



GOVERNMENT OF THE REPUBLIC OF TRINIDAD &
TOBAGO MINISTRY OF FINANCE & THE ECONOMY

SPEAKING NOTES FOR
SENATOR THE HONOURABLE LARRY HOWAI
MINISTER OF FINANCE & THE ECONOMY

AT THE OPENING OF
NIB/EUROMONEY TRAINING – PENSION STRATEGIES

TUESDAY 22ND OCTOBER 2013
PORT OF SPAIN

Thank you Chairman.

Mr. Adrian Bharath, Chairman, National Insurance Board of Trinidad & Tobago;

Ms. Karen Gopaul, Executive Director, National Insurance Board of Trinidad and Tobago;

Members of the Head Table and other distinguished members of staff;

Specially invited guests;

Members of the media;

Ladies and gentlemen,

Good morning.

It is with great pleasure that I join you this morning, on the first day of this seminar, sponsored by the NIB and administered by Euromoney on “Pension Fund Strategies”. Before I commence, I would like to salute the vision of the NIB in arranging this seminar as it provides a forum for a meeting of the minds, as it were, of individuals who often times perform critical functions in the pension industry.

It is at events such as these, where dialogue, informed opinion and even constructive criticisms are facilitated that we are able to: gauge our progress, evaluate our methods and - if need be - recalibrate our approach towards achieving our respective goals effectively and efficiently.

Ladies and Gentlemen, from a macroeconomic perspective, the pension industry is one that is very important to the economic landscape of

Trinidad & Tobago as it positively impacts on economic growth through its promotion of financial market efficiency, transparency, national savings and capital market development. To an individual, pension funds directly impact the standard of living of persons who have reached retirement age.

However, notwithstanding the importance of the pension industry to macro and micro sustainability, the industry is facing several challenges, not limited to the increasing costs to the government and the private sector of funding pension plans, a low interest rate environment and an aging population.

In Trinidad & Tobago, as you know, our local pension system currently comprises Senior Citizens Grants, Public Sector Pensions, the National Insurance Scheme (NIS) and Private Sector Pensions. In fiscal 2013, it has been estimated that the Government would have transferred a

total of \$4.8Bn to Senior Citizens and to the payment of Pensions and Gratuities; an increase of over \$100Mn from 2012.

The results of the 2011 census have shown that our population is aging, our rate of fertility is in steady decline and our life expectancy has increased. The ratio of persons aged 65 and older to persons under the age of 15 is 43.5 percent, and according to the Central Statistical Office, by international standards, a population with a ratio above 30 can be described as “old”. The census also found that the life expectancy of males have risen to 71 years in 2011 from 68 years in 2000 and the life expectancy of women have risen from 73 years in 2000 to 77 years in 2011.

Ladies and Gentlemen, taking this trend into consideration, in the long term pension contributions from the working population will not be sufficient to support an aging population. In general, increasing longevity and reduced fertility threaten the sustainability of pension

systems. Therefore, it is imperative to have a pension system which promotes the sustainability and capability of pension funds to smooth consumption overtime, protect our aging population from poverty in the long term and redistribute income.

The low interest rate environment, both in the domestic and international financial markets, also poses a significant challenge to the sustainability of pension plans and the adequacy of benefits paid by them. According to the Central Bank, this low-rate environment has contributed to the overall declines in funding levels, from an average of 143 percent over the period 2007 to 2009 to 123 percent over the period 2010 to 2012. Ladies and Gentlemen, a 1% drop in the rate of return over 20 years could severely affect the standard of living of a pensioner.

Ladies and Gentlemen, the challenges facing the local pension industry is not unique to Trinidad & Tobago as many other developed and

developing countries face the same challenges. For instance, the Dutch pension system, for example, was severely impacted by the U.S. Subprime mortgage crisis with the nominal funding ratio declining from 144% in 2007 to 107%, 109% and 95% in subsequent years. Earlier this year, the Chicago Illinois *Commission on Government Forecasting and Accountability*, estimated that the state's unfunded pension liabilities were close to US\$100 billion and its funding ratio stood at a paltry 39%. These examples illustrate that globally the script has to be re-written as countries, regardless of their underlying economic status, have had no choice but to face challenges to the sustainability of this critical safety net.

Ladies and Gentlemen, In light of the several challenges facing the pension industry, this training seminar in Pension Fund strategies is being conducted at a very opportune time. At the end of the day, we must recognize that there are two major determinants of adequate and sustainable pensions, that is, rates of return and governance.

The Government also recognizes that it must play an active role in promoting an environment that promotes investment opportunities and strong governance practices within the industry. Our capital market deepening and pension reform initiatives are aimed at doing just this.

Pension funds, as you all know, are a significant player in the domestic capital market, investing 86 percent of its total assets as at June 2012. Therefore, the Government's public offerings programme will provide greater investment opportunities for pension fund managers. In the recent First Citizens Bank Limited initial public offering, pension funds were allocated XX percent.

It is envisaged that pension funds will benefit from the planned initial public offerings of a newly established company into which the National Gas Company of Trinidad and Tobago will transfer its 39 percent shareholding in Phoenix Park Gas Processors Company Limited and the Trinidad and Tobago Mortgage Bank.

Ladies and Gentlemen, the Government of Trinidad and Tobago is deeply committed to transforming the current Pension System in the country through its pension reforms initiative. The objective of the reforms is to deliver adequate pensions within a sustainable framework – in all pillars of the system, that is, the Senior Citizens Pension, the National Insurance Scheme (NIS), Public Sector Pensions and Private Sector Pensions.

Adequacy

Among several others, two of the major reforms involve sourcing new/additional contributions in all pillars except the Senior Citizens Pension, and the strengthening of regulation. This means more funds will be placed under private sector management, including contributions from public sector pensions – so this training seminar on pension fund strategy is very relevant. As mentioned earlier, a 1 percent drop in the interest rate can severely impact the future income levels of retirees.

Ladies and Gentlemen, pension plan assets accounted for 13.3 percent of total assets of the financial system at the end of 2012. Given its size and importance to individuals, greater focus must be placed on developing a robust regulatory and supervisory framework that would facilitate effective governance and supervision of pension plans.

The Government recognizes the urgent need for legislation that would cover the safety and soundness of pension plans, ensure that benefits are fairly delivered and protect members and beneficiaries of pension plans from undue loss. As such, we intend to lay the Occupation Pension Bill in Parliament towards the end of the next fiscal year. This Bill will seek to, among other things:

1. Protect the rights of pension plan members with respect to benefits earned;
2. Strengthen the communication between pension plan sponsors, trustees, management committees and members;

3. Strengthen the powers of the Inspector of Financial Institutions, and the Central Bank to act;
4. Provide for more effective oversight of the establishment and operation of pension plans;
5. Delineate roles and responsibilities for corporate and individual trustees, management committees and plan sponsors;
6. Strengthen the internal controls and risk management of pension plans; and
7. Providing the Central Bank with tools for more effective regulation of pension plan assets and liabilities.

Therefore, ladies and gentlemen, our improved pension fund strategy focuses on the ability to deliver adequate and safe pensions being aided by improved pension fund strategy. The Securities Act 2012 which increases the regulatory and supervisory authority of the Trinidad and Tobago Securities and Exchange Commission will also provide a level of protection to the pension plans as they invest in the

domestic market. But, regulators apart, the challenge is made today for all pension institutions to bolster their fund strategy modeling.

Sustainability

Ladies and Gentlemen, there has been a shift towards defined contribution plans which places the burden on private institutions to effectively manage their portfolios well into the long term, and challenge the status quo in many ways, including introducing multi-employer plans. As policymakers, we would like to see that the shifting of the state burden to the private sector, is well supported by the necessary governance structures and processes, including in regulation so that the adequate pensions could be paid deep into the long term. We see the theme of the seminar as being absolutely important here.

Another important point, often overlooked, is that, in addition to the state being sponsor of public sector pensions, there exists a contingent pension obligation to state enterprises - these state entities account

for some 63% of contributors of occupational private plans. Strengthening fund management would go a long way in keeping funding levels of the plans of state enterprises at an acceptable level, thereby minimizing the risk of reliance on the state for bailout. In a less direct but tremendously beneficial way, improved pension plan strategies, could also minimize the risk of pension liabilities impacting on the bottom line of state firms and their ability to deliver vital services at an affordable cost.

With an eye on sustainability, the National Insurance Board is already in the early stages of revamping their business model, while there is strong rationale for a funded Senior Citizens Pension (SCP).

Financial Sector and Macro-economy

Adequate and sustainable pensions are crucial to achievement of our stability and development objectives at the level of the financial sector

and macro- economy. Hopefully, our growth mantra, as well as financial sector development (inclusive of capital market development in which pension funds are a key player) as a critical growth pole, is sufficiently-ingrained in the minds of those responsible for investing/funding activities.

Ladies and Gentlemen, as our economy continues to transform, it is expected that the pension landscape will continue to adjust with a greater demand for pension products which will allow our workforce to provide for themselves in the winter of their lives. We are thus committed to ensuring the policies with the enabling legislation are in place to facilitate such.

I am sure that over the next four days, the presenters will provide you with the most up-to-date methods and pension tools which no doubt will be useful. I ask that all these discussions be placed within the local context with a view to understanding where we are in Trinidad and

Tobago and where we intend to be within the next 5, 10, 15, 20 years.

It is this understanding that will make the seminar most beneficial.

Ladies and gentlemen, in closing, let me once again thank the National Insurance Board for its ambitious outreach programme to ensure that the most modern Pension Fund Strategies was presented in Trinidad and Tobago through its engagement with Euromoney. On behalf of the Government of Trinidad and Tobago, I would like to extend our gratitude and hope that many more opportunities may be presented for the benefit of all the industry and the country, by extension.

I wish you a constructive and productive session over the coming four days as we aim to improve the intellectual capacity in pension fund strategies. The Government will continue to do its part to foster a productive environment and I implore you to work alongside us towards this end.

Ladies and gentlemen, thank you!