



Government of the Republic of Trinidad and Tobago
MINISTRY OF FINANCE

FEATURE ADDRESS

By

The Honourable Colm Imbert
Minister of Finance

At the Formal Opening Ceremony
Of the new Corporate Headquarters of the
National Insurance Board of Trinidad and Tobago

Tuesday January 31st, 2017

Salutations:

- The Honourable Stuart Young- Minister in the Ministry of the Attorney General and Legal Affairs and Member of Parliament for Port of Spain North and St. Ann's
- Mr. Michael Toney, Chairman of the National Insurance Board of Trinidad and Tobago
- Members of the Board of Directors of the National Insurance Board of Trinidad and Tobago
- Mrs. Niala Persad-Poliah, Executive Director of the National Insurance Board of Trinidad and Tobago
- All members of the Executive Management Team of the National Insurance Board of Trinidad and Tobago
- Representatives of the various Religious Bodies
- Specially Invited guests
- Members of the Media
- Ladies and Gentlemen

As we open this brand new modern NIB headquarters building in 2017, allow me to take a brief look at the history of national insurance in Trinidad and Tobago.

Provisions for pensions in the public sector have been in existence in Trinidad and Tobago since the colonial days - since the 1930s, I am told.

However, the present compulsory and contributory National Insurance System was introduced 45 years ago, in 1972.

The System is financed by contributions from both employers and employees and is designed to cover employees against events of age, invalidity, death, sickness, maternity, occupational accidents and injury.

Although it has been discussed for many years, almost since inception, there are no provisions at present that cover the self-employed, and this matter continues to be under review by the Government because of concerns relating to its sustainability and affordability and the present status of the National Insurance Fund.

The social security system of Trinidad and Tobago has a long history and a history that has also involved a close association with the International Labour Organization. As far back as 1958, the New Zealand Social Security Department assisted the ILO to undertake a survey of the social security measures in place in Trinidad and Tobago and to explore possibilities for the replacement of non-contributory schemes by compulsory contributory schemes.

The ILO subsequently proposed the establishment of a comprehensive scheme of compulsory social insurance that would ultimately cover the contingencies of employment injury, sickness, maternity, old age, death, survivorship, invalidity and unemployment.

Thus, I am told, began the journey to the introduction of national insurance in Trinidad and Tobago. In 1959, in response to a request from the Trinidad and Tobago Government, the ILO assisted with the drafting of a basic social security law and later on in 1967, it developed proposals for a contributory national social security scheme.

By this stage, the Government had decided that any scheme would be universal and compulsory and that financing was to be by way of contributions shared by employers and employees.

In 1969, the Government published for public comment an initial White Paper entitled "Social Security in Trinidad and Tobago: The Introduction of the National Insurance Scheme" for public comment, and subsequently, in 1971, a second White Paper entitled "Social Security in Trinidad and Tobago". These White Papers provided the Basis for the National Insurance Scheme in operation today. The primary enabling legislation, the National Insurance Act, became law in November 1971.

In 1972, the ILO gave further assistance to the Government for the implementation of the new system of National Insurance.

The National insurance system in Trinidad and Tobago was thus established in 1972 after an extended period of almost 15 years of research, analysis, debate and discussion.

Twenty years after the National Insurance Act was enacted, in 1991, the Scheme had 323,000 contributors representing 67% of the labour force at the time. The contribution yield in 1991 was estimated to be \$207 million.

In 2016, now a further 25 years later, annual contributions reached a total of \$4.25 billion, 20 times more than in 1991, and the number of contributors had risen to over 516,000, representing over 80% of the labour force.

Retired persons qualify for either a retirement pension or a retirement grant. Retirement grants are paid to persons who do not qualify for pension. To be eligible for a retirement pension, a person must have attained the age of 60 years and have retired from work. A total of 750 contributions must have been paid or credited, representing some 14 1/2 years of employment. These criteria have remained unchanged almost since inception.

In 1991, the maximum amount of retirement pension payable to a person in the highest earnings class was \$338 a month. In 2017, the NIS pension is \$3,000 per month, almost 9 times what it was 25 years ago.

Rates have been adjusted over time, based on actuarial reviews.

In 1991, there were approximately 31,000 NIS pensioners. Now in 2017, there are 155,000 beneficiaries, including survivors.

As far back as 1991, it was determined that the retirement benefits scheme administered by the NIB was in need of major reform and that in particular, issues associated with overlap with the Old Age Pension system and linkages with the private sector should be addressed. These concerns are as valid today as they were then, 25 years ago,

The efficiency of the system has come a long way over the last 25 years. In 1991, administrative costs took up a very high proportion of the contribution income of the NIB, at 26% of estimated total contribution income. In 2017, administrative costs are now just over 5% of contribution income, which is well within international norms.

However, throughout the years, the actuaries have sounded warnings that urgent action is required if the National Insurance system is to be updated and made relevant to the income security needs of the present and future Trinidad and Tobago population. In 1991, the system was found to be “financially unsound” and the cost rate of the NIB had already exceeded contribution income. At that time, it was projected that by the year 2000, investment income and contribution income would not be sufficient to cover expenditure and investment assets would have to be liquidated to pay benefits! We see the same language in the most recent actuarial reports.

If we fast forward now to 2016 – to protect the financial viability of the NIS, the NIB received parliamentary approval in 2016 to increase National Insurance rates and the maximum insurable earnings, from September 2016.

This was in keeping with the conclusions of the 9th Actuarial Review which recommended a mix of short-term and long-term reform measures to strengthen the national insurance fund in the coming years.

Indeed, when we look at population trends in Trinidad and Tobago, the actuaries tell us that they expect the population to increase from its current level of just over 1.3 million to over 1.4 million in the next 15 years. They also project that number of persons at pensionable age will grow from just under 200,000 at the present time to over 400,000 in 2063, while the population aged 16 to 59 who support the retirees through their contributions, will decrease by almost 25% over the same period. Most importantly, they tell us that the number of working-age persons for each person aged 60 and over will fall dramatically from 4.5 to 1.6 over the projection period.

In addition, the total number of pensioners is projected to more than double by 2063, while the number of contributors will decrease over time. In fact, as people live longer, the ratio of contributors to pensioners is expected to decrease from 3.7 to 1.1 over the next 50 years.

Financial projections in 2013 revealed, NIS funds would be completely depleted by 2030 if contributions were not increased.

As such, in order to protect and preserve the National Insurance system, the actuaries recommended that the Government examine the possibility of an increase in the retirement age from age 60 to age 65 over the period 2025 to 2060.

While I must stress that no decision has been taken on this matter by the present Government, and it is not current Government policy, it is in my view an important matter that requires careful consideration and discussion, since many other countries have gone this way in order to protect the viability their national pension schemes.

Turning now to the performance on the NIB's investment portfolio, in 2016, the yield on investments was less than 2%, compared to 2.6% in 2015.

While there are many factors that have resulted in this low yield, including the local and global economic environment, and historically low returns from equities, bonds and other investments, when compared to the return of the Heritage and Stabilization Fund, which earned a return of 5.8% in 2016, this level of income is not acceptable.

This is especially important, since the NIB is now drawing down on its investment fund to pay benefits.

As Minister of Finance, I therefore intend to actively work with and support the Board in 2017 to see what can be done to assist the NIB to improve its income from investments, including further increasing the limit on individual investments and increasing the limit on overseas investments. In this context, I wish to assure you and the wider national public that the Government will do whatever is necessary to ensure that our 45 year old National Insurance Scheme continues successfully for at least another 45 years, and beyond.

Turning now to the fine building that we are opening today. I am told that the NIBTT contracted Bouygues Batiment Trinidad and Tobago Construction Company Limited (“BBTT”) on December 10, 2014 to design, construct and furnish a Class A, LEED Silver certified mixed-use building at Queen’s Park East, Port of Spain. LEED (“Leadership in Energy and Environmental Design”) is a voluntary, consensus-based national rating system for developing high-performance, sustainable buildings. Developed by U.S. Green Building Council (“USGBC”), LEED addresses all building types and emphasizes state-of-the-art strategies for sustainable site development, water savings, energy efficiency, materials and resources selection, and indoor environmental quality. The project entailed the design, build and outfitting of an exclusive mixed use development marked by a Class A building (office and retail facilities including car parks facilities) to be designed and built to achieve LEED Silver certification. The design brief called for an iconic building that will

integrate into the Queen's Park Savannah.

This attractive modern five-storey building is designed to provide office accommodation for the NIBTT on the upper three floors and generate rental income from the first two floors, with parking for 241 vehicles. It is intended to provide a centralised location for all of NIBTT's Head Office operations and should achieve considerable savings for the NIB in rental expenses. You will have heard further details about the building from previous speakers.

It took just under two years to be fully completed and outfitted and those of us who drive around the Savannah on a daily basis could not help to have been impressed by the efficiency of construction. If I may be allowed to say so, it is one of Bouygues' better projects, on par with the Hyatt Hotel.

The total cost of the project, excluding VAT was \$343 million and I am told that the unit cost of construction was just over \$2,000 per square foot.

At the time of approval by the Board of Directors in 2014, the financial viability of the proposed investment project, the Net Present Value (NPV) and the Internal Rate of Return (IRR) were calculated. The NPV was positive at TTD\$45.23 million whilst the IRR of 9.85% was above the threshold rate of 9.00% required of Real Estate transactions (as per the NIB's Investment Policy Statement).

With the current economic conditions, there has been a decline in demand for commercial office space, coupled with a reduction in commercial rental

rates in Port of Spain. This has affected the Internal Rate of Return calculations.

However, with the savings in the NIB's rental expenditure for its operations at its current scattered locations, aggressive marketing and careful management of the upkeep and maintenance of the building by the staff of the NIB, I still expect the project to yield an acceptable return on investment and I also expect its value will appreciate significantly over time.

I am certain that these new premises will go a long way towards motivating the staff at the NIB to perform at their highest level. I therefore wish to congratulate all those associated with the construction of this new NIB Headquarters Building and now declare the building formally open.