

# 3rd WORLD TO THE 1st WORLD

## A PENSION ACTUARY'S EXPERIENCE IN JAMAICA AND CANADA

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- 1 PUERTO RICO (U.S.)
- 2 VIRGIN ISLANDS (U.S.)
- 3 NETHERLANDS ANTILLES (NETH.)
- 4 ARUBA (NETH.)



# OVERVIEW

## Jamaica

- Simple – under reform
- Inflationary
- Weak leaving service benefits
- Few funding, expense issues
- Hot!!!
- Land of wood and water

## Canada

- Highly regulated
- Low inflation
- Strong minimum benefit standards
- Major funding, expense issues
- Cold!!!
- The great white north

# BACKGROUND AND ECONOMIC ENVIRONMENT

## Jamaica

- Former British colony
- Land area:- Approx 10,800 km<sup>2</sup>
- Population:- Approx 2.6M
- Per capita GDP:- Approx US\$2,500 to US\$3,000
- Exchange rate:
  - US\$1 = J\$50.97 Dec 2002
  - US\$1 = J\$61.90 Jul 2005

## Canada

- Former British colony, with French connection
- Land area:- Approx 9.1M km<sup>2</sup>
- Population:- Approx 32.1M
- Per capita GDP:- Approx US\$31,000
- Exchange rate:
  - US\$1 = C\$1.58 Dec 2002
  - US\$1 = C\$1.24 Jul 2005

# BACKGROUND AND ECONOMIC ENVIRONMENT

## Jamaica

- **Inflation:**
  - 7.3% 2002
  - 14.1% 2003
  - 13.7% 2004
  - 16.7% 12m to May 2005
- **182 day T'Bill yields:**
  - 15.7% Dec 2002
  - 19.9% Dec 2003
  - 13.9% Dec 2004
  - 12.9% Jun 2005

## Canada

- **Inflation:**
  - 2.1% 2004
  - 1.6% 12m to May 2005
- **182 day T'Bill yields:**
  - 2.8% Dec 2002
  - 2.6% Dec 2003
  - 2.6% Dec 2004

# BACKGROUND AND ECONOMIC ENVIRONMENT

## Jamaica

- **Stock market performance:**
  - 17% 2001
  - 34% 2002
  - 49% 2003
  - 67% 2004

## Canada

- **Stock market performance:**
  - -12.6% 2001
  - -12.4% 2002
  - 26.7% 2003
  - 14.5% 2004

# SOCIAL SECURITY

## Jamaica

- NIS – Joint contributions of 5% up to insurable wage
- Insurable wage approx US\$6,500 per annum now (low; govt controlled; rarely adjusted)
- Earnings related pension – 24% of total joint contributions (1.2% of total wages); not indexed
- Flat rate pension – Approx \$US750 per annum now (1.5 \* ERP; govt controlled; frequently adjusted)

## Canada

- CPP/QPP – earnings-related – replace about 25% of year's maximum pensionable earnings (YMPE)
- YMPE approx US\$33,100 now
- CPP/QPP – joint contributions of 9.9% of earnings between threshold and YMPE
- OAS – “universal” (age 65) – replace about 15% of YMPE
- GIS – income-tested benefit to OAS recipients

# SOCIAL SECURITY

## Jamaica

- **Actuarial input**
- **Diversified National Insurance Fund**
- **Poor administration and compliance; low replacement ratio for middle class +**

## Canada

- **OAS and GIS P-A-Y-G funded from general tax revenues**
- **OAS and CPP/QPP benefits taxable; GIS benefits not taxable; OAS benefits also “clawed back” if income high enough**
- **All benefits indexed with CPI**
- **CPP/QPP actuarially sound over the long term**
- **Investment boards for QPP and CPP (more recent)**

# PRIVATE PENSIONS

## Jamaica

- **Historically very simple**
- **Income Tax Department –sole regulator – main emphasis on contributions/benefits as per Income Tax Act – also interested in minimum benefits, but inherent conflict**
- **Inadequate laws and sanctions; under-resourced regulator**

## Canada

- **Overly complicated – Income Tax Act plus 9 provincial and 1 federal pension benefits acts**
- **Income Tax Act – Canada Revenue Agency – taxation and maximum benefits; contributions etc**
- **Pension benefits acts – minimum funding and benefit standards**
- **Federal jurisdiction – crown corporations, banks, transportation, broadcasting, atomic energy, residents of the territories**

# PRIVATE PENSIONS

## Jamaica

- **No pension guarantees (though financial sector bailout)**
- **Post-retirement COLAs and career average upgrades very common**
- **Refunds of contributions on termination/death (often with forfeiture of employer portion) and partial commutation of retirement pensions allowed and common (both tax-free); 100% rule only; 10 year vesting typical (but trend to 5); interest on contributions not prescribed**

## Canada

- **Employees subject to benefits act of province of work – plan registered in and supervised by province with plurality of active members (dictates funding standards)**
- **Maximum contributions of 18% of pay for DC plans; maximum DB pension of 2% of pay per year of service; pay cap of C\$100,000 in 2005; registered plan limits coordinated with RRSP contributions (DB accruals ascribed deemed value)**

# PRIVATE PENSIONS

## Jamaica

- **Maximum joint contributions of 20% of pay (but deficit contributions allowable); maximum pension of 66.7% of pay after 33.3 years of service (for DC plans as well); no pay cap; effectively no IRAs**
- **Triennial valuations required (going concern basis only)**
- **Strong reliance on actuaries for assumptions, valuation frequency, funding pace, compliance etc**

## Canada

- **Going concern and solvency valuations; usually triennial, unless solvency concerns exist (Federal and Ontario)**
- **Assumptions prescribed for solvency valuations**
- **PBGF in Ontario**
- **CICA 3461 for pension accounting (similar to FAS 87)**
- **Examples of differences by province – grow in requirements in Ontario and Nova Scotia; pre-retirement indexation in Quebec**

# PRIVATE PENSIONS

## Jamaica

- **Financial Services Commission recently**
- **IAS 19 recently**

## Canada

- **Some minimum benefit standards – 0 to 2 year vesting; locking in; 50% rule; interest on contributions; J&S pensions for married members**

# PROBLEMS/CONCERNS/ISSUES

## Jamaica

- Insurance sector crisis and response
- Weak regulator/oversight
- Preservation and portability
- Need for IRAs
- Too much surplus?
- Fear of pension accounting
- Just lucky so far?

## Canada

- Too much regulation; multiple jurisdiction issues
- Deficits and costs of funding
- Pension expense concerns
- Funding restrictions
- Surplus asymmetry
- Court decisions

# SOLUTIONS/CONSIDERATIONS

## Jamaica

- **Avoid excessive/over-eager regulation**
- **Minimum standards must recognize culture and economics**
- **Are economic considerations different from international norms?**
- **Few surplus issues (for now)**
- **Still, few new DB plans**

## Canada

- **CAPSA (harmonization among jurisdictions)**
- **Funding flexibility**
- **Surplus clarity**
- **Financial economics**
- **Continued DB demise (inevitable?)**

# ACKNOWLEDGEMENTS

Reference sources for this presentation include, but are not limited to:

- Bank of Canada (web-site)
- Statistics Canada (web-site)
- Bank of Jamaica (web-site)
- Duggan Consulting Statistics
- Watson Wyatt Canada

*Only the first illustration on slide 2 was created by the author.*

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