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Anguilla

Actuarial Brief on the Social Security Inquiry by the Public Account Committee

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1. The financial strategy of the Anguilla Social Security Board, and the cost and demand pressures on that strategy:

The financial strategy of the SSB medium term should be focused on attaining a real rate of return on assets in accordance with actuarial recommendations. The impact of Hurricane Irma on the economy of Anguilla and the demise of the local banks had a material negative impact on the SSB actuarial situation, restricting the progression of contributions and investment income. The impact of Hurricane Irma on Anguilla was more severe than in other CARICOM states, and only recently a steady recovery has been detected in the labour force and contribution income, restoring a proper balance with benefit entitlements, which are less affected by economic trends.

It is also noted that for the long-term branch, the "scaled-premium" system of finance is being applied. Under this system, the contribution rate is fixed at such a level that the income from contributions and investment is expected to exceed the expenditure on benefits and administration for a period of years referred to as the "period of equilibrium". Throughout the period of equilibrium, the annual excess of income over expenditure is accumulated in a reserve that should increase steadily, declining thereafter in the absence of adjustments to the contribution rate. A total contribution rate of 8.125% of salaries has been allocated to the long-term branch since the inception of the system. A primary objective of the actuarial reviews is to ascertain the adequacy of the statutory contribution rate in accordance with the system of finance and to quantify the projected level of reserves derived from the financial development of the branch. The next comprehensive actuarial valuation is due at 31 December 2019, to be completed by mid-2020.

2. **<u>The financial implications of potential changes to pension contributions</u>**

The statutory actuarial valuation as at 31 December 2019 should provide updated financial development medium and long-term, to allow the Board and the Government an assessment on the financial requirements of the Fund, which have been frozen since the inception of the scheme. **At present, we do not anticipate a need for an adjustment to the contribution rates medium term.** As stated above, in due course adjustments to the contribution rates would be required on a gradual basis to avoid negative implications on labour costs and employment creation. Stakeholders should realize that targeted pensions of 60% of insurable earning require adjustments to the statutory contribution rates, which have remained static since the inception of the scheme.

3. **<u>The implications of the Government's debt of $214 million on the financial standing of the Anguilla Social Security Board;</u>**

Many social security schemes have a share of the reserves invested in the Government´s obligations. For example, in the United States, 100% of the reserves are invested in Treasures Notes. The decision on investments in Government´s obligations depends on several factors, such as the "risk-adjusted" return as compared to alternative investments, and the availability of suitable competitive investment options, which in Anguilla are rather limited.

As to the experience, over the last decade investments in Government loans have performed adequately, yielding a "risk-adjusted" return higher than other financial instruments. In view of the experience of the private banking sector, investment in Government loans and bonds seem attractive. Investment experts also consider that the "safety" of the investments in central government obligations is higher than in other investment categories.

Unaudited data is on 31 December 2017 showed 65% of the assets invested in Government obligations, a significant increase as compared to 2015, due to the issue by the Government of Promissory Notes to guarantee deposits at the two local banks.

Therefore, having in mind that the financial sustainability of the Fund is implicitly guaranteed by the GoA, as stated in Sections 16 and 18 of the Act, **the level of the SSB assets in**

GoA obligations are not anticipated to have a negative incidence on the financial standing of the SSB, taking into consideration the performance of such investments in the past.

4. **The current financial position of ASSIDCO and plans to remedy the impasse with the Government**

As stated in a 31 December 2017 Actuarial Performance Review, the Board established ASSIDCO as a wholly-owned subsidiary for the purpose of financing specific projects that could yield a profit to the Board. The only investment made by ASSIDCO consisted of the purchase of a property (Cinnamon Reef), anticipated to be leased to the Government and become a profitable venture.

The Board is advised to determine the medium-term role of the investment subsidiary (ASSIDCO), in view of the constraints imposed by the potential diversification of the investments, with a high concentration of Government's obligations and captive deposits at the NCBA. **It is noted that the Act allows the diversification of the investments independently of ASSIDCO.** Past losses have been substantial, due to the investment in the Cinnamon Reef property and the subsequent inability of the Government to abide by the leasing terms. In view of the above, a key item in the SSB agenda would be whether to dispose of its investment in the Cinnamon Reef property on reasonable financial terms or negotiate with the Government a suitable arrangement. Co-ownership on a development project is not advisable, due to the uncertain profitability of these projects, and an outright sale of the property should be the preferred option.

5. The decision-making process for funding projects under the Development Fund and the post-project evaluation of those projects.

The actuary is not involved in the decision-making process for funding projects under the Social Development Fund. Several social security schemes include in the regulations specific provisions to set aside a small share of contribution income earmarked for "Social Development Projects". The rationality for these provisions is as follows: **Development projects contribute to employment creation, economic development and of the labour force, which in turn contribute to generate additional contribution income to the SSB and enhance its financial**

situation. Therefore, commitments in that area should be focused on **social development projects,** with a labor-intensive component.

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