

# The Future of Pension Investments in Barbados

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# History of Pensions in Barbados

Group Annuity Policies – 1950s

Defined Benefit Plan Administration – 1960s

National Insurance – 1967

Segregated Funds – 1969

Deposit Administration Funds – 1970s

Defined Contribution Plan Administration – 1970s

Individual Deferred Annuity Contracts/Registered Retirement Plans – 1980s

Mutual Funds – 1996

Registered Retirement Savings Plans - 1998

# Pension Assets

National Insurance Fund – \$ 4.3 Billion

Other Funds administered by NIB - \$0.2 Billion

Sagicor – \$0.9 Billion

Fortress - \$0.2 Billion

ICBL – \$0.1 Billion

Royal Fidelity – \$0.05 Billion

Others - \$0.15 Billion

**Total National Insurance – \$4.5 Billion**

**Total Corporate Pension Plans - \$1.4 Billion**

# Comparative Statistics

Barbados' Annual GDP - \$8.7 Billion in 2014

Barbados' Pension Assets as a % of GDP – 16%

**OECD Minimum for meeting the definition of a mature pension market – 20%**

Trinidad & Tobago Pension Assets as a % of GDP – 22%

Jamaica Pension Assets as a % of GDP – 21%

Canada Pension Assets as a % of GDP – 71%

United States Pension Assets as a % of GDP – 83%

United Kingdom Pension Assets as a % of GDP – 101%

Source: Pension Markets in Focus – 2014 OECD Publication

# Illustrative Pension Benefits

NIS Ceiling is \$4,360/month or \$52,320/year

Benefit is capped at 60% of final average insurable earnings

Annual salary of \$100,000 per year

Desired pension of \$67,000 per year from age 65

NIS pension at 65 is \$27,625 per annum

Pension required from other sources \$39,375 per annum

Savings required at age 65

Interest	7%	6%	5%
Male	377,084	405,937	438,968
Female	416,422	451,859	492,941

# Typical Corporate Pension Plan Designs

## Defined Benefit

- Benefit at retirement is dependent on final average salary and years of service
- Employee contribution is a fixed % of salary
- Employer pays balance of cost to fund the benefit
- Employee knows what to expect at retirement and Employer accepts the risk of funding the benefit

## Defined Contribution

- Benefit at retirement depends on what the accumulated contributions can purchase at that time
- Employee and Employer contributions are fixed
- Employee is unsure of what their benefit will be at retirement and is therefore at risk. No risk to the employer as cost is fixed.

# Major Risks in a Pension Plan

- Investment Return
  - Funds will not earn a return sufficient to provide a comfortable standard of living in retirement
- Longevity
  - Employee outlives their savings
- Inflation
  - Pension does not keep pace with rising cost of living

# Current Trends

- Employers are discontinuing DB plans in favour of DC plans
- Increasingly Volatile Investment Climate
  - Low returns
  - Defaults in assets previously considered “risk-free”
- Uncertain Employment Market
- Less favourable tax policy to pension investments
- People are living longer
  - A Barbadian male aged 60 on average will reach age 79 while a 60 year-old female will on average live to age 83
- People are having smaller families AND waiting later to have children
  - Dependency Ratios are increasing



# Projected Demographics

## Age structure of the Barbados population

		Year			
		2010	2015	2025	2050
<b>Total Population (000's)--&gt;</b>		280	287	301	314
<b>A g e</b>	To 14	54	54	54	53
	15 to 64	197	201	200	192
	65 and over	29	33	47	68
<b>Child Dependency Ratio</b>		<b>27%</b>	<b>27%</b>	<b>27%</b>	<b>28%</b>
<b>Aged Dependency Ratio</b>		<b>15%</b>	<b>16%</b>	<b>23%</b>	<b>36%</b>
<b>Dependency Ratio --&gt;</b>		<b>42%</b>	<b>43%</b>	<b>50%</b>	<b>63%</b>

Falling birth rates and death rates will put an increasing strain on the government and National Insurance to provide an income for the elderly, making private pensions more critical to the ability of the elderly to support themselves.

# Current Situation & Likely Outcomes

- Pension Funds are not making target returns
  - Surpluses in DB Plans are reducing and more plans are falling into deficit
  - Wind-ups are likely to continue in the foreseeable future especially where employers are under financial pressure
  - Trustees may be willing to accept more investment risk to meet target returns
  - Fund Managers will seek opportunities for geographic diversification of assets and apply pressure to policymakers to allow for additional international investment
  - “Derisking” may be considered with respect to longevity
- Employers will continue to close DB plans in favour of DC
  - Employees will demand greater input into investment policy decisions
  - Plans will increasingly offer employees investment choices

# Current Situation & Likely Outcomes

- Employers will continue to evaluate the cost/benefit of existing and new pension plans
- Employees will evaluate the value of plan membership. A situation could develop where they negotiate for employers to pay benefits in salary that would have previously been allocated to pension funds
- Pension Fund Investments will continue to grow however, as the need for retirement savings remains
- NIS will be challenged to meet contributory pensions in the future. Policy makers will respond with incentives to employers to make their pension plans more attractive and to encourage employees to participate. Incentives for personal savings will be reintroduced

# Final Thoughts

**THANK YOU**