CAF Development Bank of Latin America Webinar on

"Pensions and Health Care Systems":

Challenges posed by aging, technological change and informality

Wednesday June 9th, 2021, at 10:00 a.m.

Keynote Address by the Honourable Colm Imbert M.P.

Minister of Finance, Republic of Trinidad and Tobago

Thank you, Mr., Constantine.

- Dr. Pablo Sanguinetti, Vice-President of Knowledge of CAF
- Mr. Douglas Camacho, Deputy Chairman of the National Insurance Board
- Mr. Gianpiero Leoncini, Representative of CAF in Trinidad and Tobago
- Distinguished panelists and speakers;
- Members of the Media
- Ladies and Gentlemen.

Good Morning.

I would like to thank the CAF Development Bank of Latin America for inviting me to be the keynote speaker for, what I would consider a very timely and especially important discussion on Pension and Health Care systems. I am hopeful that my initial discourse would complement the report being presented by Mr. Fernando Alvarez and would also lay a proper foundation for the subsequent discussion by what can only be described as a well-qualified and eminent panel of experts.

However, it is quite a task to speak in depth about both pensions and health care systems, so in the time allotted, I will focus primarily on the Trinidad and Tobago experience with our national insurance pension scheme. I note in that respect that in the CAF Report on *"Pension and Healthcare Systems in Latin America - Challenges posed by Aging, Technological Change, and Informality",* the authors have written quite extensively on healthcare systems in the LATAM region and on the relationship between aging and healthcare requirements.

In Trinidad and Tobago, when we first launched our National Insurance Scheme (NIS) in April 1972, almost 50 years ago, the scheme offered two benefits – a Retirement Grant and Funeral Grant.

The NIS Retirement Pension was introduced in 1975 and in 1977 the first payment of this Pension was paid to 1,143 persons at a total cost of TT$2 million, or about US$800,000 at the time.

By way of contrast in 2017, 40 years later, according to the 10th Actuarial Report of our National Insurance Board (NIB), Retirement Benefit Expenditure cost TT$3.8 billion or over US$550 million, paid out to 108,116 beneficiaries. It is even more in 2021. Today the NIB provides services to over 588,000 persons and currently offers 23 benefits. However, it faces serious sustainability challenges and risks of reserve exhaustion, whether it is from the expenditure of the NIS exceeding its income or from the assets of the National Insurance Fund becoming depleted within the next 25 years, as projected in the 10th Actuarial Report. The root cause of this problem is that our life expectancy in Trinidad and Tobago, like many other countries, has increased steadily over the last 50 years while birth rates have decreased. The NIB has thus projected that by 2066 the 60-plus population in Trinidad and Tobago will be almost double its current size while the group we rely on to sustain the fund – the 16-year to 59-year age group – will decrease by at least 25%.

In this context, it is noteworthy that in the Report on Pension and Healthcare, the authors made the point that in most countries in Latin America, the proportion of older persons is estimated to have doubled or will double over a period of 20–30 years, but by contrast countries such as, France and Sweden experienced similar growth over a much longer period, i.e. 115 years and 85 years, respectively.

These challenges are not unique to us. According to the Organization for Economic Co-operation and Development (OECD), globally, the main challenges faced by retirement systems include, longevity, the lack of easy access to pension arrangements, low levels of financial literacy and the low-long term growth. Whilst this is not an exhaustive list by any measure, as you would see, these challenges are the main focus of the conference, i.e. the challenges associated with aging, change in technology and informality. This is compounded by the pernicious effects of low long-term growth.

The first topic I would like to touch on today is longevity. This subject is particularly useful for creating a nexus between the themes of healthcare and pensions. Given the unpredictable nature of the current pandemic, the real effects of COVID 19 on mortality and morbidity will not be known for a number of years. As a result, my comments on longevity, are in the context of what the current data supports. Globally, life expectancy has been increasing significantly over the last couple of decades. Trinidad and Tobago is no exception and over the last 50 years, life expectancy at birth of Trinidad and Tobago has grown substantially from 64.8 to 73.6 years.

The UN in fact projects that average life expectancy in Trinidad and Tobago will increase to over 83 years within this century. Whilst many studies show a correlation between improved life expectancy and income level, or access to health care, in my view, the biggest contributor to the increase has been the advancement in medicine and more specifically medical technology. Technological advancement in medicine has also significantly improved the early diagnosis of medical conditions and as a result has completely revolutionized preventative health care. In general, medical advancement has changed the landscape of the medical world at both ends of the spectrum. Infant mortality rates are currently at their lowest historical levels while people are living longer. This has resulted in an explosion of the earth's population from 2.5 billion persons in the 1950s to over 7.8 billion persons today. Now, while I am happy that barring unforeseen circumstances, we can look forward to many more years in our lives, I am also fully aware of the effects that a longer expected life will have on the retirement system of a country, and the implications of longevity risk.

Several international actuarial bodies have defined longevity risk for an individual as the extent to which the person's lifespan exceeds his or her expectancy. For example, an individual may have prepared for retirement by accumulating enough resources to support themselves for 15 years of life after retirement. However, if that person lives longer than expected, they are exposed to the real risk of running out of resources.

From where I sit, as a policymaker, this shortfall in retirement resources by the individual, ultimately increases the obligation on the State for support. Now if we combine this individual's scenario to all members of a working society, you get a sense of the nature and magnitude of the challenge. So how does this risk manifest itself in the real world?

In Trinidad and Tobago, it affects both the social pension systems as well as the occupational pension systems. As previously mentioned, our NIS provides some level of insurance and pension benefits for almost 600,000 persons and the largest portion of that support is in the form of retirement benefits. According to the 10th Actuarial investigation into our NIS, the proportion of persons over the age of 60 being supported by the NIS has been increasing over the years from 11.1% during the 2005-2007 period to 14.2% in the 2013-2016 period. This aging profile, coupled with the longer life expectancy of Trinidad and Tobago citizens, means that the NIS is expected to pay more for a longer period.

As Mr. Camacho will attest, wearing his hat as the Deputy Chairman of our NIB, this creates an additional challenge in relation to the sustainability of the NIS. Longevity risk also affects the occupational pension plans, both public and private. Whilst the specific data showing the exact effect that increased longevity has on Trinidad and Tobago's occupational pension arrangements is not easily available, according to the IMF in their 2012 Financial Stability Report, on average, if persons in a retirement system live three years longer than expected, it will have at least a 9% increase in retirement liabilities.

Further, unlike the 1970s when we first offered the retirement benefit, occupational pension liabilities are now measured in the billions. And in the aftermath of multiple energy price shocks and a seemingly never-ending pandemic, you get a sense of the magnitude of the risk and its financial impact on an economy. In private pension arrangements, longevity risk ultimately increases the actual retirement liabilities which, in turn threatens the funded position of the plan and its sustainability. So, longevity risk, if not addressed properly, has the real possibility of undermining the fiscal sustainability of a country over time. The majority of that risk is borne by the Government. So it is in our best interest to proactively manage this.

Cognisant of these facts, the 10th Actuarial Report on our NIS recommended the implementation of four transitory reform measures to improve the sustainability of our National Insurance Fund. These include:

1. Contribution rate increases in the short term, which while yielding more income for the Fund, are not popular

2. Bringing more equity in the NIS by reducing the pension for those taking their retirement before age 65, an even more potentially unpopular concept. Currently individuals can retire as early as age 60 and still get the full minimum pension;

3. Freezing the minimum pension until it is at most 80% of the minimum wage. At present our minimum pension is equal to 100% of our minimum wage.

4. Increasing the retirement age over a 10-year period from the current 60 years to 65 years of age, from the year 2025. This option allows persons to continue to retire at 60 but at a reduced pension or go to 65 and receive a full pension. The Actuaries have proposed that the pension be reduced by approximately 6% for each year that an individual retires before the increased age of retirement. It is noteworthy that whereas the typical age of retirement in Trinidad and Tobago, both in the public and private sectors, is 60 years, there are some areas in the public sector, notably in Local Government, where the retirement age is already 65 years of age.

However, the initial public feedback on this proposal for increasing the retirement age has been mixed, with some welcoming the opportunity to work for 5 more years and others complaining that an increased age of retirement would adversely affect promotional opportunities with the public service, by making them wait 5 more years to be promoted. Additionally, the idea of a reduced pension at age 60 would certainly be unpopular in many quarters. This issue is therefore still under active consideration, with no firm decision yet.

In addition to the financial effects on the retirement systems, an aging population introduces various infrastructural and developmental challenges. As a population maturity profile increases, countries need to ensure that the necessary support systems are in place to support this vulnerable section of society. This support extends beyond just ensuring proper health management, but also has implications for transportation, social services, and security.

In relation to another theme of the conference, i.e. informality, I wish to address this from a wider perspective. According to the OECD, the challenges associated with informality flow from a large proportion of the population, mainly in emerging economies, having no pension coverage, which exposes them to economic risks.

As mentioned previously, any shortfall in accumulating resources to support retirement may ultimately have to be borne by the State. Therefore, it is imperative for any government to manage this situation properly for the benefit of all citizens. Globally, the majority of informal workers are the self-employed, casual workers, independent contractors, transport providers, domestic workers, and labourers in micro enterprises.

As a government we have been actively monitoring this issue and exploring the possibility of the full incorporation of informal workers into the NIS. Of course, the costs and benefits of incorporating self-employed persons into any national pension scheme must be very carefully examined, since there would in all likelihood be a significant cost at the beginning of any such move.

As articulated in the 10th actuarial valuation review of our NIS, the proposed framework would make it mandatory for all working persons, whether formal or informal, to register and contribute towards the NIS. The benefits of this approach include much needed coverage for the most vulnerable in society, and it is felt that the new contributions from the informal sector will also provide much needed support for the long-term sustainability of the NIS.

Another advantage of the inclusion of the informal sector is the larger and more diversified pool of resources to support future claims. Whilst it may appear that this proposal is a win-win scenario for all stakeholders, the implementation of this initiative does present its own challenges.

In general terms, low-income informal workers have little extra money to put aside for retirement and the resulting pension may be too low for their future needs. Additionally, if they do manage to save, they prefer to keep their savings in a more liquid form to support themselves during hard times or to support other goals, such as funding their children's education.

The uncertain nature of the jobs in the informal sector also motivates many persons in the sector to keep their savings in a liquid form as opposed to a long-term financial vehicle like the NIS. While we must all understand and empathize with the financial realities many people face, I would like to suggest that one of the root causes for this hesitancy to invest in long term savings is a lack of knowledge on the subject matter, the nature of the products being offered, the potential benefits and the underlying risks. The need for the population to be able to understand the financial products available to them is vital. In this context, our government has been supporting various initiatives in relation to Financial Literacy.

For example, our Central Bank manages through the Office of its Financial Services Ombudsman, a National Financial Literacy Program. The Bank has been actively working with stakeholder groups, our Ministry of Education, and the general public to promote a deeper understanding by the public of financial matters.

The last topic of the conference directs me to comment on the challenges with the use of technology in the pension and health care systems. However, instead of focusing on the challenges, I would rather discuss the potential benefits of smart technological deployment.

There is no disputing the positive effects the development and implementation of new technology has had on the longevity of mankind. But the benefits of new technology extend beyond medicine. According to the International Social Security Association, the effective governance and use of technology is key in providing high quality service in a time of growing expectations and demands. The use of new tools such as Artificial Intelligence, Big Data and block chain technologies can improve any aspect of social security, private pension plan or health system administration.

Technology can also play a pivotal role in providing retirement and health coverage to the increasingly mobile workforce, for example by connecting through digital platforms. Many countries have also utilized mobile phone technology in particular to structure financial inclusion type products that are specifically targeted to the more vulnerable in society.

In Trinidad and Tobago, we have witnessed technology being used to conduct health diagnostic transactions over mobile phones during the current pandemic. In these cases, the doctor had electronic access to the necessary information, discussed the matter with the patient and prescribed a course of action and medication. All accomplished through mobile technology. Whilst some of the more advanced tools I mentioned previously, such as block chain technology, may not yet have been fully deployed in Trinidad and Tobago, the events following our first case of COVID-19 back in March 2020 have accelerated many of these initiatives.

Our presence here today at this virtual conference is a sharp reminder of this. So while I am cognizant that we are at different stages of development in relation to technological deployment, I could safely say that this is a road we must all travel on decisively in the near future. However, while we travel along this path, we must ensure that we are fully aware at all times of the risks associated with this fast evolution into a more virtual electronic environment.

I would like to conclude my time on an optimistic note, and hopefully influence in my own way at least some of the discussion that may follow. In the aftermath of World War II, as he worked towards forming the United Nations, Winston Churchill cautioned us to “Never let a good crisis go to waste”. While I would never categorize all crises as ‘good’ I do take to heart what Mr. Churchill meant. If we look past the pain, suffering and hardship associated with any crisis, one can see opportunities. In our case, the global pandemic has accelerated many plans to utilize technology in a more meaningful manner. I am also of the firm belief that this crisis also provides us with the opportunity not only to deploy technology in the health and pensions sector, but also to re-examine these systems. We have a chance to change the products offered or to offer new products that will reach more people. We need to change the traditional structures and the legislation frameworks to facilitate this active evolution, while at all times ensuring that the most vulnerable in our society are protected. We have the opportunity to implement innovative solutions to not only enhance these systems today, but to ensure they are sustainable and fit for purpose for future generations to come.

Please do have a wonderful and successful Webinar. Thank you.