PENSION INDUSTRY ASSOCIATION OF JAMAICA

Increasing Pension Coverage In Jamaica

THROUGH THE INTRODUCTION OF A STATUTORY AUTO-ENROLMENT PROGRAMME

In collaboration with: THE RESEARCH PROJECT

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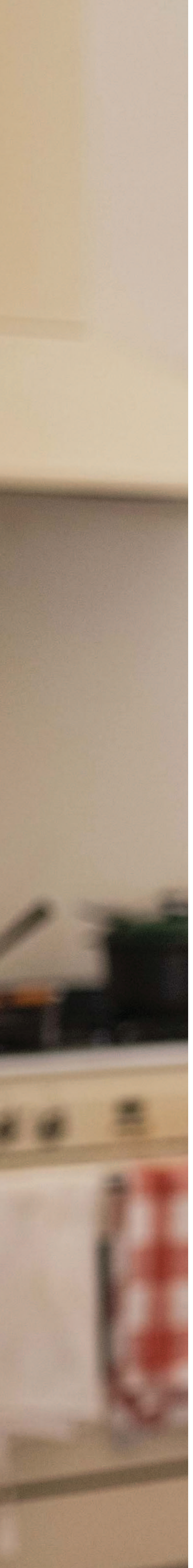

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CONTENTS

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PENSION INDUSTRY ASSOCIATION OF JAMAICA

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EXECUTIVE SUMMARY

Jamaica operates a three-pillar pension system: (i) a government-managed system with mandatory participation, the National Insurance Scheme (NIS) (first pillar); a privately managed savings system (second pillar); and voluntary savings (third pillar).

Jamaica's shifting demographic structure, low pension coverage, and increasing old-age dependency put a growing part of the population at risk of old age poverty and exposes the government to a future fiscal crisis. Public safety nets such as the NIS, the National Health Fund (NHF), and Jamaica Drug for the Elderly Programme (JADEP) are not reaching all our elderly and will not be sufficient for the elderly to enjoy an adequate quality of life in retirement.

Though the private pension industry has been growing, coverage levels are still extremely low. As of September 2022, there were 815 (active (368), terminating (431) and inactive (16) private pension plans in Jamaica with a total membership of 141,650 and assets valuing approximately J$683 billion[1]. Active membership in private pension plans was 11.17% of the employed labour force[2].

The inadequacy of both private and public schemes to reach our most vulnerable highlights the retirement security crisis facing Jamaica.

Seventeen years after the implementation of a regulatory framework for private sector pension plans in Jamaica, the private market alone has not been able to solve the dire problem of low coverage which has hovered between approximately 9 - 11%, under the second pillar of privately managed pensions.

The future that awaits Jamaicans who do not have adequate savings for retirement years is uncertain. Many of them will likely have to work beyond 65 years if their health permits it. It was estimated by Steinmayer (2009) that on average people live between two and three decades after they have retired[3]. This will make life burdensome for Jamaicans who have not prepared adequately for retirement. Data from the PIOJ's *Elderly Report* in 2012 suggests that approximately 22% of the elderly are supported by family while 50% of elderly people receive remittances from abroad which typically comes from family members as well.

[1]Financial Services Commission Private Pension Industry Statistics, September 2022.
[2]The Jamaican employed labour force as at July 30, 2022 was 1,268,000 according to the Planning Institute of Jamaica (pioj.gov.jm).
[3]Steinmayer, Vanessa (June 2019). 'Population Ageing and its Implications on Social Protection'. https://www.un.org/development/desa/pd/sites/www.un.org.development.desa.pd/files/undesa_pd_escap_ws_2019_presentation_10.pdf.

After 17 years, the implementation of a regulatory framework has not addressed the low pension coverage which has hovered between 9-11%.

Automatic enrolment involves enrolling employed individuals automatically into an approved retirement scheme...

The number of elderly persons in Jamaica is expected to grow to about half a million by 2030 and is projected to be approximately 22% of the total population by 2050[4]. People who are 80 and over are projected to increase by 2.5 times from 48,029 in 2010 to 117,149 by 2050.

Simply encouraging people to save has not been enough.

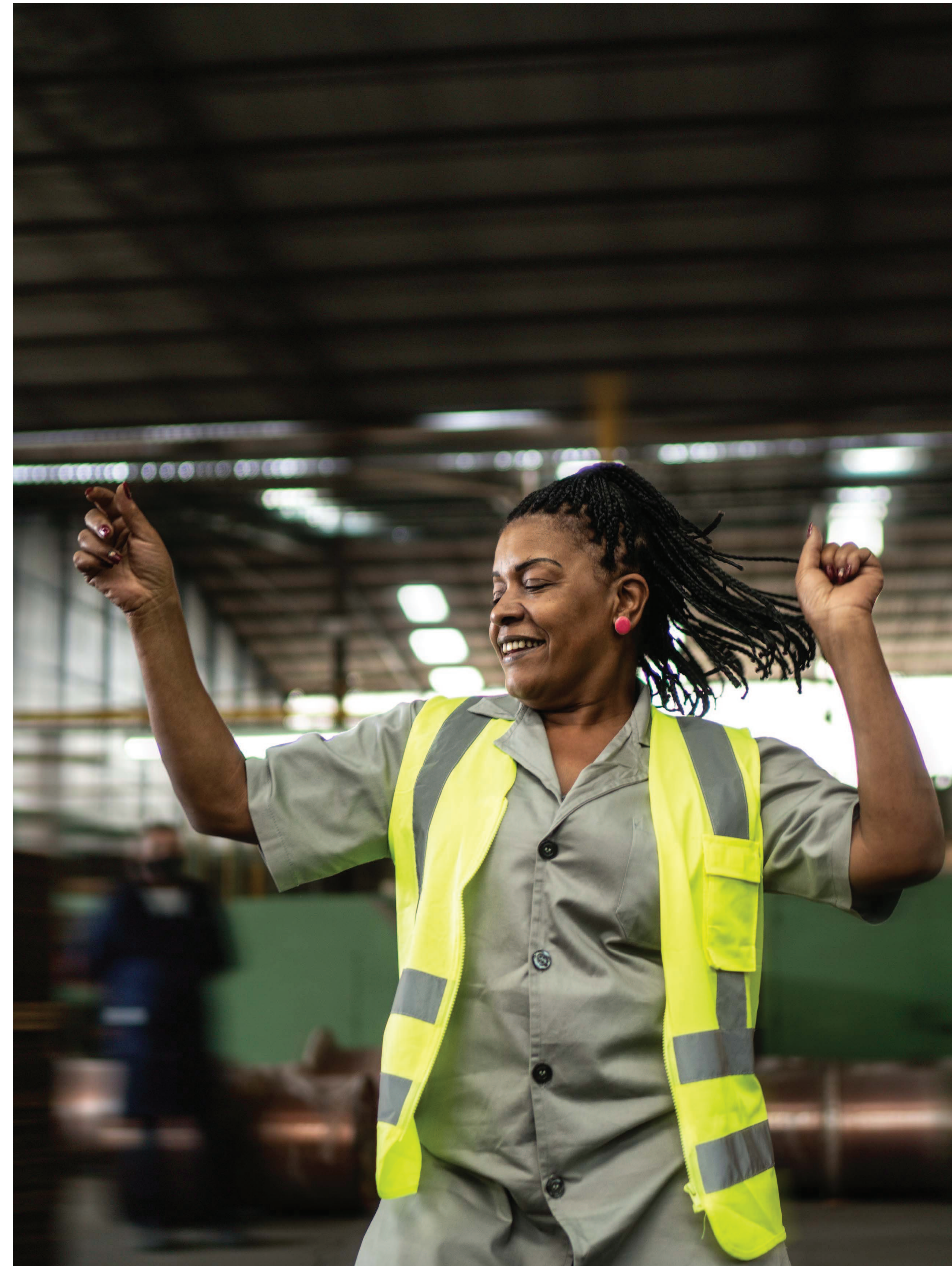
The focus of this concept paper is the enhancement of the second pillar of Jamaica's pension system, specifically by increasing participation in private sector pensions. Automatic enrolment involves enrolling employed individuals (who are not already a member of an approved pension plan) automatically into an approved retirement scheme, while allowing those individuals to retain, at all times, the ability to opt out. Auto enrolment ensures that savings occurs alongside the paycheck, and significantly simplifies the process for identifying and starting a retirement savings account. At the same time, the opt-out option maintains individual choice and responsibility for the decision to participate in the plan.

Employers would not be required to contribute but will be required to undertake the necessary steps to ensure employees are enrolled, and salary deductions paid to the applicable approved retirement scheme. Employees who are already part of an approved retirement scheme (ARS) on or before the commencement of the auto enrolment program will not be required to be auto enrolled but would be required to provide proof of current participation in the ARS. The legislative framework would address the consequences of non-compliance.

To change behaviour, we must change the decision-making environment. Evidence suggests that high levels of participation tend to result not only from automatic enrolment but also from the practice of requiring each eligible employee to decide explicitly whether to participate[5]. The strategy of auto enrolment is to arrange choices in such a way that it allows people to make their own decisions in a way that encourages better outcomes.

Additionally, a national auto enrolment programme aligns with the Government's National Financial Inclusion Strategy (NFIS) to create conditions in which Jamaicans, particularly those who are underserved by the domestic financial system, can save safely and build up resilience against financial shocks[6].

[4] MLSS 2018. Green Paper, National Policy for Senior Citizens, 2018. https://www.mlss.gov.jm/wp-content/uploads/2017/11/Green-Paper-National-Policy-for-Senior-Citizens-1.pdf.
[5] Iwry, Mark and John, David, C. 'The Retirement Security Project, Pursuing Universal Retirement Security Through Automatic IRAs'. Nº 2009-3.
[6] National Financial Inclusion Council of Jamaica, National Financial Inclusion Strategy, 2016-2020.



SUMMARY OF DESIGN FEATURES

- Employees who are not a part of a pension arrangement sponsored or facilitated by their employer would be automatically enrolled by their employer in an approved retirement scheme.
- Applicable to all employees, including part-time, temporary and contract workers, aged 18 to 64, who work and ordinarily reside in Jamaica and earn greater than the minimum wage[7].
- Employees would save a proportion of their pay in an ARS unless they chose to opt out.

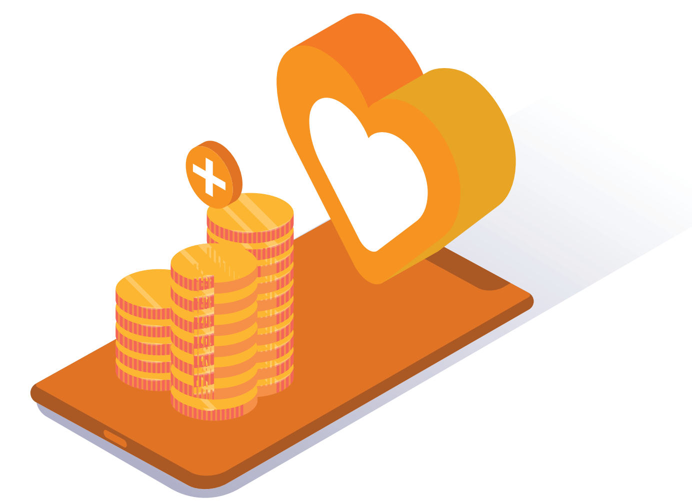
- Employers would retain the option at all times of setting up their own approved superannuation fund.
- Employers have the discretion whether they wish to contribute to the approved retirement scheme on behalf of employees but would not be mandated to do so.
- All employers (whether part-time, temporary or contract workers) who do not offer an approved pension arrangement must auto enrol employees.

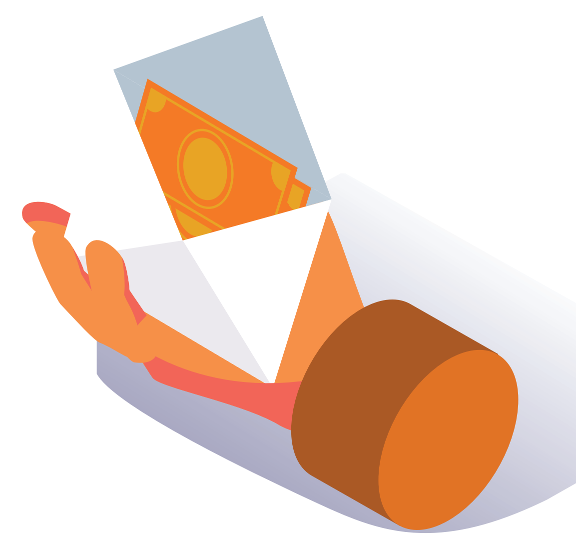
- A transition timetable would occur over a period of three years (as of the date of adoption of the auto enrolment programme into law) based on size of employee base of the employer[8]:
  - Year 1: Firms with more than 20 employees (approx. 14.2%)
  - Year 2: Firms with between six and 20 employees (approx. 40.3%)
  - Year 3: Firms with between one and five employees (approx. 45.5%)
- Initial default contribution rate of 3% of income.

[7]Minimum Wage is JMD 13,000 per week. https://jis.gov.jm/national-minimum-wage-moves-to-13000-june-1/#:~:text=Effective%20June%201%2C%202023%20the,Prime%20Minister%2C%20the%20Most%20Hon.
[8]Adopted from The Report on the Jamaica Survey of Establishments 2018. Planning Institute of Jamaica (September 24, 2019)

- The contribution rate would automatically increase from 3% to a target rate of 6% by way of annual increases of 0.5% over a phased period of six years commencing after the completion of the 3-year transition period based on size of employee base of the employer.
- Employees can freeze their contribution rates to prevent increases.
- Employees can opt out (or opt back in) at any time but will be automatically re-enrolled on an annual basis.
- Persons who change employers would be automatically enrolled again on joining new employer.
- Contributions would be deducted before income tax is computed as is the case currently with all contributions to approved pension arrangements.

- Where the employee changes employers he/she will still retain his/her account and accrued benefits in the ARS.
- Payroll deductions to the ARS would be made by direct deposit, like the common practice of depositing salaries directly into employees' bank accounts.
- The auto enrolment programme would be supported by any of the approved retirement scheme providers in Jamaica.





- No requirement for an employer to contribute and no obligations placed on the employer beyond making the required salary deductions and paying over to the selected ARS.
- Failure of the employer to enrol eligible employees or to pay over contributions would attract a fine or penalty.
- Minimal to zero recurrent cost to the Government and taxpayers.

The paper concludes that there are significant benefits from adopting an auto-enrolment programme as the power of individual inertia could reduce the opt-out rate and increase pension coverage in Jamaica while reducing the cost on the public purse.

INTRODUCTION

Unlike any other financial product, a pension, whether provided by the Government, employers or accumulated by individuals themselves, aims to provide people with a livelihood when they no longer work. The income derived from a pension, in the majority of cases, determines whether we can lead independent and dignified lives after retirement. A good pension system is therefore a critical underpinning of any society. The quality of a pension system often depends on the combination of the incomes provided by the state pension, the occupational pension, and individual savings (in some cases supplemented by remittances from family members overseas). Each one of the three pillars has its specific role, but the reality is that, in Jamaica, all of them are under pressure.

The income derived from a pension, in the majority of cases, determines whether we can lead independent and dignified lives after retirement.

This concept paper seeks to set out an ambitious yet practical set of initiatives to expand retirement savings and security in Jamaica. We propose making retirement saving automatic and, by doing so, easier, and more convenient which should by extension increase pension coverage nationally. Auto-enrolment programmes eliminate the administrative burden and expense to employers of a private plan and provide an easy way for workers to save. Automatic enrolment programmes have proven to be effective at increasing participation in workplace-based retirement savings. These programmes target employees who have no access to employer-sponsored pension arrangements by combining key elements of Jamaica's current system including payroll deductions and approved retirements schemes (ARSs). Automatic enrolment is not a mandatory arrangement but effectively shifts the nature of the choice made by an employee to one where they must opt out of a retirement scheme rather than having to take the initiative to opt in to one. There is no requirement for an employer to contribute and no obligations placed on the employer beyond making the required salary deductions and paying over to the selected approved retirement scheme.

OVERVIEW OF THE JAMAICAN PENSION INDUSTRY

JAMAICA OPERATES A THREE-PILLAR PENSION SYSTEM:

(i) a government-managed system with mandatory participation (first pillar);

(ii) a privately managed savings system (second pillar);

(iii) and voluntary savings (third pillar).

FIRST PILLAR:
THE NATIONAL INSURANCE SCHEME (NIS)

The NIS is a compulsory, contributory funded social security scheme that provides several benefits paid in the form of a grant or a pension. It covers employed, self-employed, voluntary contributors and non-contributors. As of 2019, the number of contributors to the NIS was 516,992. Employed persons contribute 3% of their income which is matched by their employers based on their earnings up to a ceiling of J$5 million per annum. Of this 3%, 2.5% is remitted to the NIS and the remaining 0.5% to the National Health Fund (NHF). Self-employed persons pay 6% of their statutory income, which includes income from all sources up to a maximum income of J$3 million per annum (previously J$1.5 million). Of this 6%, 1% is remitted to the NHF. All NIS contributions are tax-deductible.

The major NIS benefits are: (1) it offers financial protection (insurance) to contributors and their families against loss of income arising from an injury on the job, incapacity, retirement, and the death of the insured; and (2) retired persons receive a pension depending on the number of contributions made before retirement. A retirement or old age benefit is paid to beneficiaries 65 years of age or older who have stopped working and have made the required number of contributions. In 2021, the NIS had 133,394 beneficiaries, of which 99,825 or 74.1% received an old age or retirement benefit[9]. This represents only 35.5% of the over 375,700 persons living in Jamaica over the age of 60[10].

[9]The Planning Institute of Jamaica (PIOJ), Economic and Social Survey Jamaica, (2021).
[10]The Planning Institute of Jamaica (PIOJ), Economic and Social Survey Jamaica, (2021).

Unfortunately, most companies have not sponsored pension arrangements for their employees which has limited the number of Jamaicans who benefit from superannuation funds.

SECOND PILLAR :
PRIVATE PENSIONS

The private sector pension industry is regulated by the Financial Services Commission (FSC). The two types of funds in this industry are Approved Retirement Schemes (ARSs) and Approved Superannuation Funds (ASFs). Membership in ASFs is limited to those employed by employers that have set up superannuation funds for their employees. Unfortunately, most companies have not sponsored pension arrangements for their employees which has limited the number of Jamaicans who benefit from superannuation funds. ARSs are open to self-employed workers and employees who are not eligible to participate in their employer's pension plan or whose employer does not have a superannuation fund. Both ASFs and ARSs provide the same tax benefits as the NIS.

THIRD PILLAR:
VOLUNTARY SAVINGS

This pillar is available to anyone who wishes to supplement the retirement income provided by the first two pillars.

ADDITIONAL PENSION ARRANGEMENTS

It is also important to highlight additional pension arrangements in place for public sector workers and tourism workers:

Public Service Pension Scheme

As a part of the public sector reform agenda, *The Pensions (Public Service) Act*, 2017 came into operation in 2018, establishing a mandatory contributory pension arrangement for public sector workers, known as the Public Service Pension Scheme. Prior to the promulgation of *The Pensions (Public Service) Act*, 2017, the pension system for public sector workers was administered in accordance with several pieces of legislation. The Public Service Pension Scheme is a defined benefit[11] contributory scheme where all pensionable officers are required to contribute 5% of their salary[12].

Tourism Workers Pension Scheme

The Tourism Workers Pension Act (TWPA) came into operation on January 31st, 2020. The TWPA established a defined contribution plan (Tourism Workers Pension Scheme) for which all tourism workers are eligible. "Tourism workers" include hotel workers, craft vendors, tour operators, red cap porters, contract carriage operators, and workers at attractions. Any tourism worker between the ages of 18 and 59, who is not already a part of an approved pension plan or becomes a tourism worker after the date of commencement is eligible to become a member of the scheme.

Employees make mandatory contributions of 3% of their salary to the scheme for the first three years following the commencement of the TWPA, and 5% thereafter. Employers also must make matching contributions at the rate of 3% for three years and 5% thereafter. Self-employed persons, on the other hand, do not benefit from the matching contribution of an employer. They are however required to pay 3% for the first three years following the commencement of the Act, and 5% thereafter. The TWPA further provides for all its members to be able to make additional voluntary contributions. All contributions are invested by a licensed investment manager of pension funds.

One of the distinguishing features of this Act is that it facilitates the seasonal nature of employment of some tourism workers. Therefore, these workers will not be prejudiced by a break in their contributions. Additionally, 100% of the contributions become immediately vested, unlike typical superannuation funds in which the employer's contributions are usually owned by the members after a stipulated period.

[11]In a defined benefit pension plan, benefits are based on a pre-determined formula where both the employee and employer may or may not contribute or funds may or may not be invested. As employees contribute to the pension plan, they are promised future pensions. In a defined benefit pension plan an individual's pension is not related to his contributions and he can predict what his benefits will be. On the other hand, in a defined contribution pension plan, the contributions made by participants are invested and are directly related to the participants' benefit at retirement. When a participant retires, the pension they receive is dependent on the returns on the investment of the contributions. Unlike the defined benefit pension plan, benefits in the defined contribution scheme are unpredictable and depends on market conditions.

[12]Pensions are calculated using the following formula: Pension = Accrual Rate * years of service * average of final five years' salary.

Currently, the approximate total pension coverage under Pillar 2 is 18% of the employed labour force accounting for all approved superannuation funds, approved retirement schemes and the Public Sector Pension Scheme.

Estimated Total Pillar 2 Coverage

Currently, the approximate total pension coverage under Pillar 2 is 18% of the employed labour force (approximately 1,268,000[13]), accounting for all approved superannuation funds and approved retirement schemes supervised by the FSC (approximately 141,650 contributors[14]) and the Public Sector Pension Scheme (approximately 80,000 contributors[15]).

Assuming all estimated tourism workers are onboarded to the Tourism Workers Pension Scheme, it is anticipated that there will be approximately 350,000 contributors16. With all tourism workers included, pension coverage could potentially move to an estimated 47% of the employed labour force.

OTHER ELEMENTS OF PENSION SUPPORT

Remittances

Remittances play an integral role in the lives of many Jamaicans. The average size of remittances received per year in Jamaica is approximately 17.1%[17] of Gross Domestic Product. Based on a survey[18] conducted by the Bank of Jamaica, the primary use of remittance inflows is for consumption purposes and, more specifically, for day-to-day living[19]. A small portion (9%) of remittances that come into Jamaica is saved, and an even smaller portion (6%) is invested. Caribbean researchers[20] have argued that remittances help to reduce the severity of poverty within countries like Jamaica because without these inflows people would find it more challenging to meet their basic needs. This makes it likely that if remittances should be isolated from the Jamaican economic structure, there would be an increase in the number of people leaning on social programmes for assistance and putting pressure on the government's fiscal position.

Social Pension Programme[21]

The Government recently launched a $800 million Social Pension Programme which provides a guaranteed income for vulnerable persons 75 years and older. Seniors targeted are those not currently in receipt of a pension, disability benefit or other retirement benefits, cash grants from the Programme of Advancement Through Health and Education (PATH), or Poor Relief Programme, and who do not reside in a government institutional care facility. The introduction of the Social Pension Programme aims to reduce income inequality and promote a better quality of life for Jamaica's older population. The Social Pension Programme differs from the NIS as it is a non-contributory scheme and therefore does not require contributions from an individual. Qualifying individuals receive cash transfers to facilitate a stream of income. Recipients receive $6,800 every two months under the Programme, funds are credited to bank accounts or disbursed via the recipient's remittance agency of choice.

[13]The Jamaican employed labour force as of July 30, 2022, was 1,268,000 according to the Planning Institute of Jamaica (pioj.gov.jm).
[14]Financial Services Commission Private Pensions Industry Statistics, September 2022.
[15]Authors' estimate.
[16]Estimated initial participation perhttps://www.mot.gov.jm/page/tourism-workers-pension-scheme. Currently 8,000 tourism workers contribute to the Tourism Workers Pension Scheme: https://jis.gov.jm/8000-hospitality-employees-contribute-to-tourism-workers-pension-scheme/
[17]Authors' calculations based on data collected from the World Bank. Period averaged is 2010-2021.

[18]https://boj.org.jRemittance_Recipients.pdf.m/uploads/pdf/papers_pamphlets/papers_pamphlets_Remittances_to_Jamaica_-_Findings_from_a_National_Survey_of_Remittance_Recipients.pdf
[19]For the payment of medical bills, utility bills, food, and other basic living expenses.
[20]Roberts, D. (2006). 'The Development Impact of Remittances on Caribbean Economies: The Case of Guyana'. In SALISES Conference, University of the West Indies, St. Augustine. https://sta.uwi.edu/conferences/salises/documents/roberts%20d.pdf
[21]https://jis.gov.jm/pm-launches-800-million-social-pension-programme

CHARACTERISTICS OF THE JAMAICAN PENSION FRAMEWORK

Having a pension should be an important aspect of everyone's financial plan. This becomes particularly important as the life expectancy of Jamaicans continues to increase from 64.8 years in 1960 to 71.9 years as of the end of 2020[22]. As people become older, physiological changes make them increasingly vulnerable to chronic and other illnesses and age-related disabilities[23]. At retirement, a pension makes up for the loss in income that individuals might generally face when they are no longer working. An adequate pension can safeguard against a material reduction in a person's quality or standard of living at retirement and reduce the risk of old-age poverty.

...the life expectancy of Jamaicans continues to increase from 64.8 years in 1960 to 74.4 years as of the end of 2018.

Ageing Population

Jamaica has been undergoing a demographic transition whereby increased life expectancy and declining birth rates have resulted in the emergence of an ageing population[24]. Figure 1 shows that there has been a divergence in growth rates over the last decade between the young and old age groups. The data shows a decline of approximately 17% for the ages between 0 and 19 while older age groups have sharply increased, except for a 5% fallout in the 40-44 category. The age group category with the largest increase was people in the 55-74 age group. An ageing population could cause long-term economic complications if not addressed with urgency.

Meeting the needs of the growing number of older people will be critical to achieving the United Nations Millennium Development Goals. The United Nations estimates that Jamaica's population will likely fall by 22% between 2015 and 2050 while the percentage of the population 60 and over is expected to double by 2050. This demonstrates that if action is not taken immediately, Jamaica's current pensions crisis will get worse[25].

[22]World Bank, World Development Indicators (2023).
[23]World Health Organization. (2012). "Good Health Adds Life to Years: Global Brief for World Health Day 2012 (No. WHO/DCO/WHD/2012.2). World Health Organization.
[24]The Planning Institute of Jamaica, The Statistical Institute of Jamaica, Jamaica Survey of Living Conditions 2018.
[25]United Nations (UN). (2015) United Nations Department of Economic and Social affairs, Population Division. World Population Prospects.

Jamaica's Population Growth by Age Group (2011-2019)

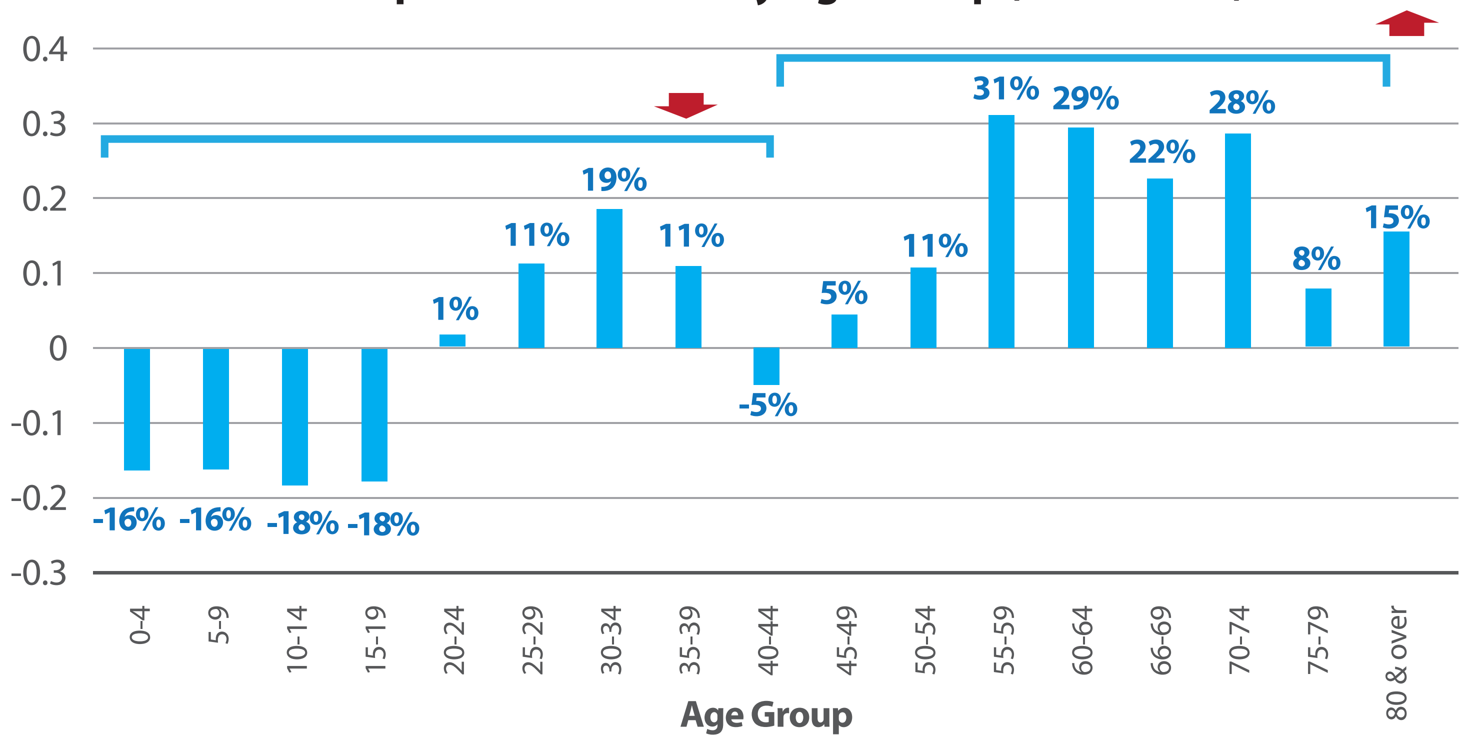


Figure 1: Jamaica's Population Growth[26]

Worsening Old Age Dependency Ratio

Jamaica's old age dependency ratio has been trending upwards since the early 1960s. This ratio shows the total number of people aged 65 and older as a percentage of the working-age population (persons aged 15-64). The old age dependency ratio has increased by 28% since 1960 and by 13% since 2013[27]. Shifts in demographic structures have affected the movement of this ratio. Jamaica's population has grown at an average rate of 0.04% over the last ten years, moving from a growth rate of 0.2% in July of 2011 to 0.0% in July of 2022. This has been largely driven by a reduction in the country's fertility rate (which has fallen by 9% since 2010) and high rates of migration by those that are 30 and younger. This has resulted in Jamaica having an economy with an increasing rate of elderly people, many of whom may not have sufficient pension coverage.

[26]Authors' calculation from data collected from The Statistical Institute of Jamaica (STATIN).
[27]The latest estimate jointly produced by STATIN and PIOJ indicates that the dependency ratio as of 2018 is 41.4.

Jamaica's Historical Old Age Dependency Ratio

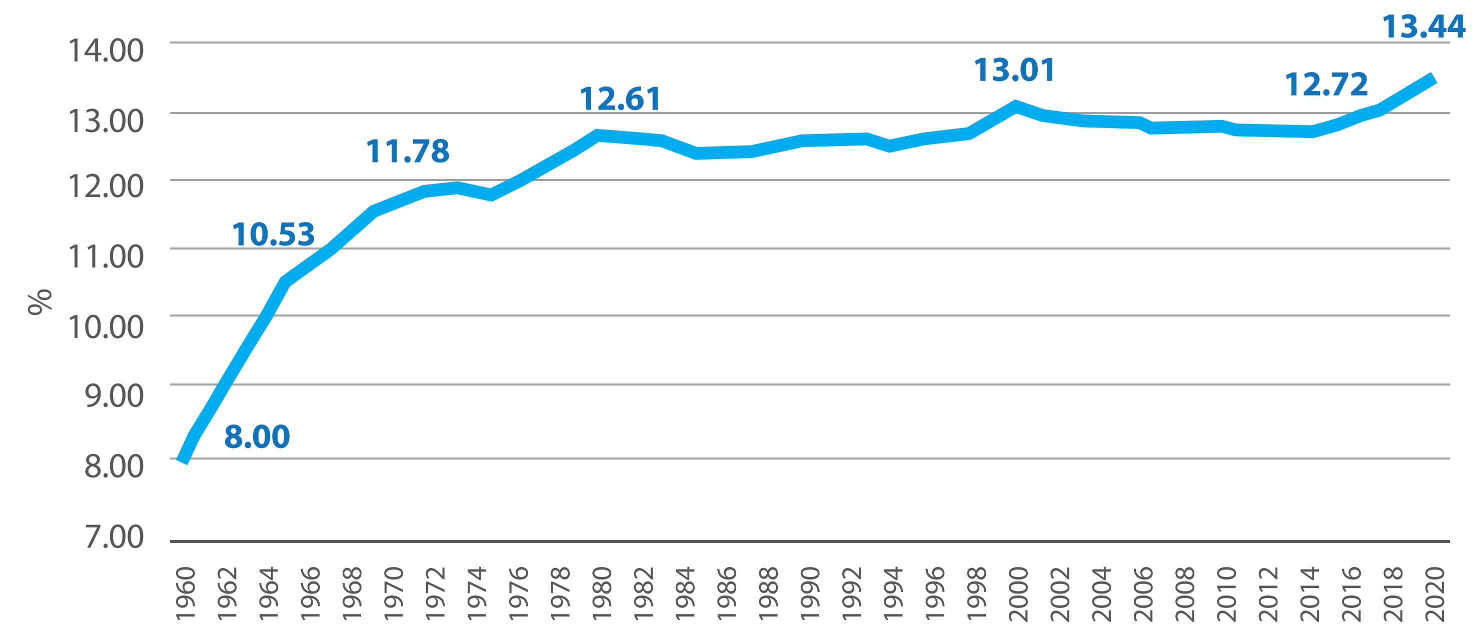


Figure 2: Jamaica's Old-Age Dependency Ratio[28]

Intergenerational poverty and intergenerational pressure

The golden years of senior citizens will continue to be threatened by rising costs and unpredictability while their children and grandchildren shoulder the burden of society's failure to plan ahead[29].

In Jamaica, there is often an expectation that children will make provision for parents in their older years. In this context, wealth accumulation by young people becomes wealth diversion resulting in many instances of intergenerational dependence, intergenerational financial pressure, and sometimes intergenerational poverty. The extent to which one generation can save so that they do not look to a future generation to take care of them will help break the cycle. Encouraging younger persons to save earlier will also have downstream impacts for future generations.

[28]https://data.worldbank.org/indicator/SP.POP.DPND.OL?locations=JM
[29]Bond, Tyler and Doonan, Dan, September 2020. 'The Growing Burden of Retirement: Rising Costs and More Risks Increase Uncertainty.' National Institute on Retirement Security,

Figure 3:
***An Illustration of Intergenerational Pressure*[30]**

Limitations of The National Insurance Scheme

Jamaica has a National Insurance Scheme (NIS) through which eligible employed individuals make compulsory employer matched contributions. Alongside its insurance benefit, the NIS offers a retirement benefit (pension) to contributors who are 65 years and older depending on the number of contributions made before retirement. However, the NIS captures less than half of eligible contributors. Even when one contributes, the benefits may not be adequate to support persons in their retirement years.

As at the end of 2018, only 47.6% of eligible persons in Jamaica were registered with the NIS. This figure gets disproportionately worse when it is dissected by income class. Only 28% of those in the poorest quintile contributed to the NIS while over 62% of the highest earning quintile contributed. Additionally, 45% of people over 60 stated that they received a pension of J$20,000 or less per month from the NIS. Considering that the monthly minimum wage is approximately J$52,000 (J$13,000 weekly), that would mean that most elderly Jamaicans are earning a pension that is 160% lower than the minimum wage. Additionally, persons who are 60 years and older paid more on average when visiting the doctor in the private sector and when buying drugs[31]. Although the National Health Fund (NHF), the Jamaica Drug for the Elderly Programme (JADEP) and NI Gold (under the National Insurance Scheme) were established to facilitate lower health costs for the elderly, the data suggests that it may still be inadequate.

[30]Copyright© Luojie,2013 (CagleCartoons)
[31]The Statistical Institute of Jamaica (STATIN), Jamaica Survey of Living Conditions (2017)

Only 25.1% of respondents over 60 years old received a pension from the NIS. When asked what the main reasons were for not contributing to the NIS, 46.2% of respondents stated that they opted to save independently while 30.4% were never employed or are not working. Approximately 64.8% of respondents within this age group received no form of pension[32]. This may be in part due to high levels of informal employment in the economy. Data from the 2021 Labour Force Survey shows that approximately 47.5% of employment in Jamaica is informal[33]. The International Labour Organization (ILO) has outlined different ways to determine if a business is formal or informal. These may include whether a business is formally registered or not, if they keep accounts, or if they pay certain protection benefits to their workers, among others. The Statistical Institute of Jamaica classifies those in informal employment as persons whose main jobs lack certain protection benefits.

Between 2009 and 2018, the total number of retirement beneficiaries under the NIS grew by 35.6% (23,331 persons). This increase in beneficiaries, driven by an ageing population, has contributed to an increase in NIS benefits paid out of the NIS over the years[34]. NIS benefits paid out have traditionally outpaced contributions paid into the NIS on an annual basis. This means that the funded status and operational expenses have largely been funded by investment income. It is estimated that the NIS Fund would be exhausted in 2037[35].

As the population ages and dependency increases, the government will be faced with an increased risk of a fiscal crisis. This is so because if the NIS is unable to meet its obligations, the government will have to fund the benefits under the NIS. In 2016, Jamaica's Net Implicit Debt[36] as a percentage of GDP was estimated by the IMF to be 92%, one of the highest rates in the Caribbean. This 92% reflects the large cashflow deficit that will emerge in the coming decades. Jamaica's anaemic growth levels coupled with a high debt-to-GDP level exacerbates this fiscal risk. It was concluded that the Jamaican government would thus need to implement far-reaching pension reforms now or risk even higher taxes, lower growth, and unsustainable public debt dynamics[37].

Impact of COVID-19

The onset of COVID-19 has impacted public pension plans through a reduction in investment returns and plan contributions as well as the potential for longer term budgetary effects on the Government[38]. Jamaica's pension industry was not insulated from this as the Financial Services Commission (FSC) reported that the value of private pension plans contracted by over 5% for calendar year 2020. The negative outturn was due primarily to the reduction in the local stock market by over 20% in 2020. The private pension plans exposure to the equity asset class in aggregate is greater than 20% therefore this exposure would offset any positive returns from other asset classes. The pandemic has opened the door to making a long-lasting financial change – starting with savings. The question is not *if* but *when* another financial crisis will happen. We need to seize the opportunity to plan, prepare, and implement long-lasting changes that will make Jamaicans more financially resilient.

Low Private Sector Pension Coverage

As at September 2022, there were 815 (active (368), terminating (431) and inactive (16) pension plans in Jamaica with a total membership of 141,650 and assets valuing approximately J$683 billion[39].

Active membership in private pension plans was 11.17% of the employed labour force[40]. Membership in private sector pension plans has increased by 1.6% from 139,419 in September 2021 to 141,650 in 2022.

Overall, pensions coverage as percentage of the employed labour force, is estimated to have decreased by 0.3 percentage points from 11.47 % in September 2021 to 11.17% in September 2022.

[32]The Statistical Institute of Jamaica (STATIN), Jamaica Survey of Living Conditions (2017)
[33]The Statistical Institute of Jamaica (STATIN), Labour Force Survey (2021). This figure is a percentage of Non-Agriculture Employment
[34]www.mlss.gov.jm
[35]Actuarial Review of the National Insurance Scheme as of March 31, 2016, prepared by Eckler Consultants & Actuaries (Jamaica)
[36]The net implicit debt is the present value of future expenditures minus the present value of future contributions plus current reserves over a 45-year horizon.
[37]National Insurance Scheme Reforms in the Caribbean. International Monetary Fund (IMF), 2016
[38]The Government of Jamaica put in place a $25 billion stimulus package in response to the Covid-19 pandemic including a $10 billion spending stimulus under the Covid Allocation of Resources for Employees (CARE) Programme - a temporary cash transfer programme to individuals and businesses to cushion the economic impact of the Covid-19 pandemic.
[39]Financial Services Commission Private Pension Industry Statistics,September 2022.
[40]The Jamaican employed labour force as of July 30, 2022, was 1,268,000 according to the Planning Institute of Jamaica (pioj.gov.jm).

COVID-19 has underscored the fact that the social construct that regards the woman as the primary caregiver is entrenched in most societies.

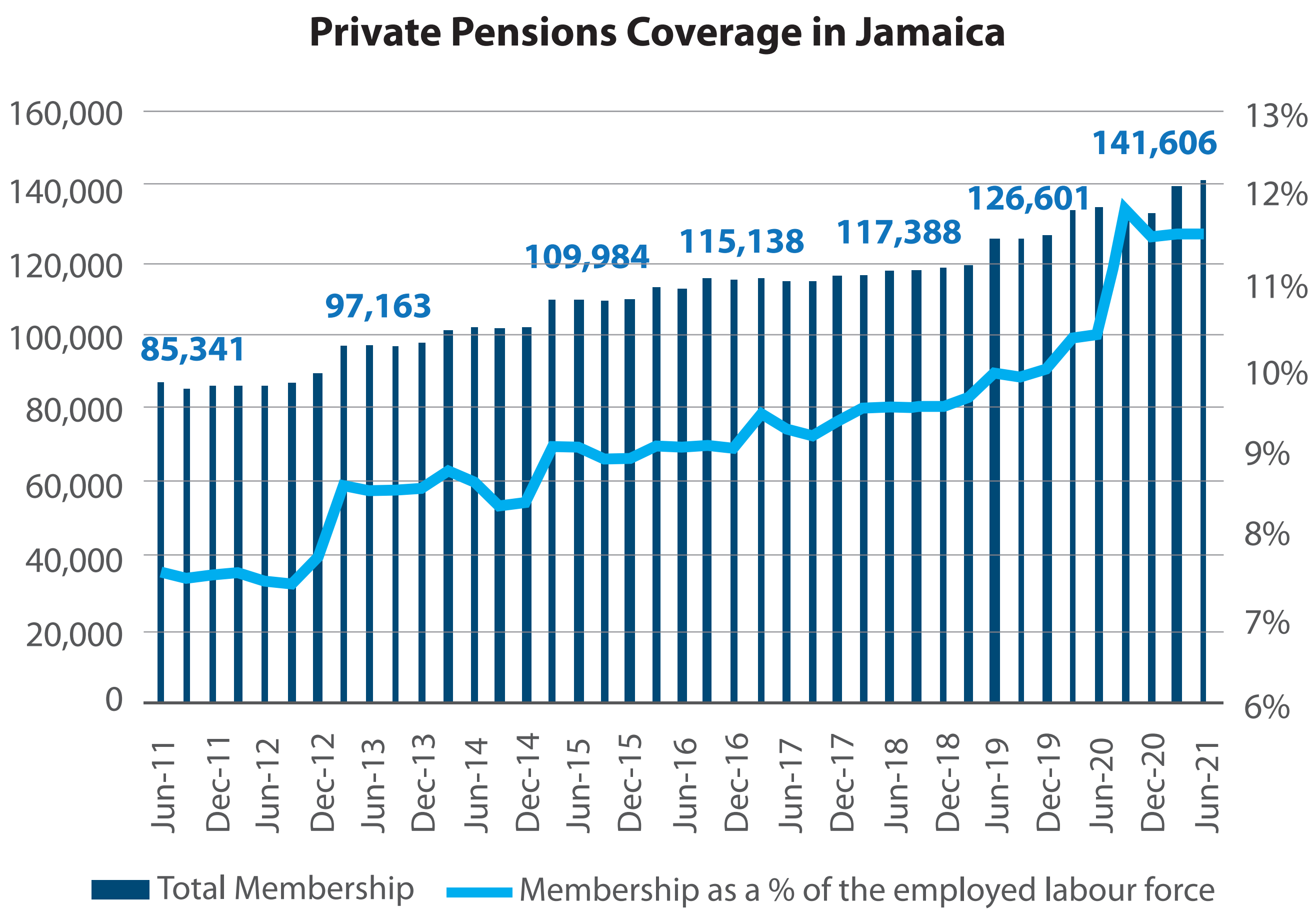


Figure 4: Private Pensions Coverage in Jamaica 2011 - 2022[41]

Women more vulnerable

According to the Global Gender Pay Report 2021[42], Jamaica scored 0.77 in the area of economic participation and opportunity, meaning women are 23 percent less likely to have equal economic participation and opportunities than men. Jamaica also scored 0.63 in estimated earned income, showing a gender pay gap of approximately 37 percent, this means women's income was estimated to represent only 63 percent of men's. When we account for the fact that more than twice the number of Jamaican women, relative to men, attend tertiary level institutions oftentimes graduating with student loan debt, a clearer picture of the skewed reality emerges. Research from the American Association of University Women (AAUW) lays bare the effect of the gender pay differential. The AAUW attributes an additional ten years to student loan repayment for female graduates because of the 26% gender wage difference between non-minority men and women in the USA. Jamaica's wage gap stands at 40%.

[41]Data collected from the Financial Services Commission

[42]https://www.weforum.org/reports/global-gender-gap-report-2021

Delayed or reduced pension contributions are but one of many issues that are engendered by wage disparity. Reduced contributions immediately translate to reduced savings that may generate pensions falling significantly below the recommended threshold of 70% of one's pre-retirement salary - a leading cause of pension poverty. To benefit from the same pension as their male counterparts many women would have to save significantly more over an extended period. This, coupled with the fact that women live longer places women in a far more vulnerable position than men.

COVID-19 has underscored the fact that the social construct that regards the woman as the primary caregiver is entrenched in most societies. According to McKinsey Global Institute's *COVID-19 and Gender Inequality: Countering the Negative Effects* report[43], at least 75% of the burden of unpaid care including childcare, caring for elderly, cooking, and cleaning rests on the shoulders of women. This has been significantly increased in the pandemic and exacerbates employment and economic fallout among women thereby reducing the ability to ensure retirement security.

What Happens If Nothing Changes?

> Jamaica's shifting demographic structure, low pension coverage, and increasing old-age dependency rate puts a growing part of the population at risk of old age poverty and exposes the government to a future fiscal crisis.

Public safety nets such as the NIS, NHF, and JADEP are not reaching all our elderly and may not be sufficient for the elderly to enjoy an adequate quality of life in retirement. Though the private pension industry has been growing, coverage levels are still extremely low. The inadequacy of both private and public schemes to reach our most vulnerable highlights the retirement security crisis facing Jamaica.

> Seventeen years after the implementation of a regulatory framework for private sector pension plans in Jamaica, the private market alone has not been able to solve the dire problem of low coverage which has hovered between approximately 9 - 11%. Simply encouraging people to save has not been enough. Therefore, we need to move away from an "opt in" regime, where the burden or expectation is on the individual to make the decision or choice to opt into an ARS, to an "opt out" regime, where the individual is automatically placed in an ARS and must make the active choice to be taken out of the ARS.

The future that awaits Jamaicans who do not have adequate savings for retirement years is uncertain. Many of them will likely have to work beyond 65 years if their health permits. It was estimated by Steinmayer (2009) that on average people live between two and three decades after they have retired[44]. This may make life burdensome for Jamaicans who have not prepared adequately for retirement. Data from the PIOJ's *Report on Module on Persons Aged Sixty Years and Older*[45] indicates that approximately 50% of the households with elderly members received remittances, this compares with approximately 44% for the general populations. The number of elderly persons is expected to grow to about half a million by 2030 and is projected to be approximately 22% of the total population by 2050. People who are 80 and over are projected to increase by 2.5 times from 48,029 in 2010 to 117,149 by 2050[46].

Spending in retirement is projected to increase by an average of 1% of GDP over the next decade[47]. In this context, Jamaica needs to continue its pension reforms in order to achieve the national outcome of effective social protection as outlined by the Vision 2030 Jamaica, National Development Plan[49]. Increased expenses and uncertainty will continue to threaten the retirement security of Jamaica's elderly while their children and grandchildren are forced to assume responsibility for society's failure to adequately prepare for the future.

To increase coverage rates in pension schemes and improve retirement security outcomes for their citizens, many countries have introduced a programme of "soft compulsion", generally known as automatic enrolment in the private pensions sector.

[43]https://www.mckinsey.com/featured-insights/future-of-work/covid-19-and-gender-equality-countering-the-regressive-effects

[44]Steinmayer, Vanessa, June 2019. 'Population Ageing and its Implications on Social Protection.' https://www.un.org/development/desa/pd/sites/www.un.org.development.desa.pd/files/undesa_pd_escap_ws_2019_presentation_10.pdf

[45]https://www.pioj.gov.jm/product/report-on-module-on-persons-aged-sixty-years-and-older-jamaica-survey-of-living-conditions-2012/ [47]MLSS 2018. Green Paper, National Policy for Senior Citizens, 2018 https://www.mlss.gov.jm/wp-content/uploads/2017/11/Green-Paper-National-Policy-for-Senior-Citizens-1.pdf

[46]Macroeconomic Effects of Public Pension Reforms; by Philippe Karam, Dirk Muir, Joana Pereira, and Anita Tuladhar; IMF Working Paper 10/297; December 1, 2010

[47]Effective Social Protection is National Outcome number 3 in the Vision 2030 Jamaica, National Developmental Plan. http://www.vision2030.gov.jm/portals/0/ndp/vision%202030%20jamaica%20ndp%20full%20no%20cover%20(web).pdf

AUTOMATIC ENROLMENT PENSION PROGRAMME

What is an Auto Enrolment Programme?

Automatic enrolment involves enrolling employed individuals (who are not already a member of an approved pension plan) automatically to a pension arrangement, while allowing those individuals to retain, at all times, the ability to opt out. Once enrolled, auto enrolment harnesses the power of inertia and procrastination to keep these individuals contributing towards retirement income.

> Auto enrolment also ensures that savings occur alongside the paycheck and significantly simplifies the process for identifying and starting a retirement savings account. At the same time, the opt-out option maintains individual choice and responsibility for the decision to participate in the plan.

People often suffer from behavioural biases and limited financial knowledge that prevent them from joining voluntary pension arrangements early enough to build a pension that would supplement their mandatory public pension. Automatic enrolment usually comes with automatic options for the contribution rate, the investment strategy, or the pension provider, to help people unwilling or unable to make choices to join the pension plan without having to worry about these parameters[48].

An automatic enrolment programme would require employers to enrol employees in an approved retirement scheme where the employer does not already have an established superannuation fund in which the employee is eligible to participate. Employers would not be required to contribute but will be required to undertake the necessary steps to ensure employees are enrolled and salary deductions paid to the applicable approved retirement scheme. Employees who are already part of an ARS on or before the commencement of the auto enrolment programme will not be required to be auto enrolled but would be required to provide proof of current participation in the ARS. The legislative framework would address the consequences of non-compliance.

Evidence suggests that high levels of participation tend to result not only from automatic enrolment but also from the practice of requiring each eligible employee to decide explicitly whether to participate[49]. To change behaviour, we must change the decision-making environment. The strategy of auto enrolment is to arrange choices in such a way that it allows people to make their own decisions in a way that encourages better outcomes.

[48]Financial Markets, Insurance and Pensions – Inclusiveness and Finance', OECD, 2019.
[49]Iwry, Mark and John, David, C., 'The Retirement Security Project, Pursuing Universal Retirement Security Through Automatic IRAs'. Nº 2009-3.

> "Jamaicans who do not have adequate savings for retirement years will likely have to work beyond 65 years if their health permits."

A national auto enrolment programme aligns with the Government's National Financial Inclusion Strategy (NFIS) to create conditions in which Jamaicans, particularly those who are underserved by the domestic financial system, can save safely and build up resilience against financial shocks[50]. The reforms outlined in this NFIS are structured around four pillars: (i) Financial Access and Usage; (ii) Financial Resilience; (iii) Financing for Growth; and (iv) Responsible Finance - and a cross-cutting foundation of Supporting Infrastructure. A national auto enrolment programme will strengthen the Financial Resilience pillar as well as the Financial Access and Usage pillar. The Financial Resilience pillar supports reforms that contribute to increased savings, insurance, and retirement products for Jamaicans. The Financial Access and Usage pillar supports reforms that facilitate increased usage of electronic payments, expansion of innovative distribution channels, digitisation of government payments, and development of financial products that channel remittance proceeds into accounts/cards.

SUMMARY OF DESIGN FEATURES

- Employees who are not a part of a pension arrangement sponsored or facilitated by their employer would be automatically enrolled by their employer in an approved retirement scheme.
- Applicable to all employees, including part-time, temporary and contract workers, aged 18 to 64, who work and ordinarily reside in Jamaica and earn greater than the minimum wage[51].
- Employees would save a proportion of their pay in an ARS unless they affirmatively chose to opt out.
- Employers would retain the option at all times of setting up their own approved superannuation fund.
- Employers have the discretion whether they wish to contribute to the approved retirement scheme on behalf of employees but would not be mandated to do so.
- All employers (whether part-time, temporary or contract workers) who do not offer an approved pension arrangement must auto enrol employees.
- A transition timetable would occur over a period of three years (of the date of adoption of the auto enrolment programme into law) based on the size of employee base of the employer[52]:
    - Year 1: Firms with more than 20 employees (approx. 14.2%).
    - Year 2: Firms with between six and 20 employees (approx. 40.3%)
    - Year 3: Firms with between one and five employees (approx. 45.5%)
- Initial default opt-in rate of 3% of income.
- The contribution rate would automatically increase from 3% to a target rate of 6% by way of annual increases of 0.5% over a phased period of six years commencing after the completion of the three-year transition period based on size of employee base of the employer.
- Employees can freeze their contribution rates to prevent increases.
- Employees can opt-out (or opt back in) at any time but will be automatically put back into an ARS one year after opting out with the same employer.
- Persons who change employers would be automatically enrolled again on joining new employer.
- Contributions would be deducted before income tax is computed as is the case currently with all contributions to approved pension arrangements.
- Where the employee changes employers he/she will still retain his/her account and accrued benefits in the ARS.
- Payroll deductions to the ARS would be made by direct deposit, like the common practice of depositing salaries directly into employees' bank accounts.
- The auto enrolment programme would be supported by any of the approved retirement scheme providers in Jamaica.
- No requirement for an employer to contribute and no obligations placed on the employer beyond making the required salary deductions and paying over to the selected ARS.
- Failure of the employer to enrol eligible employees or to pay over contributions would attract a fine or penalty.
- Minimal to zero recurrent cost to the Government and taxpayers.

[50]National Financial Inclusion Council of Jamaica, National Financial Inclusion Strategy, 2016-2020

[51]7Minimum Wage is JMD 13,000 per week. https://jis.gov.jm/national-minimum-wage-moves-to-13000-june-1/#:~:text=Effective%20June%201%2C%202023%20the,Prime%20Minister%2C%20the%20Most%20Hon.

[52]Adopted from The Report on the Jamaica Survey of Establishments 2018. Planning Institute of Jamaica (September 24, 2019)

Minimal Employer Obligations & Complete Protection from Fiduciary Liability

Employers would select an approved retirement scheme provider to enrol their employees. Employers would be protected from potential fiduciary liability for investment performance and would *not* be required to:

- Comply with plan qualification requirements under the Pensions (*Superannuation Funds and Retirement Schemes Act*.
- Establish or maintain a trust to hold monies because the ARS would receive the contributions.
- Make any contributions to the ARS on behalf of employees.
- Determine whether employees were eligible to contribute to the ARS.

The programme would facilitate retirement savings by transferring employees' contributions to an ARS without the employer having to sponsor a superannuation fund, make any matching or other employer contributions (unless it chose to), or comply with regulatory requirements for sponsors of pension plans.

For employers, auto-enrolment will serve as a stepping-stone between not providing any form of retirement access and offering a traditional retirement plan. Employers would not be liable for any element of the programme design and would not be responsible for programme-related decisions or provider monitoring. Employers are not required to contribute or provide account-related reporting. Employer roles are restricted to administrative functions, which generally include enrolling in or confirming exemption from the programme, providing workforce contact information, and facilitating an employee's payroll deductions into the programme.

Default Contribution Rate & Automatic Escalation

Like the starting rates under the Tourism Workers Pension Scheme, a starting default rate of 3% of earnings, while low, will likely mitigate against a knee-jerk response for employees to opt out. However, extending pension coverage is not the only objective of auto enrolment; it is critical to also ensure that participation contributes to an individual having an adequate pension as well.

A critical component of an auto enrolment programme is the built-in automatic escalation of contribution rates. This supports the gradual move of the workforce to levels of contributions over a period of time which can be expected to provide a meaningful retirement income.

A phased approach will smooth the experience of contributors and allows individuals and their employers to arrange their financial affairs to minimise the financial shock of change. A move from the default rate of 3% to a target rate of 6% by way of annual increases over a phased period of six years will improve contributors' ability to secure an adequate retirement benefit[53]. Annual auto-escalation could take effect on April 1 each year, being the start of GoJ's financial year and the time other wage-related changes are likely to take effect, such as increases to minimum wages and raising of income tax thresholds. Alternatively, auto-escalation could take effect at the start of the calendar year when employees are likely to receive any employer-granted salary increases.

All employees who have been automatically enrolled will have the ability to freeze the escalation of their contribution rates at any time.

Of course, nothing would prevent an employee from contributing more than 6% up to the applicable maximum allowed by law. Additionally, employers would be able to contribute on behalf of employees, if they wished, provided the aggregate of employee and employer contributions does not exceed the allowable limits (currently 20% of the employee's income).

A key consideration raised by auto escalation of contributions is whether it will lead persons to cease contributions or cause new joiners to opt out at a higher rate.

Behavioural insights from around the world indicate that any change in behaviour in response to contribution rate increases would be modest and would not see large increases in opt-outs or cessations.

[53]Under the Income Tax Act, the maximum aggregate contribution rate (by or on behalf of a member) in an approved retirement scheme is 20%.

Consumers' elasticity in response to changes in contribution rates is low, meaning contribution rate increases tend not to prompt a significant negative behavioural response[54]. Even contributing at the default rate of 3%, especially for workers who start saving consistently over their working lives, will still contribute to reducing costs over the next several decades caused by insufficient savings.

Opting Out

Employees can opt out of the approved retirement scheme after they have been automatically enrolled. If they opt out within three months of being automatically enrolled, they should be treated as if they had never joined the ARS, and any money that would have been paid into the ARS should be refunded in full. Opting out after three months would not result in a refund of contributions already made. Contributions would be locked in, consistent with the current regulatory framework for approved retirement schemes. Employees would not lose this money; they would only be able to access it based on the rules and regulations in place that would facilitate early access. An opt out from the ARS should last for one year after which the employee will be automatically re-enrolled.

Opt-out rates vary greatly across countries. These rates, together with participation rates, provide a measure of the success of automatic enrolment. At one end of the spectrum are New Zealand and the United Kingdom. As of June 2018, 16% of all employees enrolled automatically in KiwiSaver plans (New Zealand) had opted out and remained out of the scheme, with a declining trend over the years. In the United Kingdom, around 10% of people currently opt out of their workplace pension, with the increase in the minimum contribution rate in April 2018 not triggering an increase in opt-out rates[55]; note however, in the UK employers are required to contribute to the auto enrolment programme on behalf of employees. Average data for the US (Oregon, California, and Illinois state auto enrolment programmes) as of October 2021 indicates an opt-out rate from auto IRA programmes of 32%[56]. The three US programmes do not offer any financial incentive to employees and there are no employer mandated or state contributions made on behalf of employees.

At the other end of the spectrum opt-out rates are high in Chile, Turkey, and Italy. On average, 74% of self-employed workers in Chile decided not to contribute to individual retirement accounts between 2012 and 2017. Statistics from the Pension Monitoring Centre reveal that the opt-out rate in Turkey stood at 52% by the end of 2018. Large opt-out rates can also be inferred for Italy as, by the end of 2016, members enrolled automatically since 2007 only represented around 6% of the new membership of private sector workers[57]. However, in both Turkey and Italy automatic enrolment competes with previously existing successful pension arrangements.

[55]Retirement Security Matters, Massena Associates LLC, Vol 27, March 25, 2021

[56]Financial Markets, Insurance and Pensions – Inclusiveness and Finance, OECD, 2019.

[57]Sandbrook, W. (2018) 'Viewpoints: What Should We Expect from Phasing?" Nest Insight, London; also see How Do Consumers Respond When Default Options Push the Envelope? Beshears, Benartzi, Mason & Milkman (2017) which analyses the impact of higher default contribution rates on participation and savings levels in American 401(k) retirement plans. The results reveal increasing default contributions led to higher overall contribution rates for no apparent decrease in participation levels until much higher contribution levels were reached. In this study, there was only a perceptible increase in those opting not to save at all once the default savings rate reached 11 per cent, relative to a base of six per cent. Below that, around one in ten people chose not to save irrespective of the contribution level, which is consistent with opt-out rates in the UK.

Auto Re-Enrolment

Where an employee has opted out, the employer would be required to automatically enrol them again on an annual basis. However, if an employee is still not ready to join the ARS, they are free to opt out for a further one-year period. Employees can opt in at any time. The combination of mandatory re-enrolment and every-day labour market movements means that anyone opting out of a pension or ceasing contributions is never far from being re-enrolled; every time a person changes jobs he/she would be automatically enrolled by the new employer. It is also important to note that the idea behind auto enrolment, and auto re-enrolment, as opposed to straight-forward compulsion, is to reflect the fact that for some people, some of the time, not saving may be an appropriate course of action[58]. Auto re-enrolment allows workers to think again about their finances and pension savings options in case their situation has changed since they decided to opt out.

Use of Existing Technology

The National Financial Inclusion Strategy, 2016-2020 reported in 2017 that there is limited use of digital payment instruments, and usage of bank accounts remains low: "*Due to the high level of informality in Jamaica, cash is still king for day-to-day transactions. Among wage earners, 65 per cent receive wages primarily in cash, as opposed to 35 per cent who report receiving wages through an account at a financial institution*". A national auto enrolment programme aligns with the Government's National Financial Inclusion Strategy to create conditions in which Jamaicans can save safely and build up resilience against financial shocks. It will support reforms that contribute to increased savings and retirement products for Jamaicans, as well as reforms that facilitate increased usage of electronic payments and channelling of monies into accounts. The implementation of an auto enrolment programme and its attendant requirement for use of an electronic payroll platform would have a positive impact on the Government's financial inclusion mandate, as payment of wages and salaries is a strong imperative and driver of financial inclusion.

For those employers who already use electronic payroll arrangements, payroll software, or outsource to a payroll service provider, an auto enrolment programme should result in minimal administrative functions and should involve little, if any, out-of-pocket employer cost. For those employers who are still on a cash-based payment system it is anticipated that with the spread of new, low-cost technologies, particularly more prolific in the light of the COVID-19 pandemic, employers will not have significant challenges with the implementation of an electronic system.

> When workers have access to payroll-deduction-based retirement programmes, they are 15 times more likely to save[59]; add auto-enrolment and they are 18 times more likely[60].

Portability

Approved retirement scheme accounts are inherently portable. Unlike an employer pension plan, a member's account in an approved retirement scheme survives and functions independently of the individual saver's employment status. The ARS account holder is not at risk of forfeiting or losing the account or of suffering an interruption in the ability to contribute when changing or losing employment. As workers become increasingly untethered from a single, long- term employer, and because it is important to accommodate both full- and part-time employment, it is critical that we have a retirement savings system that helps workers to maintain savings plans as they change jobs. Developing auto-enrolment plans funded through payroll deductions but not tied to a single employer would help advance those efforts. Embracing technological solutions to keep track of accounts or automate the transfer of funds from one account to another would enhance participation, improve record keeping, and prevent the withdrawal of retirement funds at job change[61].

Immediate Vesting

One hundred percent (100%) of the contributions made, including any employer contributions that are made at the voluntary option of the employer, become immediately vested, unlike employer-sponsored pension plans in which the employer's contributions only become vested in the member after a prescribed vesting period.

Approved Retirement Scheme Providers

The auto enrolment programme would be supported by approved retirement scheme providers and one administrator/record keeper. While a single ARS provider

[58]Sandbrook, W (2018). 'Viewpoints: What Should We Expect from Phasing?' Nest Insight, London

[59]Harvey, Catherine. "Fact Sheet: Access to Workplace Retirement Plans by Race and Ethnicity." AARP Public Policy Institute (citing unpublished data by EBRI), February 2017. https://www.aarp.org/content/dam/aarp/ppi/2017-01/Retirement%20Access%20Race%20Ethnicity.pdf

[60]John, David C., and William R. Shiflett. "Fact Sheet: Higher Initial Contribution Levels in Automatic Enrolment Plans May Result in Greater Retirement Savings: A Review of the Evidence." AARP Public Policy Institute, April 2017. https://www.aarp.org/content/dam/aarp/ppi/2017/01/Default-Contribution-Rate.pdf

[61]The Aspen Institute Re-imagining Retirement Amid New Uncertainty 2020

would avoid the potential administrative hassles of directing deposits to several different schemes or the burden of choosing an ARS, ensuring that all ARS providers are able to participate reduces concentration risk and allows for the deepening of retirement scheme products in the market. Additionally, the ARS providers would be able to leverage greater economies of scale and thereby make the cost structure more efficient for both the ARS providers and participants. The ARS account is tied to the individual and not the employer irrespective of a change of employer.

Governance, Legislative and Regulatory Structure

The Financial Services Commission would be responsible for oversight of the auto enrolment programme as administered and managed by the selected ARS providers. It will require amendments to the current private pensions regulatory programme by the promulgation of new regulations under the *Pensions (Superannuation Funds & Retirement Schemes) Act.*

The proposed name of the regulations would be *The Pensions (Superannuation Funds & Retirement Schemes) Act (Auto Enrolment) Regulations* which would set out the regulatory parameters for the enrolment programme addressing matters such as:

- The legal obligation for employers to enrol all employees who are not participating in either an employer-sponsored superannuation fund or an approved retirement scheme (subject to statutory exemptions).
- Employees who are already part of an ARS on or before the commencement date of the Act will not be required to be auto enrolled; they will be required to provide proof of current participation to not be auto enrolled in the selected ARS.
- Default rates, auto escalation, freezing and opting out.
- Exclusions and exemptions from participation based on employer size, employee earnings or otherwise.
- Failure of the employer to enrol eligible employees or to pay over contributions would attract a fine or penalty.
- Portability (i.e., the ability to transfer) pension assets overseas or to another local approved superannuation fund, if the employee leaves to join the service of an employer who has a pension plan, subject to the approval of the Trustees or such other governing body of that pension plan, and any other approval that may be required by an overseas pensions' regulatory authority[62].
- Employers are responsible for prompt pay over of contributions to ARS provider.
- All existing legal obligations for ARSs under the current legislation would continue to apply.
- Regular benefit statements to members and explanations and guidance about auto-enrolment.

National Insurance Scheme and Auto Enrolment

Consideration has been given to an alternative approach, specifically auto enrolling employees into a separate and distinct fund that would operate under the NIS. Two immediate advantages to this are that employees are already "auto enrolled" into the NIS when they start to work and so the additional contributions (albeit to a separate fund under the NIS) could be seamlessly made without employers having to take any extra steps. Additionally, the NIS operates within more liberal investment parameters than approved retirement scheme providers. However, directing contributions away from private market providers will eliminate member choice, would not facilitate portability between approved retirement schemes and superannuation funds, and would not contribute to the deepening of retirement scheme products in the market.

[62] Prior to this Act portability in Jamaica's legislation only related to movement between plans established in Jamaica. As early as 1996, all CARICOM member countries, save for Suriname, signed the Agreement on Social Security. This Agreement provides for the portability of select pension rights for workers moving between CARICOM member states. There are also bilateral agreements between the UK and Jamaica, and Canada and Jamaica in respect of portability of social security benefits. There is no agreement between the US and Jamaica which is particularly significant since the US is by far the main destination of Jamaican migrants. These Agreements, which are all positive and beneficial, predated the passage of the Pensions Act. They only address the movement of social security entitlements arising from government sponsored programmes, such as the National Insurance Scheme. And only the bilateral agreements between the UK and Jamaica and Canada and Jamaica have been incorporated into domestic legislation (The National Insurance (Reciprocal Convention) (United Kingdom of Great Britain & Northern Ireland) Order 1999 & The National Insurance (Reciprocal Agreement) (Canada) Order 1983).

The auto-enrolment programme would be supported by approved retirement scheme providers.

THE GLOBAL EXPERIENCE

The appendix summarises a sample of countries that have varying pension plan systems to increase coverage. The minimum contribution rate varies from country to country, and some have mandated increases while others have not. Some auto enrolment programmes require providers to include a default investment option so that employees with less financial education can have some form of capital preservation given the low-risk nature of this option. The general approach where auto enrolment is implemented is libertarian paternalism, that is, driven by the government and enshrined in law with phased implementation but with employees having the ultimate power to opt out, or manage the extent of participation.

Key Learnings from The Global Experience:

- The success of auto-enrolment is a function of the existing replacement ratio in a country. If the replacement ratio is already high, employees may opt-out at a higher rate.
- Ensure there is adequate time between enacting of law and implementation of the system.
- The pension fund management providers should offer appropriate investment options including default options for individuals who do not know much about investments; less risky.
- It is important that in the design individuals get options that optimize their pension at retirement, does not significantly depreciate their contributions, and there are low management fees. This should be done through policy/legislation.
- Auto enrolment should be more than legislative where individuals select options offered by pension fund managers. It should be tweaked with the base assumption of low investor knowledge and mandating offerings from fund managers that allow individuals to have choices based on their investment knowledge.
- Automatic escalation while preserving the value of investments, has the downside risk of deterring persons from staying in a plan given that they cannot access their money until retirement. The approach could start with a low contribution rate which gradually increases. If there is no automatic escalation, persons may not be incentivised to invest otherwise or increase their contributions because of inertia.

Evidence suggests that high levels of participation tend to result not only from automatic enrolment but also from the practice of requiring each eligible employee to decide explicitly whether to participate.

CONCLUSION

Jamaica's participation rate in private pension arrangements has been consistently low. Although there have been several discussions amongst various stakeholders on how to improve the pension coverage rate in Jamaica, there has not been any advancement of arguments on a low-cost programme that addresses employees of companies who do not have formal pension arrangements.

We believe that an auto-enrolment programme will fill this gap and have discussed in this paper the salient features of this type of scheme for implementation in Jamaica. The current legislative framework in Jamaica can facilitate this programme and it is proposed that the FSC have oversight and introduce additional regulations to govern the auto-enrolment programme.

An auto-enrolment programme aligns with the financial resilience, financial access and usage pillars of the Government's National Financial Inclusion Strategy and it is anticipated that the programme's impact and benefit will include:

- Portability of pension accounts.
- Increased competitiveness of small businesses.
- Reduction of fiscal burden on Government when people have enough saved for retirement as they will not need public assistance programmes.
- A gradual reduction in old-age poverty.
- Encouraging new generations of savers/investors who use the programme.
- Assist in increasing the pension coverage rate.

Creating an automatic enrolment programme will create a new generation of investors who will build retirement assets and establish a new "gateway" to good savings practices and increase the likelihood of continuing to save and invest for the long term. For many young workers, automatic enrolment in a retirement savings programme would represent an important, long-lasting first step toward improving their financial literacy and working toward financial independence. By requiring employers to help their workers save and increasing the number of new savers, opportunities will also be generated for private sector retirement plan providers. Helping more workers have access and begin to save for retirement will also mean that fewer Jamaicans will rely on public assistance later in life, which will save taxpayer dollars.

While auto enrolment will not solve all of Jamaica's retirement security problems it gives people a better chance of saving for their future. However, stakeholder consultation and buy-in along with adequate public education initiatives must complement this programme to ensure successful implementation.

APPENDIX

SUMMARY COMPARATIVE TABLE

IMPLEMENTATION			CONTRIBUTION			OPT-OUT PROVISIONS		ENROLMENT			
CRITERIA /COUNTRY	IMPLEMENTATION PERIOD (YEARS)	PHASED IMPLEMENTATION	GOVERNMENT CONTRIBUTION MADE	EMPLOYEE CONTRIBUTION RATE	EMPLOYER CONTRIBUTION	OPT-OUT OPTION (AFTER ENROLMENT)	OPT-OUT RATE	EMPLOYER REQUIREMENT FOR AUTO-ENROLMENT (# OF EMPLOYEES)	MINIMUM AGE TO ENROL (YEARS)	AUTO-ESCALATION	OBSERVATIONS
USA (for state programmes in Oregon, Illinois, Connecticut and California excluding employer 401(k) plans).	**Varies by state**	**NO**	**NO**	Typical default rate of 5%	**NO**	**ANYTIME**	As of March 2023, the effective opt out rate for Oregon, Illinois, Connecticut and California was 35% and effective participation rate was 65% (computed as a simple average of the 4 programmes' effective opt-out and participation rates).	5 for California and 25 for Illinois. In Oregon all employers must auto enrol regardless of the number of employees.	**18**	With auto escalation up to 8% in California and 10% in Oregon (Illinois does not currently have auto escalation). Employees in California can go down to 1% or up to 100% if they actively choose.	No federal requirement; implementation on a state by state basis; design of programmes vary from state to state.
TURKEY	**2**	**YES**	**YES 25% OF**	**3%**	**NO**	**2 MONTHS**	**61%**	**5**	**<45**	**NO**	Large employers did not have transition period; Govt offered welcoming bonus; can withdraw from scheme after 10 years; opt-out rate high due to attractive social security with high replacement ratio.
POLAND	**2**	**YES**	**YES**	**start at 2%** increase to **4%**	**YES** start at **1.5%** increase to **2.5%**	**ANYTIME**	**>70%**	**ALL**	**<55**	**N/A**	Government entity is default provider of retirement product; employees withdraw 25% of contribution at 60 and remainder paid over 10 yrs; economy near full employment so all stakeholders contribute
RUSSIA	**N/A**	**YES**	**YES**	**start at 0%** increase to **6%** over **6 years**	**NO**	**ANYTIME**	**N/A**	**ALL**	**N/A**	**YES**	Not yet implemented; contemplate early withdrawal for severe illnesses; employees can fix their contribution rate
QUEBEC CANADA	**4**	**YES**	**NO**	**start at 2%** increase to **4%** over **4 years**	**NO**	**2 MONTHS**	**N/A**	**5**	**N/A**	**NO**	No lockup period; age of withdrawal is 71; low participation rate as employers have several pension alternatives

APPENDIX

SUMMARY COMPARATIVE TABLE

IMPLEMENTATION			CONTRIBUTION			OPT-OUT PROVISIONS		ENROLMENT			
CRITERIA /COUNTRY	IMPLEMENTATION PERIOD (YEARS)	PHASED IMPLEMENTATION	GOVERNMENT CONTRIBUTION MADE	EMPLOYEE CONTRIBUTION RATE	EMPLOYER CONTRIBUTION	OPT-OUT OPTION (AFTER ENROLMENT)	OPT-OUT RATE	EMPLOYER REQUIREMENT FOR AUTO-ENROLMENT (# OF EMPLOYEES)	MINIMUM AGE TO ENROL (YEARS)	AUTO-ESCALATION	OBSERVATIONS
CHILE	4	YES	N/A	**10%** tax authority retained this amount and pay to scheme	N/A	**12 months** (from 2012-2015)	N/A	NONE	18	N/A	Enrolment was mandatory from 2012-2015, transitioned to mandatory scheme in 2016; only targeted self-employed; self-employed coverage rate increased from 4% to 25% over 4-year period; high opt-out rate
ITALY	2	YES	YES	-	**YES** - formula based on future flow of deferred salary (average 6.91%)	6 MONTHS	N/A	ALL	18	NO	Participation rate increased from 5% to 18.8%; low participation rate by young persons
NEW ZEALAND	N/A	NO	**YES** annually through tax credit	3%	YES 3%	2 MONTHS	25%	ALL	18	NO	Participation rate increased from 15.5% to 75%
UK	N/A	YES	**YES** through tax relief	**1%** and increase to **5%**	**YES** 1% and increase to 3%	ANYTIME	10%	5	>22	NO	Participation rate increased from 33% to 56%; automatic enrolment only applies to individual earning more than £10,000 p.a; opt-out after 1-month contributions refunded to employee; employers can re-enrol employees 3 years after initial enrolment; One reason for the low opt out rate is the requirement for the employer to contribute

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