

**WRITTEN EVIDENCE OF THE DIRECTOR OF SOCIAL SECURITY,
ANGUILLA TO THE PUBLIC ACCOUNTS COMMITTEE,
HOUSE OF ASSEMBLY, ANGUILLA.**

Timothy A. Hodge

October 30, 2019

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

RESPONSE:

The basis of the Anguilla Social Security System is the Social Security Act 1980, (now known as R.S.A. c. S45) and Regulations passed under that Act. The Act established a Social Security Fund, a statutory corporation to manage the Fund, through a chief administrative officer (The Director of Social Security) and staff. The Social Security System became operational on January 1, 1982. It is therefore nearing the completion of its 38th year of operations.

The financial strategy of the Social Security Board, in a nut-shell, is to maintain a strong, sustainable Social Security Fund which collects all revenues due, pays meaningful benefits to qualified recipients, and prudently invests surplus funds, through efficient administrative systems.

The cost and demand factors of that strategy are not unique, they are those which face any social security system anywhere in the world – relating to demographic and economic factors. In the Anguillian context, these relate mainly to the following:

ageing of the population (where an increasing number of persons are living longer);

health issues (where an increasing number of persons leave the workforce prematurely and thereby have a “double whammy” effect on the Fund – shorter period of contributing to, and longer period of benefitting from, the System);
and

the economy – both as it relates to available employment (the basis of contribution income) and to investment opportunities and returns.

The economy of Anguilla has grown substantially since the formative years of the Social Security System, however the Global Financial Crisis which began in 2008 had very severe impacts and contribution levels dropped for the first time in the System's history. They remained relatively flat until 2017, when contribution levels were returning to pre-2008 levels. However, in September 2017, Hurricane Irma struck with devastating impact.

Other impacts of the financial crisis include its impact on the banking sector in Anguilla, which today is totally different to what it looked like in 2008, substantially lower interest rates, and limited investment opportunities locally and regionally.

The economic crisis and Hurricane Irma have also significantly impacted the viability of a number of businesses, and consequently their ability to employ persons and pay in contributions on their behalf. A demand pressure is for the Board to improve compliance levels in a difficult economic environment.

In summary, the Social Security Board has had good success in carrying out its financial strategy, with the Fund continuing to perform in accordance with the Actuarial Model. Notably, the Fund has not yet reached its equilibrium, i.e. where Income equals Outgo, and is not projected to do so for a number of years into the future. Cost pressures include increasing benefits and administration costs. Notwithstanding these, annual surpluses continue to be generated, and the Fund continues to grow and approach the EC\$400 million mark.

2. The financial impact of recent pension age changes on the Medium-Term Financial Plan;

RESPONSE:

There have been **NO** pension age changes since the establishment of the Social Security System almost 40 years ago, i.e. a pensionable age of 65, at which Old Age Pensions become payable. No changes are envisaged.

3. The implications of the Government's debt of \$214 million on the financial standing of the Anguilla Social Security Board;

RESPONSE:

The Promissory Note from the Government of Anguilla to the Social Security Board for EC\$214 million constitutes the largest single element of the Fund's investment portfolio. Implications of this are:

- A. Limited flexibility of the Fund to invest in other types of investment, as it ties up substantial funds in a long-term obligation.
The positive associated with this implication is that here is a better match of the Fund's assets (so held in the long-term note) with the liabilities they are being held for (future long-term benefits of contributing employed persons).

- B. Consistent returns which are at present higher than Bank CDs and other fixed income securities available in other EC\$ instruments (ECCU Treasury Bills and Bonds, ECHMB Bonds).

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

RESPONSE:

The current financial position of the Anguilla Social Security Investment and Development Corporation (ASSIDCO) is centered around the treatment of its property commonly known as Cinnamon Reef, and the lease for this property entered into with the Government of Anguilla. Thus, the company owns a valuable asset, and has amounts due to it in excess of its value, but the lease payments from the Government remain outstanding leading to impairment loss provision of EC\$16 million. These would be eliminated by a sale or receipt of the outstanding amounts. The Board has considered an offer for US\$9 million, and further the property has been considered as one of the best 5 marina sites on the island in a recent study, with tremendous potential. In the meantime, the Board has asked government to negotiate a settlement involving loans and/or land swaps.

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

RESPONSE:

The Social Security Development Fund (SSDF) was created by legislation in 1986. It is funded with a small surplus of contribution income (3.75% out of the 18.75% previously allocated to Short-term Benefits) to be placed with any investment income earned by the SSDF. The SSDF's purpose is to fund "Socially desirable projects of the Social Security Board, with the prior approval of the Minister". The Board has established Guidelines for administering the Fund, together with a "Call for Projects" system which invites projects to be submitted twice a year, which allows prioritization and more efficient allocation of funds. Applications must be submitted on the approved form, together with budgets and other supporting documents. The applications for projects, which should have a national impact, are considered first by a Committee of the Board, and recommendations are then sent to the entire Board for its decision. No project may be funded without the required approval of the Minister. Disbursements, expenditures and progress are monitored by the Board's Accounting Staff, Project Officer or other officers of the Board as may be necessary.

The SSDF Guidelines and Application Forms are available from the Board's website www.ssbai.com, under the Resources tab.



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