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Saint Lucia

Report to the Government

Extending pensions to Farmers, fishermen and ex-farmers

International Financial and Actuarial Service
Social Protection Sector, Geneva

Saint Lucia Government Task Force

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Foreword

The Government of St. Lucia established a Task Force on the extension of social security, in 2002, namely to study the feasibility of introducing universal health care, unemployment insurance and pensions to farmers and fishermen. One of its mandates is to determine the feasibility of introducing a pension plan for farmers and fishermen. This is justified in view of the severe shocks suffered from the restructuring of the banana industry. Under a trust-in-fund agreement with the National Insurance Corporation (NIC) of St. Lucia, the ILO has been mandated to analyse the issues related to the introduction of such a new social security scheme. The analysis largely draws on the three surveys conducted among farmers, ex-farmers and fishermen and financed by the European Union. The report focuses mainly on the policy design and basic financing considerations related to the introduction of possible options to ensure that ex-farmers, farmers and fishermen are protected in their old age.

The report is structured into five main sections, conclusions and three appendices. Section 1 describes the economic and social security context concerning farmers and fishermen. Section 2 presents the overall policy framework and considerations for policy-makers. Section 3 presents the main proposal to reinforce NIC coverage amongst farmers and fishermen. Section 4 addresses the shortcomings associated with the possible introduction of a provident fund, an alternative not recommended by the ILO. Section 5 finally presents alternative preferred solutions for the mid- to long-term to introduce a more comprehensive universal scheme to ensure every elderly person in St. Lucia receives sufficient income for a decent living.

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Abbreviations and acronyms

CPI	Consumer price index
CSO	Central Statistical Office
EC$	Eastern Caribbean dollar
NIC	National Insurance Corporation
SLBC	Saint Lucia Banana Company
US$	United States dollar

Currency and exchange rate

The currency in St. Lucia is the Eastern Caribbean dollar.

As of March 2005, 1 US$ = 2.7000 EC$

Acknowledgements

The ILO appointed Mr. Pierre Plamondon, senior consulting actuary for the ILO to undertake this assignment. Mr. Plamondon was in St. Lucia in January 2003 to meet national stakeholders and to collect statistical and other information required to cost possible extension options. One of the findings of this first phase was the insufficiency of the statistical information on the covered groups to allow the design and costing of pension options. Subsequently, three surveys were organized by the Central Statistical Office with the exposure groups. [1] The results were released in the summer of 2004 in the context of three comprehensive reports.

The International Financial and Actuarial Service of the ILO assumed responsibility for the supervision, review and drafting of the final version of this report.

The ILO is thankful to the personnel and management of the NIC and other institutions for the extended support throughout this project.

The Director-General of the ILO wishes to express his sincere thanks to the Director of the National Insurance Corporation, Ms Emma Hippolyte, for the collaboration and assistance provided throughout this project.

[1] Task Force for Farmers, Farm-labourers and Fishermen Pension Scheme (2004): *Analysis of Survey of Farm-Labourers, Ex-Farmers and Fishermen for the Establishment of a Pension Scheme*, NIC Central Statistical Office, July.

Executive summary

Most farmers and fishermen have not contributed to the National Insurance Corporation (NIC) on a regular basis in the past, and have not acquired significant pension entitlements under the provisions of the NIC. At the same time, there has been a steady fall in the number of active banana producers, by far the biggest group of farmers in St. Lucia, commencing around 1993. The decline of the number of banana producers precipitated further in the beginning of the new millennium and production now stands at about half the volume of the middle 1990s. At the same time, the number of banana farmers decreased by more than 55 per cent over the past 10 years from over 8,000 to about 3,600. A significant proportion of the population of farmers and fishermen is now near retirement. This creates an obvious poverty problem notably for the affected older banana producers and affected farm workers who no longer have means of support.

So far, the NIC could not adequately cover farmers and fishermen mainly because of the more general difficulty of the NIC to enforce compliance among self-employed persons. The problem also affects farm labourers for whom employers do not register or transmit contributions to the NIC. It appears that the absence of administrative structures and the generally low level of income of this segment of the population discourages the payment of contributions to the NIC by farmers and fishermen. The result is that farmers, fishermen and ex-farmers constitute the majority of those not covered by the NIC. The Government has now decided to examine the possibilities of making immediate provision for some form of income replacement support at old age for this group and also to investigate how to encourage future generations of farmers and fishermen to make provision for their old age.

This report explores the current context to arrive at possible solutions to the problem with the main aim of remaining within the existing legal and organizational framework of the NIC. Short-term solutions such as providing immediate pensions to the concerned closed group of farmers, ex-farmers and fishermen or to arrange a provident fund – not recommended by the ILO - can be seen as a means to alleviate the greatest hardship triggered by the decline of agricultural activity, notably of the banana industry, but might not provide for a systemic solution of the old age poverty problem of low-income earners, as these are predominantly found among agricultural workers. The various options are summarized below.

In recent surveys[2] the majority of farmers and fishermen (as well as other low income workers) indicated that they were not in a position to afford paying contributions to NIC. In the long term, universal pensions or income-tested social pensions appear to be the most efficient way to provide income support to the population in a systemic way, rather than contributory social insurance pensions. These options are discussed as the ILO's preferred alternatives and more systemic solutions. However, these solutions require further study and research.

[2] Task Force for Farmers, Farm-labourers and Fishermen Pension Scheme (2004): *Analysis of Survey of Farm-Labourers, Ex-Farmers and Fishermen for the Establishment of a Pension Scheme*, NIC Central Statistical Office, financed by the European Union, July.

Attracting farmers and fishermen in the NIC and granting past service credits - proposal for the immediate future

The current NIC provisions should be made mandatory to provide pension income to farmers, farm labourers and fishermen of St. Lucia using the well-functioning structure already in place, while introducing the necessary modifications and/or new resources to ensure an effective implementation.

Legal and administrative reforms are proposed to more effectively attract farmers and fishermen in the NIC, as the national social security system already provides means for their coverage. In addition, it is proposed to pay an immediate pension to farmers and fishermen who have already reached or are close to the retirement age by way of recognizing past service for farmers and fishermen aged 50 and over, through the payment of a special pension payable through the NIC when they will reach the normal retirement age and financed from external sources of funds.

The future participation of farmers and fishermen to the NIC would not require by itself any financing from the government or other external source in future. However, the recognition of past service to persons aged 50 and over would require external financing to limit cross-subsidization from the regular active participants of the NIC. This would take the form of a single payment paid to the NIC who would then assume responsibility to deliver lifetime benefits to concerned farmers and fishermen.

The cost of past service recognition could vary between 15 and 117 million EC$ depending on the choice of grand-fathering provisions (see Table 3.2 reproduced below).

Pension cost estimates for recognition of past service for farmers, ex-farmers and fishermen

Pension formula	*Ad hoc* cost from external sources
10 EC$ per month per year of service (maximum 20 years recognized)	117 million EC$
10 EC$ per month per year of service (maximum 10 years recognized)	49 million EC$
5 EC$ per month per year of service (maximum 20 years recognized)	49 million EC$
5 EC$ per month per year of service (maximum 10 years recognized)	15 million EC$

Alternatively the government could seek to subsidize the contributions of low-income farmers, fishermen and ex-farmers and fishermen beyond the age of 50 years for maximum of 15 years.

Provident Fund for farmers and fishermen – not a recommended alternative

Following discussions that took place during the initial phase of the project, the ILO presents considerations related to the introduction of a provident fund, although it is not a recommended alternative. This alternative consists of creating a distinct retirement savings plan, or so-called provident fund, specifically for farmers and fishermen, based on the defined-contribution approach. This option is presented for illustrative purposes only as *the ILO does not recommend this option* for the following reasons:

– It would be difficult to obtain a substantial contribution to the scheme from farmers and fishermen associations or companies, given their current financial situation and limited contributory capacity. In that case, farmers and fishermen would have to finance the pension plan alone. To get significant pensions at retirement would require very high contribution levels and the level of income of farmers and fishermen appears insufficient such that it is reasonable to assume pension funds available would not permit a decent living at a minimum level.

– The option of a provident fund does not solve the issue of providing pensions to farmers and fishermen who are already at retirement.

– The funds accumulated under the provident fund would need to be invested in a productive way in order to ultimately provide the expected pensions. Given the economic situation of the country, investment opportunities with low or moderate risk may be difficult to find internally and may require overseas investments.

– The existence of a provident fund, separate from the NIC and designed for a specific group of workers, will increase the problem of non-compliance for the NIC and is contradictory to the social security policy and traditions of the country.

– The introduction of a provident fund would require the creation of a distinct administrative system, despite that the NIC could be identified to administer the provident fund, for the recording of contributions, the investment of funds, the conversion at retirement of accumulated funds into pensions and the regular information to be provided to the participants.

Universal pensions or means tested social pensions for the elderly – a preferred long-term alternative

The overall social protection policy of the country needs to be reviewed when addressing the social protection needs of the unprotected groups of the population.

The issue of unemployment cannot be disregarded when addressing the problems of farmers and fishermen. The majority of the present unemployed population is composed of ex-farmers of working age in need of social assistance, job training, etc. The issue of needs in old age should also focus on health care (which are addressed through the public system and the contemplated universal health insurance) and assistance to the elderly with insufficient income. This report focuses on the issue of pensions.

Therefore, it is suggested that the government explores in depth the possibility to introduce either:

– a universal pension for persons aged 65 and over; or

– a non-contributory income tested social pension for persons over 65.

The level of the universal or social pension would be lower than the NIC minimum pension to encourage people to contribute to the NIC. The recommended level of the universal pension is EC$150 per month. The personal income tax system could claim back some of the amount of the universal pension from those receiving sufficient income from other sources after age 65, including the NIC pension. A social pension would only be paid to people who have no other means of income in old age.

The Old-Age Security pension in Canada[3] is a good example of a universal system for the elderly providing a flat pension to all residents aged 65 and over who meet minimum

[3] More information may be found at: http://www.sdc.gc.ca/en/isp/oas/oasoverview.shtml

residence criteria. A study tour to Canada and other similar countries providing universal benefits is recommended.

Towards a comprehensive systemic social protection strategy

Alternative solutions such as the above could become part of a medium to long-term comprehensive social protection strategy to address all of the above lacunae and options in social security, including social insurance and social assistance, in a comprehensive manner. Previous ILO reports and this report, together with the recent surveys carried out on farmers, ex-farmers and fishermen, would be an excellent basis for the formulation of such a strategy. The ILO's International Financial and Actuarial Service stands ready to further assist the St. Lucian authorities in the development of such a strategy in the near future.

1. Context of farming and fishing

1.1. Employment

The issue of pensions for ex-farmers, farmers and fishermen is closely linked to the general situation of the banana industry in St. Lucia where the vast majority of farmers are involved. Much poverty has emerged in rural areas over recent years following the dismantling of trade preferences for banana exports, namely to European countries. There has been a steady fall in the number of active banana producers in St. Lucia commencing around 1993, due to increased competition and falling prices. Banana production fell from 122,927 tons in 1993 to 70,281 tons in 2000. Accordingly, total revenue from banana production decreased from 126 million EC$ in 1995 to 41 million EC$ in 2001[4]. Agriculture and fishing represented 11 per cent of GDP in 1995, but only 6 per cent in 2001.

The farming sectors facilitate self-employment and micro-entrepreneurship activities. The St. Lucia Banana Company (SLBC) has maintained individual records on farmers' annual banana production. The database of the SLBC includes the annual banana production of 11,266 individual farmers for the period 1990 to 2000. Table 1.1 shows that the number of producers has decreased by half between 1995 and 2000. Hence, the reduction of the banana production resulted in the emergence of a large number of ex-farmers considered as self-employed persons.

Farmers are either considered self-employed producers or salaried farm labourers whereas fishermen consist mainly of self-employed persons.

Table 1.1. Number of self-employed banana producers, 1990-2000

Year of production	Number of producers
1990	7 988
1991	8 041
1992	7 857
1993	7 379
1994	7 398
1995	7 184
1996	5 809
1997	5 611
1998	5 258
1999	5 362
2000	3 630

Source: Saint Lucia Banana Company, 2003.

Table 1.2 shows that the difficult economic context has affected not only the banana industry, but the whole agricultural sector at different periods. Fishing seems to have been less affected than the other sectors.

[4] Source: *Economic and social review 2001*, Ministry of Finance, International Financial Services and Economic Affairs, Government of St. Lucia.

Table 1.2. Agriculture production estimates (1993-2002)

Year	Banana production (tonnes)	Production of non-traditional crops (EC$)	Fish landings (tonnes)*	Milk production (EC $)	Cocoa production (lbs.)
1993	122,927	21,299,200	1,114	717,029	119,284
1994	90,909	23,512,257	883	752,547	114,026
1995	105,658	20,861,753	983	721,123	62,612
1996	105,547	21,475,897	1,316	880,249	65,670
1997	71,395	21,413,540	1,312	885,992	66,866
1998	73,219	24,271,473	1,462	836,379	50,579
1999	65,196	21,786,115	1,718	840,544	47,805
2000	70,281	26,094,623	1,860	730,960	46,107
2001	34,205	27,097,891	1,967	398,785	31,072
2002	48,160	17,118,446	1,604	221,685	n.a.

Source: Central Statistical Office, St. Lucia, 2003.

Tables 1.3 and 1.4 present general data on age, sex and monthly income of farmers and fishermen, extracted from the three surveys for this project. The average monthly income of ex-farmers is EC$400 per month, compared to EC$500 for present farm labourers and a level slightly higher for self-employed fishermen. Fishermen appear to be self-employed persons in most cases.

Around 30 percent of ex-farmers and farm labourers are female, compared to only three percent for fishermen. Farm labourers are generally younger than the two other groups.

Table 1.3. Characteristics of the population of farmers and fishermen

Characteristics	Ex-farmers	Farm labourers	Fishermen
Average age	52 years	35 years	45 years
Monthly income (of those at work)	EC$400	EC$500	EC$440 to EC$1430
Percentage of females	27%	33%	3%

Source: Task Force for farmers, farm-labourers and fishermen pensions scheme (2004): Three surveys on ex-farmers, farm labourers and fishermen, CSO, funded by the European Union, July.

Table 1.4. Age distribution of farmers and fishermen

Age	Ex-farmers		Farm labourers		Fishermen		Total	
	Number	Distribution (%)	Number	Distribution (%)	Number	Distribution (%)	Number	Distribution (%)
15-20	84	1.5	308	6.4	63	2.9	454	3.6
21-30	126	2.3	1547	32.2	331	15.3	2004	16.1
31-40	930	16.9	1370	28.5	530	24.5	2830	22.7
41-50	1491	27.1	923	19.2	454	21.0	2868	23.0
51-60	1231	22.4	475	9.9	387	17.9	2093	16.8
61-70	1164	21.2	112	2.3	268	12.4	1544	12.4
71-80	385	7.0	37	0.8	112	5.2	534	4.3
81-90	84	1.6	28	0.7	17	0.8	129	1.0
Total	5495	100.0	4800	100.0	2162	100.0	12456	100.0

Source: Task Force for farmers, farm-labourers and fishermen pensions scheme (2004): Three surveys on ex-farmers, farm labourers and fishermen, CSO, funded by the European Union, July.

It may be interesting to analyse farming and fishing employment in the context of the general labour force data of St. Lucia. Tables 1.5 and 1.6 provide information on the breakdown of the labour force and employed persons (estimated at approximately 52,500 persons). These are estimates calculated from various cross references.

Table 1.5. Labour force of St. Lucia according to the 2001 Census

Population aged 15 and over	105,000
Total labour force	64,500
Employed persons	52,500
Unemployed persons	12,000
Labour force participation rate	61%
Unemployment rate	19%

Source: Central Statistics Office, preliminary Census 2001 results.

Table 1.6. Assumed distribution of the employed population (2001)

NIC contributors (at any point in time during the year)[5]	32,921
Civil servants (permanent)	4,165
Informal sector workers[6] (not covered by NIC)	15,341
Total employed persons	52,427

Source: ILO (2003): Report on issues related to the introduction of unemployment insurance.

Table 1.6 reveals that the number of informal sector workers may be estimated at 15,341. When comparing this figure to the total number of farmers and fishermen (12,456 persons

[5] Assuming that 20 per cent of the NIC contributors are unemployed at any time during the year, then 32,921 persons pay contributions to the scheme on a continuous basis. Some 3,867 non-permanent civil servants are considered included in the number of NIC contributors since they do not participate to the civil service pension plan.

[6] Including self-employed persons not paying NIC contributions.

in Table 1.4), it is reasonable to assume that the population of farmers and fishermen constitutes the major part of the informal labour force not covered under the NIC.

1.2. Social security coverage

The problem of old age pensions, and more specifically the non-coverage under the NIC, affects not only self-employed farmers, but also farm labourers who are employed by farmers. The type of solutions sought should be adapted, however, to the type of farm employment. An overview of the NIC is provided here.

The St. Lucia National Insurance Corporation provides for the following benefits:

- Long-term Benefits including Age, Invalidity and Survivors' pensions.

- Short-term Benefits including Sickness Benefits, Maternity Allowances and Grants, Funeral Grants and Hospitalization and Medical Benefits.

- Employment Injury Benefits including Injury Benefits, Disablement Benefits, Medical Expenses, Death Benefits and Funeral Grants.

Employed, self-employed and voluntary insured persons aged 16 up to the normal retirement age (61 at present) are covered for the above contingencies as follows:

- Employed persons receive protection for all contingencies;

- Self-employed persons receive protection for all contingencies except Employment Injury Benefits;

- Voluntary contributors receive Hospitalization and Medical Benefits, Maternity Allowances and Grants, Funeral Grants and Age Benefits.

Contributions are computed as a percentage of insurable earnings. The contribution rate for employed persons is 10 per cent, of which 5 per cent is paid by the employee and 5 per cent by the employer. Self-employed and voluntarily insured persons are required to pay the full 10 per cent contribution rate.

In principle, self-employed persons including farmers and fishermen can be covered under the NIC by law for all contingencies except employment injury benefits. The amount of earnings on which they contribute is determined by reference to a table defining earnings classes as a percentage of the maximum insurable earnings (ten classes from 10 per cent to 100 per cent of the maximum insurable earnings). The earnings class on which a self-employed person pays contributions must correspond to the actual earnings of that person and this is monitored through interviews undertaken by NIC officers.

Despite the legal obligation to contribute, NIC records indicate that between July 2000 and March 2001, only 104 employers in the banana industry made contributions. According to the three surveys for this project, as much as 80 per cent of farmers and fishermen declare that they do not contribute to the NIC.

Table 1.7. Percentage of farmers and fishermen who pay NIC contributions on a regular basis

Ex-farmers	21
Farm labourers	15
Fishermen	23

Source: Task Force for farmers, farm-labourers and fishermen pensions scheme (2004): Three surveys on ex-farmers, farm labourers and fishermen, CSO, funded by the European Union, July.

The reason generally given by farmers and fishermen for not contributing to the NIC is that they cannot afford to pay contributions. They also mention the lack of information about the contribution procedures and a lack of public information to convince them of the advantages of contributing. These difficulties become evident from the observed low level of income for a large portion of farmers and fishermen. This may explain their low coverage under the NIC. Hence, a very low percentage of farmers and fishermen have acquired pension entitlements under the national social security system. This raises concern since the age of many of the farmers and fishermen in the population is close to the normal retirement age. Moreover, there are many farmers and fishermen who are already retired and who live on a very low income.

As was seen in Table 1.3, the average age of farm labourers is significantly lower than the age of ex-farmers and self-employed fishermen.

Administrative processes should therefore be strengthened within the NIC in order to attract employed farm labourers to the NIC because:

- Their lower age provides them more time to accumulate sufficient pension rights under the NIC before reaching the retirement age;

- They are employed (instead of self-employed), so the individual employed farm labourers pay only half of the contribution in comparison to the self-employed person who must cover both the employee and employer contributions.

It must be recalled that a certain proportion of farmers and fishermen have actually contributed to the NIC in the past. Some of these past contributors will eventually be eligible for a pension from the NIC. The introduction of new pension measures for farmers and fishermen could thus lead to higher income replacement rates for them at retirement. In the design of pension provisions for farmers and fishermen, those former contributors should not be disadvantaged by having contributed to the NIC in the past. Their higher benefits should serve to encourage the remainder of the farming and fishing community to contribute to the NIC.

2. Policy framework for the provision of pensions to farmers, fishermen and ex-farmers

The Government Task Force is currently studying ways to extend the present social protection system by ways of universal health insurance, unemployment insurance and social security extension to unprotected groups, consisting mainly of pensions to farmers, fishermen and ex-farmers.

Recent developments of the economy, namely the restructuring in the banana industry, have significantly affected St. Lucia's social protection system. The role of the Poverty Reduction Fund set up in 1998 must be taken into account when addressing the need for pensions to farmers and fishermen.

A recent study entitled "Poverty Assessment Report-St. Lucia" was conducted for the benefit of The Caribbean Development Bank and the National Assessment Team of St. Lucia.[7] The main recommendations of the study focused on the need to strengthen the St. Lucian economy, to raise more revenues, notably through the introduction of a Value Added Tax. This would provide more resources to the Government for different purposes, namely to deliver better social services to its population. Specific recommendations on the improvement of the social safety net called for the introduction of a system of old age pensions with wider coverage and a national health insurance scheme.

Pensions can basically take the form of contributory pensions (defined benefit and defined contributions), tax financed universal pensions or tax financed social (assistance) pensions. The following sections spell out some of the policy implications of each of the options. But first of all the overall social protection needs in the country are summarized to provide a wider framework for the discussion of pension policy options.

2.1. Identifying their social protection needs

Social protection should address the needs of farmers and fishermen with respect to contingencies listed in ILO Convention 102. In St. Lucia, the main form of social protection in place consists of contributory social insurance pensions (NIC) and benefits to civil servants. Unmet social protection needs can be summarized as follows:

– Income support in old age for groups not covered by the NIC, consisting mostly of farmers and ex-farmers and other vulnerable groups not clearly identifiable.

– Health coverage for persons with limited means. Only a limited number of civil servants receive some form of insurance coverage, whilst NIC contributors get some special arrangements through their NIC membership to a limited extent.

– Income support in case of employment injury for workers not covered by the NIC, consisting mostly of farmers and fishermen. We may recall here that St. Lucia is a signatory party to ILO Convention No. 121 on workmen's compensation for agriculture workers and of Convention No. 17 on workmen's compensation in case of accidents. This coverage should be provided through mandatory NIC coverage for

[7] Kairi Consultants Ltd: *Poverty Assessment Report – St. Lucia*, for the Caribbean Development Bank in association with The National Assessment Team of St. Lucia.

those effectively registered and, to the extent agriculture workers are not generally covered by the NIC, through social assistance benefits.

– Income support for persons with permanent and total disabilities, orphans, etc. Social assistance measures, in kind or in cash, could be an appropriate solution.

– Income support in case of unemployment. One should note that the present problem of large-scale permanent unemployment amongst ex-farmers could not be solved through an unemployment insurance scheme since they have no contribution history. These unemployed ex-farmers need social assistance either in the form of cash payments or benefits in kind, like vocational training, job placement or public works projects. Social assistance for these people may be too expensive at present. The Poverty Reduction Fund appears to be addressing these critical issues through specific activities targeted at income generation, strengthening the National Skills Development Center and other projects to reinforce employment.

– Family support not directly tackled by social insurance or social assistance (other than the education system).

A comprehensive strategy should be formulated to address all the above lacunae and option in social security in a comprehensive manner. The ILO reports and the recent survey results would be an excellent basis for the formulation of such a strategy. The ILO's Financial and Actuarial Service has offered assistance to the St. Lucia authorities in the development of such a strategy in early 2005. However, this report concentrates on pension solutions for a large part of the uncovered population. Some core elements of pension policy are discussed below.

2.2. Contributory pensions for those who can afford them?

Contributory pension provisions are of two general types. Under a *defined-benefit* plan, benefits are established in advance by a formula and the contribution rate is adjusted over time to ensure the scheme is viable. The NIC provides defined benefit pensions at present. The pension formula generally takes into account the length of the contribution period and it is easy to incorporate a protection for cost-of living increases after the pension becomes payable. The level of contributions may be determined by projecting future expenditures over a sufficiently long period. The cost of the scheme must be reassessed periodically and the level of contributions may vary from time to time. This provides one of the best solutions to governments to achieve income replacement and income redistribution but only to the extent that workers and employers register and contribute according to the law. The desired level of funding (proportion of total liabilities supported by real assets) will depend on the size of the scheme and on the entity that supports it. For a scheme supported by the government, full funding is not required because of the financial guarantee offered by the government in case of insufficiency of funds. However, if the scheme covers only a small part of the labour force, and if compliance is not guaranteed, the level of funding should be high enough to ensure equity between various generations of participants.

Under a contributory *defined-contribution* plan, the amount of the periodic contribution is determined by a formula (generally as a percentage of earnings) and the benefit is treated as the variable factor. The contributions of the participant accumulate in an account identified to the individual participant and the account is converted into a benefit at the occurrence of a specified event (old-age, death or disability, for example). The rules for conversion are established in advance. The defined-contribution approach is simple for the contributors and for the administrator of the scheme, and has a fixed commitment in terms of contribution levels, but it leaves workers very vulnerable to interest and investment risks over time. The scheme is continuously in a full-funding status (on an individual basis) so that the non-payment of contributions for certain periods by an individual does not affect the rights of the other participants nor the cost that future contributors will have to support. On the other hand, the risk related to the pace of accumulation of the account (rate of return) in a defined-contribution plan is supported by each individual participant who has no idea of the level of their future pension until the time they retire, depending on the market conditions at that time. Non-payment of contributions for certain periods significantly affects the eventual level of the benefit. Depending on the conversion mechanism adopted to determine the level of individual pensions, a drastic change in the level of interest rates just before retirement may cause a drastic change in the level of the old-age pension. It is also observed in this type of scheme that new retirees often chose a form of pension not automatically adjusted with the cost-of-living, or chose lump-sums or phased withdrawal, thus putting pressure on the government for supporting them when their income gradually becomes insufficient. Guaranteed cost-of-living adjustments are difficult to attach to this type of benefit because of the frequent unavailability of suitable supporting investments.

2.3. Tax-financed pensions: Universal pensions or social pensions?

Universal pensions have the advantage of reaching the whole population with simple eligibility criteria. Universal pensions are usually financed from government's general revenue and the personal income tax system acts as the regulator of income levels under this approach (part of the benefits may be clawed-back through the income tax system for persons with higher global income). They generally function as a first tier under a contributory social insurance scheme. They thus can assume all the redistributive functions of the social insurance scheme while that can concentrate on providing strictly income related benefits.

Social assistance or social pensions are non-contributory pensions which are only paid to persons above a certain age or disabled persons who have no other means of pension income (or in some cases other income). They are tax financed and a social assistance type of anti-poverty device. Generally they are income but not means-tested (i.e. only the person's income but not the personal or family assets are taken into account when granting pensions). Social pensions obviously require fewer resources but they may also create negative incentives for low-income workers to join the contributory scheme. Social assistance schemes generally operate in parallel to social insurance schemes and could even be administered by these, such as the NIC. That is the case, for example, in Cyprus.

2.4. A possible long-term systemic solution for St. Lucia ?

A longer-term ideal solution to the pension coverage problem of farmers and fishermen in St. Lucia could be a combination of the immediate solution discussed above to provide some form of *ad hoc* pension rights under the NIC and a long-term more systemic solution as follows:

– In the immediate future, recognizing past service of farmers or fishermen who are near the retirement age through the payment of the ad hoc pension financed from external sources;

– Introducing a universal old age pension payable from a set age, such as 65, based on residence criteria in order to reduce poverty among the elderly. The design of the universal pension should be consistent with the personal income tax system in order to allow the possibility to recover pension payments from persons with high global income. Maintain the NIC as a second tier scheme topping up basic universal pensions with strictly income related benefits;

– Attracting more farmers, fishermen and farm workers to the NIC, which already provides measures for their coverage. The inclusion of self-employed persons may require new contribution procedures and monitoring specifically adapted to their situation.

3. Enhancing NIC capacity to reach farmers and fishermen - *Proposal for the immediate future*

Farmers and fishermen, like other self-employed workers, can be covered under the NIC. This provides a good basis for a coverage strategy for those who can afford paying NIS contributions from that group. At present, NIC coverage of farmers and fishermen remains low.

This option focuses on effectively attracting more farmers and fishermen into the NIC and at the same time provides for a pragmatic solution for the near future for the elderly farmers and fishermen who did not contribute or have been put out of work due to the recent restructuring in the agricultural sector.

3.1. Mandatory versus voluntary coverage

In general, compulsory coverage has the advantage of providing pensions to all eligible persons and relieving the government of the need to eventually supplement income at old-age for those who have not taken advance action in view of retirement. However, compulsory coverage does not guarantee that all eligible persons will contribute, and this is observed with regard to the participation of farmers and fishermen to the NIC. Compliance among farmers and fishermen is indeed very low under the NIC.

Voluntary coverage, even for groups that are difficult to reach, is not recommended. The link between the value of contributions paid and the value of benefits eventually collected needs to be tight in order to avoid cross-subsidization between different groups of contributors and to ensure equity. Voluntary coverage would then naturally lead to a defined-contribution (fully-funded) type of plan. The experience of other countries where voluntary measures have been in place show in nearly all cases the failure of this approach to achieve meaningful income replacement protection and the high administrative cost associated with low coverage. The ILO does not encourage this route.

3.2. Measures to facilitate contribution payment by the self-employed

Given the existence of public pension scheme provisions in St. Lucia, the most feasible and equitable avenue to provide pensions to farmers and fishermen is to effectively apply the present social security law and to attract them into the NIC. Provisions already exist under the NIC for the participation of self-employed persons, but the main problem is one of compliance to register and to pay mandatory contributions. Attracting farmers and fishermen to the NIC would not require the introduction of a new separate scheme and administration for providing pensions for this specific group of workers, thus avoiding the cost, overlapping and lack of coordination that this would entail.

A way to improve coverage and compliance among farm producers and fishermen would be:

– to involve farmers and fishermen associations/companies in the contribution collection process;

– to design specific rules and adapt the contribution collection process to better account for the situation of farmers and fishermen, for example the computation of contributions could be done on the exact basis described in the next paragraph below or it could be facilitated by using a limited series of flat contribution amounts (corresponding to benefits) instead of using percentage of declared earnings (cf.

below); contributions could be collected one to three times a year to coincide with periods when earnings are received by farmers and fishermen. Other measures could be expanded once more details on the actual earnings patterns of farmers and fishermen are known;

– to strengthen the NIC capacity to register, collect, inspect and provide benefits. This could be done by recruiting additional NIC officers specifically trained to the farming and fishing environment.

– to do more public information. In particular, to inform farmers and fishermen of the advantages of contributing to the NIC, even if registration comes at an advanced age (see Box 3.1) and to arrange for regular public consultations to seek their views.

To determine the amount of contributions to be paid by self-employed farmers, one could use a percentage of the farmer's income from the production of the farm. In order to stabilize the amount contributed over the year, monthly earnings could be averaged over a period corresponding to the previous calendar year and the farmer would pay a monthly contribution equal to the prescribed contribution percentage (presently 10 per cent) of one twelfth of his/her annual income. The amount of the monthly contribution would be stable for the whole calendar year, based on this calculation. Contributions would be collected by farmers/fishermen associations and remitted to the NIC on a monthly or less frequent basis. A statement would be sent annually from the NIC to the farmer, showing the amount recorded on his/her name under the NIC. The information statement would improve the credibility and control aspects of the procedure. Other facilitated approaches could also be adopted to ensure ease of administration for all parties.

Box 3.1. NIC public information strengthened – Advantages for workers registering even at an advanced age

Convincing farmers and fishermen to register and contribute to the NIC at an advanced age may represent a problem. In practice, these persons consider that they do not have time to accumulate sufficient credits to receive a decent pension and prefer to use other means of savings or not saving at all. This is misinformation as they may not realize, unfortunately, that the NIC provisions are most favourable to persons who start contributing late in their career, as a person reaching the age of 60 needs only 15 years of paid contribution to receive a generous lifetime old-age pension (taking account of the recent change to the NIC provisions and the transition period up to year 2012).

In addition, the pension formula provides a higher benefit annual accrual rate per year of contributions in the first 15 years of covered service: an insured worker accumulates a lifetime pension equivalent to 2.67 per cent of his average earnings per year of contribution during the first 15 years whereas he/she accumulates only 1.2 per cent per year of contributions after 15 years of covered service. For example, a farmer who starts contributing at the age of 45 may get a pension equal to 40 per cent of his pensionable earnings (best 5 years) starting at age 60 until he and his potential survivors are deceased. This represents an excellent return on the contributions made. Those who will reach the age of 60 before 2012 will have an even better "benefits/contributions" ratio (because of the transition period). NIC contributions may also open the right to invalidity and survivors' pensions and to sickness benefits, which represents an additional incentive to contribute.

The NIC is strongly encouraged to develop a wide scope public information campaign to explain the eligibility conditions and pension calculations to the farmers and fishermen. This would help to attract them into the NIC. This should be coupled with new measures to strengthen its services in the farming and fishing industries.

It must be recalled that the problem of non-participation affects not only the farmers (producers) but also their paid workers (labourers). Each farmer hires on average three workers (permanent and occasional combined) according to the national surveys conducted in 2002-2003, and only 2 per cent of farmers provide NIC coverage to their employees. The new proposed collection process could thus be extended to include the farm paid workers as well, although their mandatory coverage as salaried workers may differ in legal terms. In that case, the earnings used for contribution calculations would be the actual salary of the paid worker, and the farmer would have to contribute to the NIC as an employer. The farmers/fishermen associations would be involved in the collection of those contributions on behalf of paid employees, using the same procedure as the one proposed for the contributions of farmers and fishermen.

Overall, a consolidated and coherent approach must be developed to ensure the effective coverage of farm labourers, farm employees and fishermen.

3.3. Extending NIC benefits to the self-employed

As discussed in Section 2 (Policy framework for the extension of social security pensions to farmers, fishermen and ex-farmers), self-employed farmers and fishermen suffer from a serious lack of effective coverage in case of employment injury, illness or death, in addition to the need for income support in old age. Hence, their coverage under the NIC could include not only old-age pensions but also a protection in case of work-related accidents (for income and health care support).

The extension of the protection offered by the NIC to farmers and fishermen as regards employment injury should encourage their participation in the NIC and increase the general coverage rate of this group. The next actuarial review of the NIC should determine whether the cost of the employment injury benefit branch would increase significantly as a result of the coverage of self-employed farmers and fishermen for that risk.

3.4. Measures to facilitate the coverage of dependent employees

The NIC coverage is low not only among the self-employed farmers and fishermen, but also among farming and fishing dependent employees (e.g. farm labourers). The provisions of the law are clear on their mandatory participation, however the enforcement of the law could be facilitated by:

- Information campaigns focused on the advantages of NIC participation, including not only the old-age pension aspects, but all features of the system, including sickness, maternity, employment injury and other benefits available from the national social security system.

- Increasing the number of inspection visits on work premises to look at the correct application of the law.

The problem of NIC contribution collection for farm labourers and dependent fishermen is linked to the more general issue of income tax collection and the determination of taxable income for sectors of the economy that can easily escape the payment of taxes and contributions. Exchange of information with the taxation authorities could be a way to improve coverage of farming and fishing dependent employees under the NIC.

3.5. Recognition of past service under the NIC

The government may want to recognize the role of farmers and fishermen in the development of the economy of St. Lucia, stressing that periods of financial hardship may have contributed to the fact that they did not pay contributions to the NIC. A formula can be devised to recognize past service under the NIC for persons who have produced in agriculture or fishing during certain periods.

Before specifying the proposed benefit formula, as presented later in this section, it must be recalled that:

– A few farmers effectively paid contributions to the NIC in the past and the formula (cf. below) must be equitable to them by not cancelling their past contribution efforts, and

– The present benefit formula is already generous (cf. below) for those who would start contributing late in their career. Consequently, any past service credit should not generate excessive pension amounts compared to what other groups may get from the general provisions of the national social security system.

Table 3.1 presents the population of farmers and fishermen according to the number of years of service. It may be observed that out of a total population of 12,456 persons, 68 per cent have more than 10 years of service. The average length of service is longer amongst fishermen and ex-farmers as compared to farm labourers as should be expected, since the majority of latter are still at younger working ages.

Table 3.1. Distribution of farmers and fishermen by years of service

Years of service	Ex-farmers		Farm labourers		Self-employed Fishermen		Total	
	Number	Distribution (%)	Number	Distribution (%)	Number	Distribution (%)	Number	Distribution (%)
1 - 5	553	10.1	1497	31.2	171	7.9	2222	17.8
6 - 10	553	10.1	1039	21.6	177	8.2	1768	14.2
11 - 15	896	16.3	758	15.8	320	14.8	1974	15.8
16 - 20	896	16.3	645	13.4	257	11.9	1798	14.4
21 - 25	637	11.6	262	5.5	234	10.8	1133	9.1
26 - 30	645	11.7	224	4.7	253	11.7	1122	9.0
31 - 35	427	7.8	112	2.3	177	8.2	716	5.8
36 - 40	427	7.8	168	3.5	87	4.0	682	5.5
41 - 45	201	3.7	37	0.8	136	6.3	374	3.0
46 - 50	201	3.7	28	0.6	130	6.0	359	2.9
51 or Over	59	1.1	28	0.6	221	10.2	308	2.5
Total	5495	100.0	4798	100.0	2163	100.0	12456	100.0

Source: Task Force for farmers, farm-labourers and fishermen pensions scheme (2004): Three surveys on ex-farmers, farm labourers and fishermen, CSO, funded by the European Union, July.

Past service recognition for farmers, ex-farmers and fishermen faces the practical issue of identifying the workers who would benefit from these special measures and verifying the information on the actual service accomplished a long time ago. For these reasons, this approach is not the one preferred by the ILO. However, some costing is presented below if it is decided to retain that option.

Recognition of past service for farmers presently aged 50 and over would consider that farmers younger than 50 will have enough time to contribute sufficiently to the NIC before retirement, and notably to acquire the right to the NIC minimum pension at the time they will retire (some of them may need to retire at age 65 or pay voluntary contributions in order to get the minimum of 15 years of contribution). According to the 2004 national survey, 2,094 farmers and fishermen are aged 51 to 60 and 2,208 are aged more than 60 (see Table 1.4).

Illustrative pension formulas to recognize past service credits

One simple procedure for the recognition of past service would be to grant, for example, an additional pension of 10 EC$ per month for each year of recognized service as a farmer or fisher, with a maximum of 20 years recognized. Such a formula would provide a pension equivalent to the NIC minimum pension of EC$200 per month to all farmers presently aged 60 and over (those who presumably have devoted most of their career to farming). Farmers presently aged between 50 and 60 would also be eligible to past service recognition, but they will need to pay contributions to the NIC on a continuous basis until retirement (as long as they get earnings from farming or fishing) in order to be eligible for the special pension. The extension of the past service recognition to farmers aged 50 and over would ensure that all of them receive at least a basic pension from the NIC, since a period of ten years of contribution is not sufficient to acquire the right to an old age pension under the NIC.

The cost of these measures, to be funded from external sources, has been determined as the present value of the additional pensions less the value of the contributions[8] that will be paid by farmers and fishermen from the date of introduction of the measures until they reach the age of 60. A transfer of funds equal to the cost of the special pensions will have to be deposited with the NIC at the time of the introduction of the measures, so that the NIC is in a neutral state as regards these additional pensions.

On the basis of the information available from the 2004 national survey, a single premium equal to 117 million EC$ would be required to finance the past service under that scenario for the 4,302 farmers and fishermen aged 50 and over.

Other formulas may be devised to reduce the cost of the measure, as shown in Table 3.2. For example, if the number of years of service recognized is limited to 10 instead of 20, then the single premium to be paid to the NIC would be reduced to 49 million EC$. Alternatively, if the amount of the pension is fixed at 5 EC$ per year instead of 10 EC$ (with 20 years recognized), then the lump sum to be paid to the NIC would also be 49 million EC$. If the service is limited to 10 years and the amount per year reduced to 5 EC$ per year, then the single premium is reduced to 15 million EC$. All these scenarios cover the same population of 4,302 farmers and fishermen.

Table 3.2. Pension cost estimates for recognition of past service for farmers, ex-farmers and fishermen[9]

Pension formula	*Ad hoc* cost from external sources
10 EC$ per month per year of service (maximum 20 years recognized)	117 million EC$
10 EC$ per month per year of service (maximum 10 years recognized)	49 million EC$
5 EC$ per month per year of service (maximum 20 years recognized)	49 million EC$
5 EC$ per month per year of service (maximum 10 years recognized)	15 million EC$

Alternatively the government could seek to subsidize the contributions of low-income farmers, fishermen and ex-farmers and fishermen beyond a certain age and up to a maximum of 15 years. However, this could reduce their incentive to contribute to the NIC by their own means and would require a perfect functioning of the income tax system also for that income bracket and professional group.

[8] The value of the contributions they will pay in the future is subtracted here because most of them will not have enough time to be eligible to the NIC pension (they will need 15 years of contributions if they retire after 2012), so the contributions they will pay until retirement is a net gain to the NIC.

[9] The costs of the various options are not proportional because they are reduced by the value of future contributions paid by farmers before retirement. The total value of these future contributions is estimated at 19 million EC$.

4. Provident Fund for farmers and fishermen – *Not a recommended alternative*

An alternative approach consists of creating a distinct pension plan specifically for farmers and fishermen, based on the defined-contribution approach (provident fund). This option is presented for illustrative purposes only and reflects discussions that took place during the initial phases of the project. It represents an alternative to the defined-benefit approach described in the preceding sections, considering the difficulties encountered in the past in attracting farmers and fishermen to the NIC. *The ILO does not recommend this alternative* for the reasons specified in Section 4.2.

4.1. Possible features

The provident fund would have the following characteristics:

– The provident fund would be compulsory for farmers and fishermen registered with an association, cooperative or company.

– An individual account would be created for each covered person where contributions would accumulate until the event of old age, death or invalidity.

– The amount of contribution would be flexible, the individual farmer/fisher having the choice to pay a contribution between 3 and 8 per cent of his/her revenue from the sale of his/her produce to the association. The association would pay a matching contribution. The association would collect contributions.

– Contributions would be recorded in an account identified to the individual farmer/fisher.

– Contributions would be invested in various types of funds with varying levels of risks, at the choice of the farmer/fisher.

– At retirement, the funds accumulated in the individual account would be converted into a life annuity, with specific requirements in terms of survivors' protection and indexing.

– In case of death before retirement, the accumulated account would be paid to the estate or designated beneficiary.

– In case of invalidity before retirement, the accumulated account could be cashed out or paid in the form of an annuity.

– The retirement age would be flexible and could take place at any age from age 60. Given the nature of a provident fund, a shorter period of contribution would be translated into a lower pension.

In order to provide a minimum level of pension to those farmers/fishermen who are presently near the retirement age, seed money would be used to fund the initial accounts, based on certain criteria. The identification of the persons who would be eligible for this initial funding remains an issue.

It would be possible to allow farm paid workers (labourers) to contribute to the provident fund under the same conditions as those applied to producers.

Table 4.1. Illustration of replacement rates resulting from various contribution levels under a provident fund

Contributions as a percentage of earnings (shared equally between the farmer/fisher and the association)	**Period of contribution**	**Resulting pension as a percentage of final earnings***
6	From age 20 to age 60	24
16	From age 20 to age 60	63
16	From age 40 to age 60	27

*Note: Pensions are assumed to continue at 60 per cent to the surviving spouse in case of death of the pensioner and pension indexed annually on CPI.

4.2. Principal shortcomings

The ILO does not recommend this option for the following reasons:

– The present NIC was introduced in the 1970s to replace the former National Provident Fund, which was perceived as not suitable to meet the social security needs of workers in St. Lucia. Introducing a provident fund in 2005 for farmers and fishermen may send conflicting messages to the population.

– Given the financial situation of farmers and fishermen associations or companies, it would be difficult to obtain a substantial contribution to the provident fund from these organizations. In that case, farmers and fishermen would have to finance the pension plan alone.

– To get significant pensions at retirement would require very high contribution levels (see Table 4.1). For example, the farmer and the association would need to pay a combined contribution of 16 per cent of the earnings from age 20 to age 60 in order to finance a pension at retirement representing 63 per cent of the final earnings. Moreover, it must be recalled from the survey's data, that 57 per cent of farmers and fishermen are more than 40 years old. An annual contribution of 16 per cent of earnings from age 40 to age 60 would generate a pension representing only 27 per cent of final earnings. The introduction of a provident fund for farmers and fishermen would thus require a substantial initial funding from external sources to ensure those currently at older ages and already retired receive some decent income support immediately. For example, a farmer aged 40 with annual earnings of 12,000 EC$, an initial allocation of external funds of 28,000 EC$ would need to be deposited in the individual's account to provide a replacement ratio at retirement of 50 per cent of his/her final earnings, given that the person would thereafter contribute 16 per cent of his/her earnings from age 40 up to the normal retirement age to the provident fund. At the age of 50, the initial grant would need to be 53,000 EC$ in order to reach the same replacement rate of 50 per cent at retirement. For example, our initial lump sum allocation of external funds of 50 million EC$ shared among 3,000 farmers would mean that only 16,667 EC$ would be available for each individual. This is clearly insufficient to obtain significant pensions at retirement.

– The option of a provident fund does not solve the issue of providing pensions to farmers and fishermen who are already at retirement. Using seed money to provide immediate pensions to retired people would prevent the use of those funds to finance the initial accounts of the provident fund.

– The funds accumulated in the provident fund would need to be invested in a productive way in order to ultimately provide the expected pensions. Given the economic situation of the country, investment opportunities with low or moderate risk may be difficult to find internally and may require overseas investments.

– The existence of a provident fund, separate from the NIC and designed for a specific group of workers, may increase the problem of non-compliance for the NIC. Other groups may find that, on equity grounds, they should be offered the same treatment. Pressures may become strong to eventually enlarge the coverage under the provident fund to include other groups of self-employed persons. Pressure may also come from current NIC contributors who may be attracted by the defined-contribution approach (with individual accounts) despite the major risks inherent to this type of pension plan.

– The introduction of a provident fund would require the creation of a distinct administrative system (even if the NIC could be identified to administer the provident fund) for the recording of contributions, the investment of funds, the conversion at retirement of accumulated funds into pensions and the regular information to be provided to the participants.

5. Universal pensions or social pensions for the elderly – *Preferred long-term alternative*

5.1. Coverage considerations

It is anticipated that the contributory capacity of farmers and fishermen to the NIC will continue to be limited in the future. The issue of a lack of NIC coverage for this segment of the population will thus remain and will result in an increasing number of elderly poor amongst farmers and fishermen reaching the retirement age. Contributory social insurance may not be a stand-alone solution for a large proportion of farmers and fishermen as their earnings are generally low so they cannot afford to pay contributions to the NIC at the rate of 10 per cent. A more appropriate approach may be to look at universal benefits for the elderly or social assistance benefits for the elderly with low income.

Non-contributory universal pensions may be administered through a simple system. The eligibility criteria can generally be limited to age and residence so benefits would be provided to all residents. The normal way to finance those benefits is from government's general revenues. Coordination with the personal income tax system allows the possibility of recovering pension payments from high-income persons, thus reducing the cost of the universal pension scheme.

The second option provides for a smaller coverage by introducing social assistance pensions targeted at vulnerable elderly groups. Most of the elderly needy consist of ex-farmers, former self-employed farmers and fishermen but there are other vulnerable groups who also need income support. A social assistance pension scheme would take care of those other vulnerable groups even if they were not clearly identifiable at the present time.

The introduction of universal old-age pensions or social pensions would call for a major shift in St. Lucia's pension policy and would likely require a major reform of its system affecting the NIC. The ILO recommends that a separate feasibility study be undertaken to focus on universal pensions for the elderly. It should review the suitability of the present NIC provisions to all population groups, the basic needs of the elderly and what could be afforded in fiscal terms. This would require a careful review of the implications on the present NIC provisions as the Government of St. Lucia currently studies the possibility of providing pensions to older farmers and fishermen. In the case of social pensions, equity and incentive concerns may arise with respect to other unprotected population groups, especially those who are old and poor. Such concerns would be lesser with respect to universal pensions. The following sections concentrate on universal pensions, as these would be the more costly solution.

5.2. Universal pensions

The level of the universal pension should be sufficient to meet basic needs as normally recognized through the national poverty line. At the same time, the old-age universal pension should be lower than the NIC minimum pension in order to avoid discouraging workers from registering and contributing to the NIC. The poverty line assessed by Kairi Consultants Ltd in their *Poverty Assessment Report* (see footnote 6) is EC$156.37 per month. Hence a universal pension of initially EC$150 could meet the first objective. Moreover, this level of universal pension would be lower than the NIC minimum pension of EC$200. The universal pension should be indexed annually in line with the Consumer Price Index (CPI).

The universal pension would be paid to all persons aged 65 and over who meet a minimum residence criteria such as, for example, the provision of full pension for 40 years of residence and a pro rata reduction for the number of years of residence lower than 40. Persons having an income above a certain level (to be determined) could reimburse the pension to the Government through the personal income tax system.

Table 5.1 presents the projected maximum cost for the next 25 years of a universal pension of 150 EC$ in 2005, indexed annually in line with the CPI (see Appendix 2). These are gross estimates that do not take into account the possible recovery of benefit payments through the income tax system for higher income elderly.

Table 5.1. Projections of the number and maximum cost of universal pensions of $150 in 2005 terms (2005-2030)

Year	General population 65 and over	Annual cost of universal pensions (million EC$)	Cost as % of GDP
2005	12,407	22.3	1.0
2010	13,022	26.5	1.0
2015	14,306	33.0	1.0
2020	16,422	42.8	1.0
2025	20,045	59.1	1.1
2030	25,050	83.6	1.3

Source: ILO estimates, 2004.

5.3. Means-tested social pensions

The annual cost of social pensions would be less as benefits would only be paid to people that do not receive social insurance pensions. According to the projections of the last actuarial report, that would reduce the beneficiary group and lead to approximate cost of:

Table 5.2. Projected cost of the social pension (2005-2030)

(a) Annual cost

Year	Eligible population aged 65 and over	Annual cost of universal pensions (million EC$)	Cost as % of GDP
2005	10,258	18.4	0.8
2010	10,041	20.4	0.8
2015	9,900	22.8	0.7
2020	10,366	27.0	0.6
2025	11,884	35.0	0.7
2030	14,101	47.1	0.7

(b) Present capitalized value of social pensions in 2005 terms

Period	No. years included in present value calculation	Present value (million EC$)
2005-2009	5	90.3
2005-2014	10	179.0
2005-2019	15	168.9
2005-2024	20	366.9
2005-2029	25	481.0

Source: ILO estimates, 2004.

In both cases, the cost of the universal or social pensions would increase as it would also be paid to disabled people of active age, but the increase would probably be limited to around 5 percent.

It is interesting to compare the present value of the social pensions alternative available for all in the future with the capitalized cost of recognition options for past service under the present NIC provisions (cf. Table 3.2) available only to a limited number of persons. Social pensions in this sense represent a much better alternative. Indeed, the most generous option to provide pensions on the basis of past service recognition to the potential closed group of 4,302 farmers and fishermen aged 50 and over today amounts to a total cost of 117 million EC$, whereas the payment of a social pension of 150 EC$ to more than 10,000 persons aged 65 and over for the next five years to year 2009 would amount to only 90.3 million EC$.

6. Conclusion

The issue of old-age income for farmers and fishermen raises the more general issue of old-age income for vulnerable groups of the society. In the longer term, the ILO favours the introduction of a universal pension as a new first tier for the national pension scheme that would, in addition to tackling the problem of farmers and fishermen with low income at retirement, also take care of other groups who do not have access to NIC pensions for various reasons. The implementation would require further studies with respect to adequate and affordable overall benefit levels in the national pension systems and the fiscal space for a potential introduction.

In addition to the introduction of the universal pension, there are clear arguments in favour of using the present system (the National Insurance Scheme) as an immediate solution to provide pensions to farmers and fishermen who can afford to pay contributions. Measures already exist under the law to contribute to the scheme as an employed or self-employed person. The key issue is to design administrative systems to enforce payment of contributions. Administrative measures could be adopted, in collaboration with farmers and fishermen associations, to facilitate the contribution calculation and collection. There are high costs related to the recognition of past service, but different formulas may be considered in order to reach an affordable level of cost. This option would not require new administrative processes.

The creation of a provident fund, while attractive and simple, has major shortcomings. The length of time necessary to accumulate substantial pensions under a defined-contribution scheme is too short for most farmers and fishermen, given their high average age. The question of investing the assets of the individual accounts also represents a problem in the present economic environment of St. Lucia. There is also a concern that other groups of the society may pressure the government to create their own provident fund, and other self-employed persons who also did not contribute to the NIC in the past may exert pressure to claim a special contribution from the government in recognition of their past service.

Appendix 1. Main legal provisions of the National Insurance Corporation

A.1.1. Coverage and contributions

The St. Lucia National Insurance Corporation provides for the following benefits:

– Long-term Benefits: Age, Invalidity and Survivors' Benefits.

– Short-term Benefits: Sickness Benefit, Maternity Allowance and Grant, Funeral Grant and Hospitalization and Medical Benefit.

– Employment Injury Benefits: Injury Benefit, Disablement Benefit, Medical Expenses, Death Benefit and Funeral Grant.

Employed, self-employed and voluntary insured persons aged 16 up to the normal retirement age (61 at present) are covered for the above contingencies as follows:

– employed persons: all contingencies;

– self-employed persons: all contingencies except Employment Injury Benefits;

– voluntary contributors: Hospitalization and Medical Benefit, Maternity Allowance and Grant, Funeral Grant and Age Benefit.

Earnings used for determining contributions and benefits are limited to $5,000 per month. Earnings include basic salary and all other remuneration in cash or kind such as overtime, all allowances, commissions or profits on sales and service charge.

The monthly ceiling on insurable wages has increased since 1979 as follows:

1979 to 1984:	$ 700
1985 to 1990:	$1,000
1991 to 1992:	$2,500
1993 to 2000:	$3,000
2001 to present:	$5,000

Contributions are computed as a percentage of insurable earnings. The contribution rate for employed persons is 10 per cent, 5 per cent paid by the employee and 5 per cent by the employer. Self-employed and voluntarily insured persons pay the full 10 per cent contribution rate.

A.1.2. Benefits provisions

A.1.2.1. Long-term benefits

(a) Age pensions

Contribution Requirement: 144 paid monthly contributions. The number of required contributions will increase to 180 as shown below:

Up to December 2002	132
January 2003 – December 2005	144
January 2006 – December 2008	156
January 2009 – December 2011	168
January 2012 and after	180

Age Requirement (normal retirement age): 61 (in 2005). The payment of a pension requires retirement from gainful employment. (A gradual increase in the pensionable age from 61 to 65 by 2015 is being implemented as follows:

January 2003 – December 2005	61
January 2006 – December 2008	62
January 2009 – December 2011	63
January 2012 – December 2014	64
January 2015 and after	65

Amount Of Benefit: 40 per cent of average insurable earnings over the best 5 years, plus 0.1 per cent of average insurable earnings for each month paid or credited in excess of 144.

Maximum Pension: 65 per cent of average insurable earnings over the best 5 years.

Minimum Pension: $200.00 per month. The minimum was last increased in 1999, having been at $125 from 1992 to 1998.

(b) Age grants

Contribution Requirement: Less than 144 paid or credited monthly contributions.

Eligibility: Other than for the contribution requirement, applicant must be eligible for Age Pension.

Amount Of Benefit: Balance (if any) in the National Provident Fund at the date of commencement of the repealed Act with interest to date pensionable age attained, plus 100 per cent of the employee's portion of contributions to the NIF without interest. This amount is paid as a lump sum.

(c) Invalidity pensions

Contribution Requirement: Not less than 60 monthly contributions with at least 36 consecutive monthly contributions in the 72 months immediately preceding the month of invalidity, or not less than the contribution requirements for Age pension.

Eligibility: The applicant is:

i. under pensionable age;

ii. not in receipt of Sickness Benefit;

iii. medically declared an invalid, other than as a result of an employment injury.

Amount of Benefit: If less than 144 but more than 59 months paid, 35 per cent of average insurable earnings. If 144 or more contributions paid, 40 per cent of average insurable earnings plus 0.1 per cent of average insurable earnings for each month paid or credited in excess of the first 144 months. Average insurable earnings shall be the average of the first 36 months insurable earnings in the last 60 or 144, as the case may be, before commencement of the Invalidity Pension.

Minimum Pension: $200.00 per month.

Duration of Pension: As long as invalidity continues.

(d) Invalidity grants

Contribution Requirement: Less than 60 paid monthly contributions.

Eligibility: Other than for the contribution requirement, the applicant must be eligible for Invalidity Benefit.

Amount of Benefit: Balance (if any) in the National Provident Fund at the date of commencement of the repealed Act with interest to date pensionable age attained, plus 100 per cent of the employee's portion of contributions to the NIF without interest. This amount is paid as a lump sum.

(e) Survivors' benefits

Contribution Requirement: The deceased, at time of death, was either receiving an Age or Invalidity pension, had made enough contributions to qualify for an Age or Invalidity pension, or would have been eligible for a pension at the time of death.

Eligibility: Widow or widower married for at least five years (includes common-law spouse), child(ren) under 16, 18 if in full-time education, invalid children of any age, and parents of at least pensionable age if there are no other dependants.

Amount of Benefit: The proportion of the Invalidity pension paid or payable is:

– widow or widower: 50 per cent, 75 per cent if no other dependants exist;

– children: 50 per cent;

– parents: 50 per cent.

Maximum Benefit: 100 per cent of the Invalidity pension that was or would have been payable to the deceased person at the time of his/her death.

Duration of Benefit

– Widow or widower whose age is at or above the normal retirement age at time of spouse's death, married for at least 3 years: life pension.

– Widow or widower whose age is at or above the normal retirement age at time of spouse's death, married for at least 3 years and is invalid: life pension or until the beneficiary is entitled to a larger Age pension in his/her own right.

– For a widow or widower under pensionable age who is invalid: pension for as long as invalidity continues, or for life once pensionable age has been attained.

– For a widow or widower under the normal retirement age: one year.

– For a widow or widower with eligible children: until the children of the marriage cease to be dependent.

– All pensions payable to widows or widowers shall cease upon remarriage or cohabitation with a person of the opposite sex as his or her spouse.

– For children, up to their 16th birthday, or 18th birthday if in full-time education. If invalid, for as long as invalidity continues.

(f) Survivors' grants

Contribution Requirement: The deceased, at time of death, had made fewer than enough contributions to qualify for an Age or Invalidity pension.

Eligibility: Other than for the contribution requirement of the deceased, the applicant must be eligible for survivors pension.

Amount of Benefit: The proportion of the Invalidity Grant payable as shown below:

– widow or widower: 50 per cent, 75 per cent if no other dependants exist;

– children: 50 per cent;

– parents: 50 per cent.

A.1.2.2. Short-term benefits

(a) Sickness benefits

Eligibility Requirements: The insured must:

– be rendered temporarily incapable of work as a result of specific disease, or physical or mental disability that is not employment related, nor caused by habitual drug or alcohol use;

– have paid contributions for at least 2 months in the 4 months preceding commencement of incapacity, and not less than 6 months since his or her registration;

– be engaged in insurable employment immediately prior to the day on which incapacity commenced;

– be under age 61 and be off from work. Sickness benefit shall not be payable when the person receives full pay during the same claim period.

Waiting Period: 3 days. Two periods of illness separated by less than eight weeks are treated as one.

Amount of Benefit: 65 per cent of average insurable earnings in the last 2 months before the beginning of the period of incapacity. Sickness benefit is not payable during a period when the claimant receives full pay from his/her employer.

Duration of Benefit: Maximum of 6 months.

(b) Maternity benefits

Eligibility Requirement: The insured must:

– be in insurable employment prior to her claim for maternity allowance;

– have paid contributions for 7 months immediately preceding the month before the month of expected confinement.

Amount of Benefit: 65 per cent of average insurable earnings during the last 7 months immediately preceding the month before the month of expected confinement. Maternity benefit is not payable where the claimant receives full pay from her employer.

Duration of Benefit: 3 months, starting with the month preceding the month of expected confinement, or if later, the month the benefit is claimed, but no later than the month of actual confinement.

(c) Maternity grants

Eligibility Requirement: The woman must:

– have given birth to a child, and

– she or her husband has contributed for at least 7 months in the 10 months immediately preceding the month before the month of expected confinement.

Amount of Grant: $600. The Maternity Grant has increased on an ad-hoc basis as follows:

1979 – 1984	50.00
1984 – 1990	200.00
1990 – 1992	250.00
1992 – 2000	450.00
2001 – present	600.00

(d) Funeral grants

Eligibility: The insured person, at the time of his/her death, or the death of a spouse or dependant child had either:

– made enough contributions to satisfy the contribution conditions for any benefit, excluding a grant or allowance; or

– paid at least 6 monthly contributions in the past 12 months preceding his/her death; or

– paid total contributions of at least the amount of the grant.

Amount of Grant: $1,750 for the insured, $1,500 for a spouse. For dependant children the amount ranges based on age from $150 for a child under 2 to $1,500 for a child 11 and over. The funeral grant for the insured has been increased on an ad-hoc basis as follows:

1979 – 1984	200
1984 – 1990	600
1990 – 1992	1,200
1992 – 2000	1,500
2001 – present	1,750

(e) Hospitalization and medical benefits

National Insurance contributors requiring hospitalization and medical treatment at approved hospitals in St. Lucia will receive free treatment only if they meet the contribution conditions for Sickness Benefit. In return for providing medical services and supplies to insured persons, the NIC transfers to the Government of St. Lucia an agreed amount each quarter.

A.1.2.3. Employment injury benefits

(a) Injury benefits

Eligibility: Incapable of work as a result of an accident or a prescribed disease arising out of insured employment, or as a result of an employment-related illness. There are no qualifying contribution requirements for Employment Injury benefits.

Amount of Benefit: 65 per cent of insurable earnings in the month in which the injury was sustained.

Duration of Benefit: Maximum of 12 months or until the award of a permanent disability benefit, if earlier.

(b) Disablement benefits

Eligibility: Partial or total loss of any physical or mental faculty as a result of a job-related accident or disease.

Amount of Benefit: The payment of a pension or a lump sum is based on the percentage loss of faculty suffered.

– If degree of disablement is less than 30 per cent, a grant equal to the disablement benefit payable for a period of 60 months is paid.

– If degree of disablement is 30 per cent or more, a monthly benefit of the injury benefit amount times the degree of disablement is paid.

– If a claimant assessed at less than 100 per cent disability enters any hospital for the purpose of receiving approved treatment or rehabilitation, the benefit shall be payable as if he/she had been assessed at 100 per cent for the period of treatment.

(c) Death benefits

Eligibility: Widow or widower married for at least 6 months (includes common-law spouse), child(ren) under 16, 18 if in full-time education, invalid children of any age, parents of at least pensionable age if there is no spouse or dependent children, and other relatives if no other dependants exists.

Amount of Benefit: The proportion of the Invalidity pension paid or payable shown below:

– widow or widower: 50 per cent, 75 per cent if no other dependents exist;

– children: 50 per cent;

– parents: 50 per cent;

If no dependents exist, an amount may be payable to his/her creditors or estate. This sum shall not exceed the smaller of reasonable expenses for medical attendance of the deceased arising from the relevant accident and reasonable burial expenses, or 12 months of any pension the deceased would have been entitled to receive had he/she claimed.

Maximum Benefit: 100 per cent of the Invalidity pension that was or would have been payable to the deceased person at the time of his/her death.

Duration of Benefit

– Widow or widower: pension for life or until re-marriage or cohabitation with a person of the opposite sex as his or her spouse.

– For children: up to their 16th birthday, or 18th birthday if in full-time education or apprenticeship. If invalid, for as long as invalidity continues.

– For parents: for life or until circumstances change where the person would no longer have been dependant on the deceased persons had he/she survived.

(d) Medical expenses

Expenses Covered: Reasonable medical expenses for medical, surgical, dental and hospital treatment and the supply of medicines, as a result of an employment injury or prescribed disease, subject to a maximum of $20,000.

Appendix 2. Actuarial bases for cost estimates

A.2.1. Mortality rates

Mortality rates are taken from the actuarial review of the NIC as of 31 December 2000. Sample mortality rates are presented in table A2.1.

Table A2.1. Mortality rates at selected ages

Age	Males	Females
0	0.0183	0.0157
5	0.0016	0.0015
10	0.0007	0.0005
15	0.0009	0.0006
20	0.0016	0.0010
25	0.0023	0.0015
30	0.0029	0.0019
35	0.0035	0.0023
40	0.0042	0.0028
45	0.0056	0.0036
50	0.0077	0.0052
55	0.0110	0.0077
60	0.0162	0.0119
65	0.0248	0.0186
70	0.0377	0.0292
75	0.0572	0.0459
80	0.0862	0.0715
85	0.1278	0.1098
90	0.1855	0.1650
95	0.2615	0.2408
99	1.0000	1.0000

A.2.2. Economic assumptions

Interest rate 5.0 per cent per annum.

Salary increase 3.5 per cent per annum (nominal).

CPI increase 3.5 per cent per annum.

A.2.3. Present value factors

Table A3.2 presents sample factors that were are applied to the amount of the annual pension to determine the present value of the pension at the time of purchase (the time at which the single premium would be paid to the NIC). Retirement is assumed at age 61 (cf Section A.1.2.1.). Annuity factors consider that in case of death after the retirement, the pension continues to the surviving spouse at 75 per cent of the pension of the principal pensioner. An age difference of three years between spouses is assumed.

Table A2.2. Present value factors, 2005

Age at time of purchase	Present value of an annuity of $1 per year
50	10.6
55	13.2
60	17.2
65	14.5
70	11.9
75	9.6
80	7.5

Appendix 3. References

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