issues that are preventing underserved Jamaicans from preparing for retirement and to improve upon the existing pension systems.

In rethinking pensions, the nuances of the various underserved groups indicate that a "one size fits all" approach may not work.

Better distribution, or pay-out products, is also important to encourage Jamaicans to become more involved in the retirement saving plans. It is clear that retirement products have to address these factors by giving Jamaicans more control over accumulated savings.

The misconceptions that Jamaicans have toward retirement savings such as perceiving pension as a tax or relying on children as a source of pension should be addressed in order to widen the net of pension participation. It is, therefore, essential that incentives are provided to motivate them toward retirement savings.

It will be important to fully capitalize on the benefits to be gained from implementation of the national financial inclusion strategy as a means of empowering the population to lift itself from poverty, tackling income inequalities, and improving access to finance. Additionally, the financial education programme may be expanded to encourage people to be "pension-smart". When these needs are met, they will begin to see a future that involves retirement planning.

As a part of the solution, policies should be developed to create new pension products that are attractive to all Jamaicans; that will be less expensive to administer, less cumbersome and more convenient than the existing mechanisms of superannuation funds and retirement schemes.

Any proposed system should reward good savings practice. The other chapters in this volume and country case studies provide much food for thought on how best to design simple enrolment, portable and low cost administration, investment at scale with low costs, and good governance that will together build the foundation of the next generation of pension policies in Jamaica.

As in India, solutions that incorporate mobile telephone usage may be employed to encourage the accumulation of pension amongst the underserved. Jamaicans already have a propensity to communicate by mobile phones and have implemented a similar strategy with great success to promote universal internet access. Instead of creating a new network to facilitate pension accumulation, the existing system could be co-opted to efficiently avoid additional infrastructure costs. This would require some modification to the existing legislation and methodology of accounting. It would require the full implementation of the national identification system working closely with assigned individual phone numbers/accounts in order to facilitate an agreed portion of money being accumulated for pension savings, each time mobile credit is applied or by call usage. Since, mobile credit is already recognized as a form of currency, the idea of pension credit may be readily accepted by the population.

Overall, any solution to pension inclusion must take into account the behaviour and economic circumstances of the average Jamaican. It is a tall order but one that may be tackled through a cohesive holistic approach. As discussed throughout this chapter, some jurisdictions in the Caribbean and the wider region may experience similar challenges as seen in Jamaica, particularly regarding the implementing the mechanisms required to include and motivate underserved citizens to participate in deliberate retirement savings. The detailed analysis of Jamaica's pension landscape should encourage other countries to identify unique challenges in their particular country and develop innovative ways of addressing these issues. Through the Caribbean Association of Pension Supervisors, member countries will be able to share and collaborate to find practical solutions that will work within each jurisdiction. Moreover, as this volume shows, there are also important lessons to be learnt from countries near (such as Mexico – Chapter 9) and far (such as India – Chapter 1 and Pacific Island States – Chapter 11) who face unique challenges but may, perhaps, have common solutions.

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