

**THE BARBADOS NATIONAL INSURANCE AND  
SOCIAL SCHEME: AN APPRAISAL**

by

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**The Barbados National Insurance and Social Security Scheme: An Appraisal**

Social insurance: bringing the magic of averages to the rescue of millions

Sir Winston Churchill.

**PREAMBLE:**

In examining the Barbados National Insurance and Social Security Scheme, the main focus in this paper will be on the resource base thereof and the long-run sustainability of these resources. In order to achieve this, I will first highlight the benefits that are presently being administered by the Scheme and any major factors that may serve to inhibit the Scheme by imposing non-viability on it in the foreseeable future. The key question will be whether the NIS will still be viable in the future without any changes in its present structure. Ultimately, the options available to the scheme as well as any policy recommendations will be addressed.

**INTRODUCTION:**

Barbados is a small, open, developing country situated at the most eastern end of the Caribbean arc. Unlike the other Caribbean countries, Barbados was a British colony for over three hundred and fifty years without once changing hands. During these years the sugar plantation emerged as the dominant economic institution and Africans were shipped to the island to work on the plantations as slaves. The long lasting consequence of this is that two sections of the population emerged - the black slaves versus their white masters.

After the abolition of slavery in 1838 the ex-slaves of Barbados remained poor,

landless, and dependent on the plantation for their sustenance. The twentieth century - particularly after the 1930s uprisings - ushered in significant changes as more benefits were extended to the bulk of the population. By 1960, the system of a semi-responsible government was replaced by a full internal self-government. Prior to the attainment of Independence, the countries of the English-speaking Caribbean already had national health systems based on the British model.<sup>1</sup> Despite these changes, the island remained in the clutch of persistent poverty and high unemployment, it maintained a highly extroverted character, and it continued to be dependent on the metropolitan powers for survival. As a small country of 166 square miles with limited natural resources it was soon recognised that in order to embark upon any sustainable programme of economic development, the largest natural resource - the Barbadian population - must first be provided for.

In Barbados, along with the rest of the Caribbean, gradual change was occurring as some of the racial barriers and institutions that typified these colonies were eroded. More notably, attempts were made to improve the well-being of the majority of the people. More schools were built, primary education increased and medical coverage was on the rise. By 1954, it was reported that there existed "a non-contributory centrally-controlled system of providing out of government revenues old-age pensions from the age of 68 to persons who satisfy certain nationality, residence and means tests; and a well established system of public assistance provided by local boards of guardians" in Barbados.<sup>2</sup>

As Table 1 indicates there has been a rise in the population since the second decade of the twentieth century until around 1979. When Barbados gained its independence from British rule on 30 November, 1966 the state was expected to play an important role in providing for the well being of the poor, the disadvantaged and the

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<sup>1</sup>*Economic and Social Progress in Latin America: 1991 Report* p. 180

<sup>2</sup>*International Labour Office: Expanded Programme of Technical Assistance. Barbados Report to the Government of Barbados on a Proposed Social Security Scheme* p. 10

dispossessed masses of the population. Government made education available to all segments of the society, and it played a critical role in the provision of infrastructure for development. This role has been taken up by the government for a variety of reasons. Some of these reasons are a weak local private sector and a suspect foreign private sector. After Independence, this was coupled with an enthusiastic and hopeful population with high expectations making legitimate demands for goods and services from an extremely small resource base.<sup>3</sup> In the post-independence era, therefore, the government took the initiative to counter the historical legacy of under-development, poverty, dependence, and to respond to the impact of international crises.

Given the weak private sector and the fact that the bulk of the population was too poor to purchase its own private insurance a study was conducted in 1961 by H. W. Stockman, C.B.E. to research the feasibility of a social security scheme in Barbados. While carrying out his research Stockman noticed that Barbados "already had in operation a fairly comprehensive public medical service, which was available to the entire population."<sup>4</sup> Thus the implementation of the Barbados National Insurance and Social Security Scheme had a foundation on which to build as government persisted in the upliftment of its most valuable resource - the people.

In the years following constitutional independence, social insurance programmes in the Caribbean region increased rapidly, and the territory was lauded for having achieved near universal coverage.<sup>5</sup> Social security as a vehicle for economic development was not recognised immediately. As such, social scientists of that time paid little attention to the problem of social security.<sup>6</sup> Yet, Mesa-Lago notes that social

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<sup>3</sup>*Public Finance and Fiscal Issues in Barbados and the O.E.C.S* p.62

<sup>4</sup>*International Labour Office: Expanded Programme of Technical Assistance. Barbados Report to the Government of Barbados on a Proposed Social Security Scheme* p. 62

<sup>5</sup>*Economic and Social Progress in Latin America: 1991 Report* p. 182

<sup>6</sup>*Economic Development in the Caribbean* p. 178

security programmes have enormous importance for the region's economic development<sup>7</sup> since these programmes affect nearly all socio-economic aspects of development. It was quickly recognised that they can either be used as the vehicle for savings and investment or as the cause of growing fiscal deficits. They have additional developmental implications as the benefits received under these programmes can either increase worker productivity or increase production costs and hence reduce export competitiveness.<sup>8</sup>

#### **BACKGROUND:**

The National Insurance and Social Security Scheme was founded based on the experiences of Germany and other European countries. These experiences were then applied to the Barbadian situation. In 1966, an Act of Parliament - Cap. 47 of the Laws of Barbados - led to the provisions of the National Insurance and Social Security Act.<sup>9</sup> This Act became effective in 1967 when the first contribution was made to the Scheme. The National Insurance and Social Security Scheme (NIS),<sup>10</sup> administered by the National Insurance Board - a body corporate - is earnings related and its main aim is to give the worker and family in Barbados a greater measure of security against economic and social distress that might otherwise be caused by a stoppage or reduction in income

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<sup>7</sup>*Changing Social Security in Latin America: Towards Alleviating the Social Costs of Economic Reform* p. 181

<sup>8</sup>*Changing Social Security in Latin America: Towards Alleviating the Social Costs of Economic Reform* p. 181

<sup>9</sup>Interview with Averille White, Senior Research Officer of the NIS.

<sup>10</sup>An ILO definition of social security is: a comprehensive system of protection against social risks embracing social insurance, family allowance, social assistance, and public health care programmes or national health systems. Social insurance is said to have a more restricted scope, encompassing old age, disability, and survivors' benefits, medical and hospital care and compensation covering work related risks, ordinary illnesses, maternity and unemployment. (Mesa-Lago, 1994:180)

resulting from sickness, maternity, injury, disability, unemployment, old age and death.<sup>11</sup>

As with other national insurance or social security schemes the key focus is to provide a buffer against a major drop in the individual's standard of living. In addition, given the characteristics of Barbados (namely dependence and a wide discrepancy between the incomes of the rich and those of the poor) there is an additional policy concern. As Michael Howard notes, the Scheme also functions as a policy response to the problems of inequality and poverty.<sup>12</sup> Howard states that the Scheme is meant to provide insurance against the risk of an uncertain lifetime and as a redistributive mechanism for income in society. In addition, recalling that Barbados is a developing economy, the Scheme was also envisioned to be a form of savings mobilisation, as a provider of investment funds to help transform the economy, and as a means of financing the fiscal deficit.

#### **THE BENEFITS ADMINISTERED BY THE SCHEME:**

In conceptualising the workings of the Scheme it is necessary to have an understanding of its practical role in society by looking at the benefits it administers. Table 2 itemises the major benefits that are covered by the NIS. Initially, these benefits were extended only to employed persons 16 - 65 years old, with coverage for sickness, maternity, invalidity, old age contributory, survivors' benefit and funeral grant.<sup>13</sup> From Table 2 it is evident that the Scheme has undergone significant changes over the years - widening to include a larger proportion of the population.

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<sup>11</sup>Compare to the United Nations and International Labour Office definition.

<sup>12</sup>*New InSight Magazine* 2nd half 1993 Issue No.9 p. 7

<sup>13</sup>*New InSight Magazine* Jan - April 1995 Issue No.12 p. 2

### **THE SCHEME'S INVESTMENT POLICIES:**

Given the wide responsibility of the NIS as was outlined in Table 2 it is imperative that the Scheme has an adequate resource base. Being a Mortgage Fund, the National Insurance Fund (the Fund) must put itself in a position to cover claims that are made on it.<sup>14</sup> This suggests that the resource base of the Scheme must be self sustaining and viable so that both workers today and in the future may be amply provided for. Both the nature of the Fund's financing alternatives and any foreseeable calamities are therefore of great concern for policy makers.

The Fund is financed in four main ways. From Table 3, we see that the primary source of financing is the contribution income. The contribution income is based on the salary of the employee. The wages, determined as percentages, are generally payable by the insured and the employer. This method of financing is not unique to Barbados since it is acknowledged that "the basis of social insurance in the three major schemes of unemployment, sickness and insurance pensions has been a contributory system - the National Insurance System".<sup>15</sup> Creedy and Disney (1985) purport that this contributory system has its foundations in the beginning of the twentieth century when the states of developed countries took over the role of private insurance for reasons of paternalism (namely in the provision of pensions), market failures (particularly adverse selection and moral hazard problems in the 1930s) and the relative administrative efficiency of the state and the private provisions.<sup>16</sup> This alludes to the attractiveness of the NIS as a state programme.

The Barbados National Insurance and Social Security Scheme is similar to other state schemes which are financed on a Pay-As-You-Earn (PAYE) basis. This means that

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<sup>14</sup>*New InSight Magazine* September 1990 Issue No.4 p. 2

<sup>15</sup>*Social Insurance in Transition: An Economic Analysis* p. 42

<sup>16</sup>p. 42

the current pensions are financed from current contributions. As a result of this "state pensions are often treated as very short-term issues".<sup>17</sup> The implications of this will be discussed later in detail.

Other sources of financing are interest income, miscellaneous income, and investment income. Investment income is derived from income earned on treasury bills, treasury notes, bonds, equity, fixed deposits and debentures. As Table 3 shows, in 1992, contribution income accounted for 68.9% (or \$134.5 m), investment income for 22.3% (\$43.6 m), miscellaneous income for 8.0% (or \$15.6 m) and interest income for 0.9% (or \$1.7 m) of fund financing. This is consistent with the general trend where contribution income accounts for the largest proportion of fund financing, followed by investment income, and with interest and miscellaneous income making up the rest of the financing.

The investment policies of a system such as the NIS are crucial if its longevity and sustainability is to be ensured. Given the extensiveness of the NIS - investment income - which accounts for the second largest arm of financing, must be treated wisely. To ensure this, a sub-committee chaired by the Chairman of the National Insurance Board was established to make the investment policies of the NIS more obvious. This sub-committee comprises a representative from the Central Bank; the Permanent Secretary of the Ministry of Finance; and the Deputy Chairman of the National Insurance Board. Its aim is to maximise the earnings of the investment of the national insurance funds while avoiding high risks (because of the pension funds). Its main considerations are to include safety, liquidity, yield and economic utility. The intention is to shift the portfolio away from short-term to long-term investments while focussing on investments in equity.<sup>18</sup>

To date, under the now defunct Barbados Development Bank (BDB), the NIS has invested directly in manufacturing, tourism and other industries. It has equity in the Barbados Light & Power Company Limited (BL&P), in the Mutual Bank of the

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<sup>17</sup>*Social Insurance in Transition: An Economic Analysis* p. 51

<sup>18</sup>*New InSight Magazine* Issue No.7 p. 13

Caribbean Incorporated (the Mutual), in Barbados External Communications Limited (BET) and in Bartel. The NIS is trying to move away from holding Government papers and investing in commercial banks<sup>19</sup>. In 1994, in keeping with these decision, \$225 m in short-term Treasury Bills were converted to longer term Debentures (see Table 3).

#### **LIMITATIONS OF THE SCHEME:**

Unfortunately, not even the wisest investment decisions can prevent social security schemes from being threatened. The fact that state-operated social security schemes worldwide are plagued with many problems is evidenced by the calls for the privatisation of these schemes. As Cheryl-Ann Cumberbatch(1994) notes in her book review, social security should play a critical role in alleviating the severe social costs of economic adjustment and restructuring, but it has been hampered by a series of problems.<sup>20</sup> Some of the problems which adversely affect social security schemes in general include:

- poor population coverage with the more vulnerable groups being hard to access;
- burdensome and aggressive payroll contributions, worsened by non-compliance;
- payment delays;
- inefficient investment policies and opportunities which has resulted in the decapitalisation of funds;
- liberal and inequitable benefits that inevitably have to be curtailed;
- high and increasing health care costs;
- high administrative overhead, managerial inefficiencies/deficiencies;
- low real rate of return on reserve investment; and
- economic crises.

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<sup>19</sup>National Insurance Board 1994 Annual Report p. 11

<sup>20</sup>Central Bank of Barbados September, 1994 Economic Review p. 10

In Barbados, the main problems facing the NIS seem to be issues of non-compliance, economic crises, limited investment opportunities and the extension and enhancement of financial benefits. I will look at each of these separately.

#### **Enhancing Financial Benefits:**

Limitations on the NIS include the difficulty of regular and timely collection of contributions from the insured and their employers. One of the fundamental reasons for or results of this problem is disequilibrium in the Scheme wherein benefit payments exceed the incoming contributions. Table 2 demonstrates that, in addition to expanding the coverage of the NIS, benefits within the Scheme were also enhanced as time went by. A clear illustration of this is the increases in minimum old age non-contributory and other pensions. Since 1981, there were four across-the-board increases in pensions<sup>21</sup>. Benefits were also increased in respect to funeral grants and the introduction of the Unemployment Benefits Scheme. In the early stages, a major problem may have been the existence of provident funds which did not provide adequate retirement benefits. Under provident funds, at retirement the participant would receive his accumulated contributions plus accrued interest.<sup>22</sup> When such funds were incorporated under the Scheme, old age pension benefits were made more liberal. Furthermore, the old age contributory pension is not tied to retirement from work. Instead, this pension becomes payable once the insured person has reached age 65.

Barbados has been credited with near universal coverage. Despite this achievement, one shortcoming of the Scheme has been the abrupt fall in the reserves in the Unemployment Fund. (see Table 6). The Unemployment Benefits Scheme was

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<sup>21</sup>The National Insurance and Social Security Scheme of Barbados p. 9

<sup>22</sup>Public Finance and Fiscal Issues in Barbados and the O.E.C.S. p. 5

introduced in 1982, and by 1984 it had accumulated reserves of \$34 m<sup>23</sup>. Because of the rapid build up of reserves, the contribution rate was reduced (see Table 2a), and the benefits were liberalised. With the passage of time, however, costs increased significantly. The rise in costs coupled with rising unemployment between 1982 and 1986 so increased expenditures on unemployment benefits that by 1986 the benefits paid out almost doubled that of the contribution income received. Benefits administered in 1986 increased by almost a factor of eight over those of 1983. By 1987, the accumulated reserves had fallen to \$29.7 m. From 1986 to 1991, benefits paid out have exceeded contribution income, and correspondingly total expenditure has also exceeded total revenue. This can be explained by the raising of benefits administered by this scheme while lowering the contribution rate.

When the Unemployment Benefits Scheme was first incorporated into the main Scheme, the rate of contribution was set at 2%. From 1985 to October 1991, this rate was changed to 1%. Disequilibrium in the Unemployment Fund was offset in 1992 after the contribution rate was revised upward twice in 1991. It was first raised to 2.75%, and again to 5.5%. This increase in the contribution rate allowed the Unemployment Fund to cope with the rise in unemployment claims that emerged during the recession of the early 1990s.

These limitations on the Scheme are perhaps compounded by the merging of social insurance and public assistance resources. The old age pension, which is a public assistance programme, was housed under the national assistance organisation. The public assistance programmes preceded social insurance in Barbados but the non-contributory pension was put under the national insurance administration in 1982<sup>24</sup>. It is currently

financed by separate wage contributions of 2% from the insured and employers.<sup>25</sup> The non-contributory pension, initially a welfare programme, is the only public assistance that is covered by the NIS. All other welfare programmes are covered by the Welfare Board and the National Assistance Board.

When the non-contributory pension was transferred from the Welfare Department the major qualifying factors were age (65+) and residence. But the National Insurance Scheme reserves are not separated by contingency and are consolidated in a common fund.<sup>26</sup> This combination leads to financing deficits in one programme by the resources of the other. Mesa-Lago notes further that between 1982 and 1984, the expenditures of the assistance programme exceeded contributions towards that service - implying that reserves from the common fund were used to finance the deficit. Since the incorporation of the non-contributory pension into the Scheme, expenditure spent on old age non-contributory pensions alone constitutes on average around 43% of all benefits paid. In 1983, the International Monetary Fund recommended that the two programmes be separated.<sup>27</sup> The NIS did not comply and, at present, the two programmes are still housed under a common fund.

As was noted earlier, the contribution rates for short-term benefits are determined under the PAYE system of financing. This means that "the rate set generates the quantity of contributions required to meet current expenditures on benefits and associated administrative costs...(It should) also build up a contingency reserve sufficient to meet unfavourable fluctuations in expenditure".<sup>28</sup> Creedy and Disney liken the PAYE system

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<sup>23</sup>*The National Insurance and Social Security Scheme of Barbados* p. 23

<sup>24</sup>Averille White, Senior Research Officer

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<sup>25</sup>*The National and Social Security Scheme of Barbados* p. 12

<sup>26</sup>*Changing Social Security in Latin America: Towards Alleviating the Costs of Economic Reform* p. 37

<sup>27</sup>*Changing Social Security in Latin America: Towards Alleviating the Costs of Economic Reform* p. 38

<sup>28</sup>*The National Insurance and Social Security Scheme of Barbados* p. 11

to making an implicit contract between three 'generations'. They explain that the working population agrees to pay the pensions of the retired population on the understanding that their pensions will subsequently be paid by the next working 'generation'.<sup>29</sup> Though the long-term contributory benefits are determined under the 'scaled premium' system of financing, the contribution rate is fixed so that the income from contributions and investments exceed the expenditure on benefits and administration for the 'equilibrium' period.<sup>30</sup> Again, this implies that decisions are often made on a short-term basis. It may be that decisions are made to cover present costs without necessarily paying due attention to future viability.

#### Non-compliance and Payment Delays:

At present, one of the most trying problems facing the NIS is that of non-compliance. In Barbados, Jamaica and the Bahamas, payment delays and evasion are particularly high.<sup>31</sup> Payment delays may be the result of a variety of reasons. These include inefficient administration, cumbersome paperwork that must be filled out in order to file a claim, employer payments that are not up-to-date, and difficulty in determining the correct names and ages of claimants to the old age contributory benefit. In Barbados, there is possibly a problem of free riders since there is no real difference between the minimum social insurance pension and the public assistance pension. In fact, business men who have made no contribution to the self-employed branch of the Scheme are now receiving non-contributory pensions.

Non-compliance often results in incoming contributions being less than the benefits to be paid out. The problems associated with non-compliance have come to bear

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<sup>29</sup>*Social Insurance in Transition: An Economic Analysis* p. 51

<sup>30</sup>*The National Insurance and Social Security Scheme of Barbados* p. 11

<sup>31</sup>*Changing Social Security in Latin America: Towards Alleviating the Costs of Economic Reform* p. 43

directly on the Scheme in present times. Under actuarial advice, the Scheme was anticipating that the non-contributory pensions would decline over the years as the number of contributory pensioners increased. Unfortunately, though this is happening, it is not taking place at the expected rate because of the prevalence of non-compliance.<sup>32</sup> White suggests that because of the lack of attention that was given to the Scheme in previous years, non-compliance easily occurred. Serious efforts are now being made to counter this problem. At present, there is some legislation that is to come into effect. The directors of companies are to become liable for contributions not paid. In addition, as a last resort, legal action against delinquent employers may be taken "in order to collect the arrears of contributions and to improve the collection of contributions".<sup>33</sup> The Scheme is also exerting an effort to identify and register those persons who according to the National Insurance Legislation were gainfully occupied in employment in Barbados but who were not employed persons.<sup>34</sup> This category of gainfully employed persons include vendors, minibus operators, beach vendors and professionals.

With respect to the self-employed person, once there is proof that he worked and did not contribute he will not receive the non-contributory pension. Loopholes are being closed and legislation is being tightened to prevent the 'misuse' of the Scheme.<sup>35</sup> If the NIS is to be viewed, based on the ideal that it is to "function as a policy response to the problems of inequality and poverty"<sup>36</sup> this solution may not necessarily be one to applaud. In fact, it may have serious negative implications on the well-being of the poorer

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<sup>32</sup>Interview with Averille White, Senior Research Officer, NIS

<sup>33</sup>*Report of the National Insurance Board on the National Insurance and Social Security Scheme for 1989* p. 7

<sup>34</sup>*Report of the National Insurance Board on the National Insurance and Social Security Scheme for 1990* p. 3

<sup>35</sup>Averille White, Senior Research officer, NIS

<sup>36</sup>*New InSight Magazine* 2nd half 1993 Issue No.9 p. 7

segments of society. The potential negative repercussions will be outlined under a separate section.

#### Limited Investment Opportunities:

For a developing country like Barbados it might be interesting to note that the situation of pronounced non-compliance can be worsened by inadequate or underdeveloped financial markets which restrict the possibility of private insurance. It may also be worsened by limited tax resources with competing demands on budgetary resources (such as education or health care). In Barbados, social security has emerged "as (a) government-operated and controlled nonbank financial intermediary".<sup>37</sup> Hope (1986) describes financial intermediaries as economic units whose principal function is managing the financial assets of other economic units.<sup>38</sup> That is, they bring the lenders of money and the borrowers of money together. This is done by selling or lending securities. Recalling that the Scheme was also envisioned to be 'a form of savings mobilisation, as a provider of investment funds to help transform the economy, and as a means of financing the fiscal deficit', it should come as no surprise that in Barbados and in other Caribbean territories, the borrowers of Scheme funds happen to be the Caribbean governments and the securities sold are lifetime benefits of various sorts.<sup>39</sup>

In Barbados, it has been argued that there is not a great deal of financial assets available for investment other than government paper.<sup>40</sup> Both macroeconomic theory and development economists attest to critical role of savings and capital in economic development. It is further argued that it is preferable to use domestic savings rather than

invest or borrow from abroad in pursuing economic development. What often goes unnoticed is that when the Fund acquires government debt, it also acquires "a contingent future liability, which will be liquidated by higher taxes in the future".<sup>41</sup> As can be seen from Table 3, contribution and investment income combined account, on average, for about 75% of Fund financing. Since government uses taxes as its main source of revenue, the liability that it incurs on the issuance of Treasury bills, debentures and other government paper, will be financed in the future by increased taxation. In effect, contributors face a sort of double taxation. The first occurs as their contributions are deducted under the PAYE system and later, through consumption or other taxes as government tries to finance its debt.

#### THE EFFECT OF ECONOMIC CRISES:

As a built-in economic stabiliser, the benefits paid out by the NIS automatically increase as the economy deteriorates and decrease during times of boom. In recent times the NIS's stabilising role was seen in the early 1980s and again between 1990 and 1993, when Barbados underwent a decline in economic growth. The 1990 to 1993 slump period was a result of the contractionary fiscal and monetary measures which were part of the Government's 18 month stabilisation programme.<sup>42</sup> These measures were implemented to reverse the deteriorating macro imbalances. According to Central Bank Economic Reports, "recession in the major trading partner countries, a persistently high fiscal imbalance and the continued erosion of foreign exchange holdings"<sup>43</sup> also contributed to the deterioration of the economy.

This fall in economic activity led to an increasing rate of unemployment as the

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<sup>37</sup>*Economic Development in the Caribbean* p. 179

<sup>38</sup>Ibid

<sup>39</sup>*Economic Development in the Caribbean* p. 179

<sup>40</sup>*Public Finance and Fiscal Issues in Barbados and the O.E.C.S.* p. 6

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<sup>41</sup>*Public Finance and Fiscal Issues in Barbados and the O.E.C.S.* p. 7

<sup>42</sup>*National Insurance Board 1992 Annual Report* p. 1

<sup>43</sup>*Economic Review* September, 1991 p. 1

labour force contracted (see Table 6 and Graph 1). The immediate effect on the National Insurance Fund was a decline in the growth of contribution income and an increase in benefit payments. The increase in the level of unemployment claims and benefits paid served to undermine the revenue base of the Scheme. This is highlighted in Table 4, where 1994 was the first year since the economic crisis that benefits paid out were less than contribution income. This occurred only after the contribution rate in respect of the National Insurance Fund was raised.

A direct result of the economic recession in Barbados was an increase in credit restrictions and taxation, and a decline in public sector employment. A basic freeze in wages and salaries was implemented in 1993. To intensify these problems, the contraction of the economy was followed by a structural adjustment programme (SAP) as the government tried to solicit funds from the international lending agencies of the International Bank of Development and Reconstruction (World Bank) and from the International Monetary Fund (IMF). The essential purpose of the SAP is to "create favourable conditions for economic diversification".<sup>44</sup> With the implementation of the SAP, "workers who had formerly paid their contributions promptly became delinquent (and) those who tended to be delinquent became even more so".<sup>45</sup> Consequently, much time and resources were spent trying to ensure compliance.

Moreover, the short-term effects of the twin programmes of stabilisation and structural adjustment were severe social and economic deprivation, with the burden falling particularly on those members of society least capable of withstanding such trauma - the poor and low income earners.<sup>46</sup> These programmes are known to lead to increasing poverty because of higher unemployment, falling real wage rates, and cuts in

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<sup>44</sup>*Economic and Social Progress in Latin America, 1991 Report* p. 7

<sup>45</sup>*New InSight Magazine* First Half 1992 Issue No. 7 p. 12

<sup>46</sup>*New InSight Magazine* First Half 1993 Issue No. 11 p. 24

(public) expenditure on health, education and food subsidies as government seeks to decrease its high fiscal deficits.<sup>47</sup> By looking at both Chart 1 and Graph 1 we can appreciate the impact that lay-offs, and redundancies can have on the Unemployment and Severance Payments branches of the NIF. During the economic crisis of the first half of the 1990s, the NIS was affected even more as the salary cuts that ensued only served to diminish the morale and so perhaps increase inefficiency of the workers who were facing higher prices.

From another perspective, there may be at least one positive effect of economic crises. Mesa-Lago points out that economic crises may be accompanied by the "realisation of the seriousness of social security problems and their relationship to the economic situation".<sup>48</sup> With the 1990s economic crisis, the need for reform was highlighted. The NIS office was forced to acknowledge that there needed to be an improvement in the processing of claims and in general administrative efficiency. Consequently, there has been a move towards the computerisation of the Benefits Processing Section and more emphasis has been placed on sensitising the public about the function of the NIS. The booklet, *The NIS: An Introduction* was published and distributed to schools island-wide and advice was offered on how to fill out the claim forms as well as on the benefits that are possible under the Scheme.

#### Increasing Longevity:

The Social Security Scheme in Barbados will undoubtedly be impacted by unfavourable demographic changes as the ratio of workers to old age pensioners decline, and as people's life expectancy increases. In Barbados improvements in health care have led to an increase in the average life span of the citizens. This increasing life expectancy

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<sup>47</sup>*New InSight Magazine* First Half 1993 Issue No. 11 p. 24

<sup>48</sup>*Changing Social Security in Latin America: Towards Alleviating the Social Costs of Economic Reform* p. 189

(see Table 8 and Charts 2 to 7), coupled with the predicted rise in the percentage of senior citizens will continue to put pressure on payments of pensions. Looking at Graph 2 one can reasonably expect the proportion of the population in receipt of pensions to increase over the years. In addition, with emigration and the advocacy and acceptance of family planning, the rate of growth of the population may not be as large as the rate of growth of the 65+ age group. This suggests an increase in the dependent population over time that will necessarily affect the Scheme.

In 1982, when the non-contributory pension was first added to the Scheme, old age non-contributory and contributory pensions totalled about \$45 m. This represented 70% of contribution income and about 82% of benefits paid out. By 1994, these percentages were 75% and 80% respectively. This indicates at a constant level of high pension payments. As the dependent population increases there may be increased taxes and decreased benefits. In the future, it is believed that dramatic changes will occur as "rapid demographic, societal and technological shifts affect demand for social security services, the expectations of social security customers, and the means with which to satisfy these expectations".<sup>49</sup>

During the economic crisis of the early 1990s, the retirement age was decreased so as to alleviate the high coincidence of unemployment among the younger members of the labour force. This meant that even more pressure was placed on the Scheme in order to cover the costs of administering old age pensions. The Scheme was established in Barbados when the life expectancy was lower than at present (see Table 8). In addition, the fertility rate was higher and the population was increasing at a faster rate. The labour force also represented a larger percentage of the total adult population when the Scheme came into operation. The effect of increasing longevity on the viability of the NIS is better understood when it is shown that most of the spending from this Scheme goes to cover the various pensions. Over the years sickness benefit comprised the largest number

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<sup>49</sup>*New InSight* Issue No. 9 p. 8

of claims but the largest proportion of benefits paid out continue to be in respect of the old age pensions. If this trend of a high percentage of spending on pensions continues the Fund may face problems of financing in the future.

#### **PUBLIC POLICY CONCERNS:**

##### **Substitution of labour:**

As Mesa-Lago correctly notes, social security can either "improve the standard of living and distribution of income or have regressive effects".<sup>50</sup> Under the current financing system based on wage contributions by the employer of the insured there may be an incentive to replace labour with capital since capital is not taxed under the PAYE system. This means that labour may appear as a more expensive input. If this is occurring in Barbados, then the Scheme would be serving to worsen the problems of high unemployment and inequity that already plague the island.

##### **Redistributive effects of the Scheme:**

As a redistributive mechanism, the impact of the Scheme is not very clear. If the NIS is really intended to be an agent of the redistribution of income within Barbados, then the maximum insurable income category should be removed. In Barbados as in the rest of the Caribbean an "upper limit is imposed on the insurable income of the member".<sup>51</sup> No taxes are paid on income in excess of a certain threshold. (See Table 9). This implies that lower income earners are in effect paying a higher proportion of their income towards National Insurance. If this ceiling were eliminated and the entire salary used as the tax base the NIS would both increase its revenues vis-a-vis contribution income, and it would at least give the appearance of being less regressive.

In terms of the benefits paid out, the positive effects of the NIS are obvious. The

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<sup>50</sup>*Changing Social Security in Latin America: Towards Alleviating the Social Costs of Economic Reform* p. 181

<sup>51</sup>*Public Finance and Fiscal Issues in Barbados and the O.E.C.S.* p. 6

NIS has filled a cavity that was created by the absence of capital markets in Barbados. This absence meant that the 'well-to-do' in society could not invest locally for their retirement. Also, given the high unemployment and incidence of poverty in Barbados the NIS - through a form of compulsory savings - helps the poor to invest in their retirement. Under the NIS the poor and the elderly are provided for in ways that had previously been unimaginable without the stigma of being a social charge. However, given the Scheme's reaction to the issue of non-compliance, even the well-being of these groups might be jeopardised.

While it is obvious that if the Scheme is to remain a viable institution in years to come there must be adequate financing, government cannot neglect its responsibility to the underprivileged sections of the population. By refusing to give the non-contributory pension to formerly self-employed person once there is evidence that he worked may only worsen the problems of inequity. In the 1983 Annual Report it was stated that "experience over the years has shown that those self-employed persons who have tried most to evade registration and so remain outside the Scheme are those most in need of cover provided by the Scheme".<sup>52</sup> For many persons at the lower end of the income bracket, being compelled to pay the monthly self-employed requirements may in fact push them even further down the socio-economic ladder. This would result in a regressive effect on income distribution within the population. To be an effective agent of the redistribution of incomes, the Scheme must have the capacity to guarantee the members of society the maintenance of at least tolerable living conditions.

Imagine the following scenario: A 'self-employed' single mother of three, with net earnings of \$30.00 per week. The children are all of school age. Bus fare is \$6.00 per day for the children to school and back since it is too far to walk. Even though this mother may be earning the minimum amount, to compel her to pay 10.50% of this towards National Insurance contributions would undermine the main premise of the

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<sup>52</sup>National Insurance Board 1983 Annual Report of the NIS p. 3

Scheme which is to give the worker and family in Barbados a greater measure of security against economical and social distress.

Some may choose to describe such a 'self-employed' person as short-term oriented, preferring current consumption to that of the future. As John Maynard Keynes is often quoted for writing, "In the long run, we are all dead". Without having even heard of Keynes, many of those who may be described as 'gainfully occupied' may be merely etching out an existence. When the focus is on the 'here and now', and when one is living from 'hand to mouth', there is very little room to entertain ideas such as provision for retirement. Unfortunately, though in the past this might have been done under the assumption that on retirement, even if adequate savings were not available, one would be provided for by the extended family this is no longer a realistic expectation. With the continuing disintegration of the extended family many persons with no relatives to turn to become state charges. More pressure is placed on the government's limited resources and it is imperative that the government responds to these challenges.

It is also clear that if the NIS is to help the government in fulfilling its role of providing for 'the elderly and other disadvantaged groups', and if the Scheme is to continue to administer its present benefits, then it must be a financially sound institution. It goes without saying, therefore, that those persons who are capable of registering without having a significant effect on their standard of living should be forced to do so if the NIS is to remain in operation. These self-employed persons, be they vendors or small businessmen, should be both alerted to their responsibility as citizens and to the longer term benefits of registering and contributing to the Scheme. If they choose not to make the necessary contributions - perhaps on the premise that they are better capable of providing for their own retirement then these people should clearly not receive non-contributory pension benefits. It must be remembered, however, that such persons are needed if the system is to continue to be one of redistributive effects. Unfortunately, it is not easy to distinguish between those who evade because of necessity and those who

evade because they have greater confidence in their own ability to provide for retirement. What is needed, therefore, is some way of differentiating between these groups if the Scheme is to both remain viable *and* serve as a redistributive mechanism.

**Policy Recommendations:**

The Scheme was advised by Ruth A. Pierce - Deputy Commissioner, Office of Human Resources U.S. Social Security Administration, to:

- decrease special privileges;
- adapt benefits to a working life that is now longer than formerly;
- ensure that benefits are in line with the actuarial value of the respective welfare fund and not its cash flow.

As a longer-term transfer-based social policy Pierce suggested that the Scheme:

- expand coverage in terms of benefits provided; and
- incorporate into them groups of needed persons not covered by the system.

Given the limitations outlined previously, and bearing the aims of the Scheme in mind, I would suggest that the Barbados Social Security Scheme:

- Continue in its attempt to diversify its investment portfolio. This may be done by investing in longer-term instruments with higher yields than that of government paper and which do not carry along the future liability to society. After the 1970s oil crises escalating prices and interest rates helped to highlight the risks that are associated with having a limited portfolio. It is therefore advisable to invest in high yielding diversified portfolios with relatively low accompanying risks.
- Make the terms for compliance less burdensome. In seeking to incorporate even more of the population by encouraging registration and compliance, the Scheme should decrease the amount of paperwork necessary. Excessive paperwork is burdensome on many counts. By simplifying the procedures needed to register,

the self-employed may be encouraged to enroll. In addition employers and workers alike may also be more inclined to pay the necessary contributions if there was less paperwork involved and if one of them was held responsible for the deductions of contributions. There are inherent problems of simplification since it is necessary for the Scheme to have adequate informational records of the insured persons. Given this age of information technology, paperwork might be used for the collection of information only. As the use of computers increases claims processing may be made easier. With computerisation, contributions may also be deposited automatically from the employer into the NIS account. In this way problems of forgetfulness and uncertainty - questions such as "Did I pay the NIS? or how much did I pay the NIS - are minimised. As an alternate or complementary solution NIS registration may be linked to the national registration system. In this way there would be a direct connection between unemployment and persons unemployed. This would mean that the NIS, like an insurance agent, can check up on members of the public, see who is not complying, and perhaps encourage these people to conform to NIS regulations.

- Review its benefits. The Scheme should review its benefits so as to ensure that the resulting effect on the welfare of society and on the economy at large is positive. It has become clear that there is a need for a social security structure that is both compatible with the country's economic goals and labour market conditions. Universal coverage should also take into consideration the varying degrees of need within the community, it should be able to prioritise these needs, and the feasibility of providing for these needs should be carefully assessed.<sup>53</sup> This means that benefits should neither be added nor present ones enhanced unless there is adequate funding available.
- Adopt strategies for ensuring compliance that are both effective and incorporate a

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<sup>53</sup>*Economic and Social Progress in Latin America: 1991 Report* p. 177

concern for equity and social conditions. If not, instead of improving social equity the Scheme would instead perpetuate the problems associated with income disparity. If the Scheme finds that this is too difficult under its present structure, it may be necessary to introduce a tax system with purely social objectives to care for the poor and elderly or re-introduce the means test. Since Barbados is still characterised by a high level of taxation another income tax may not achieve the desired affect. The main problems associated with the means test is that it is subject to abuse because there is a large area of uncertainty. Since it is hard to distinguish between those deserving and those undeserving of non-contributory old age pensions, it is better to have a fund that does not look too 'political' by looking too much like a welfare handout. Means tests often stigmatise the poor because they appear as simple transfers from the government to the underprivileged. The privileged may then view the underprivileged population as a burden while the underprivileged might themselves lose their dignity and self-respect. None of these are the desired consequences of such a social system. The welfare system must be treated as a holistic one - meeting the demands of different groups of people. Rather than focussing on the individual, the poverty stricken household should be zeroed in on. National insurance should just be one aspect of the multiplicity of assistance that is offered to such a household. There are also new methodologies of assistance that can be used. Some of these (e.g. the voucher system) can be adopted to help ameliorate the problems that accompany transfer payments from government to the disadvantaged.

#### REMARKS:

At present, the Scheme is instituting changes to help improve its administrative efficiency, to extend its coverage, and more importantly, to make itself an economically viable institution. There has been a move towards computerisation and fines are now charged for the late payment of contributions. If this is not already in place, the NIS should charge fines that are set at an interest rate that exceeds the rate of inflation and the rate that is payable at commercial banks so as to avoid the depreciation of these fines. If this is not done, the NIS would, in effect, be offering these delinquent persons a loan until the time of repayment. At the same time, the NIS would not be capturing the interest that it would otherwise have gained if the funds were available for investment. In areas such as these, it is necessary that the Scheme acts as a rational, 'economic animal'. The worldwide trend of privatisation also suggests that the Scheme be managed efficiently.

In 1993, the longest and most ambitious round of the General Agreement on Tariffs and Trade came to a close. The issue of privatisation, among other things, is included in the Charter of the World Trade Organisation which came into operation in January, 1995. Privatisation represents a counter movement to the growth of government that has characterised the post World War period. Privatisation of state-owned institutions is justified on the belief that private enterprises are managed more efficiently because of competition, the threat of bankruptcy, and the profit incentive.<sup>54</sup> Chile has been a trend setter in privatisation in Latin America with the privatisation of its social security system in 1981. So far, the Chilean experiment with the creation of a pension system based on individual- capitalisation has been judged as successful at present and viable in the future. The dispossessed of Chile, however may not judge it a success since it did not occur without substantial losses to the lower income groups in society.

The arguments for privatisation are kept in check by the arguments in favour of the

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<sup>54</sup>*Changing Social Security in Latin America: Toward Alleviating the Social Costs of Economic Reform* p. 5

state. These arguments for the state include a weak private sector, the idea that the state would act in due consideration of the masses of people, and the reports that the private sector may be no more efficient than the state. In considering a transition to private pensions, the possible consequences of such a change must be reviewed. If we were to privatise the National Insurance and Social Security Scheme it is unlikely that Barbados would continue to be typified by either political and social stability or a quality of life for all our citizens that is consistent with present economic growth and development. The NIS, in trying to be a more efficient entity, allows an actuarial review to be conducted every three years. By so doing, the Scheme is closely scrutinised and areas of concern are addressed. The actuarial reviews and the recommendations of the Investment Committee should serve to steer the NIS onto a financially sound and sustainable path. Regardless of the future decisions made concerning the NIS, it must be remembered that in the provision of service as vital as National Insurance efficiency and growth must be checked by caring and compassion.

#### **CONCLUSION:**

In the beginning sentences of this paper, I asked the question whether the NIS will be viable in the future without any changes in its present structure. In my opinion, the answer is no. A summary of my findings will indicate this. During this paper, among the many points I made, the critical points are that:

- benefit payments in excess of incoming contributions cause disequilibrium in the Scheme;
- National Insurance Scheme reserves consolidated in a common fund can lead to financing deficits in one programme by the resources of another;
- payment delays and non-compliance means that time and resources are wasted;
- limited investment opportunities leads to a sort of double taxation when the Fund invests in government paper;

- there are problems associated with business men who have made no contribution to the self-employed branch of the Scheme that are now receiving non-contributory pensions; and
- since pension becomes payable once the insured person has reached age 65 and there is increasing life expectancy the Fund can expect to face problems of financing in the future.

To counter these problems what needs to be done is that the Scheme ensures that it is financially sound. When the Scheme was young it did not pay out much in pensions. As it matures the pension payments will increase. An actuary would argue that some of the total benefits received must reflect the individual capitalisation. This means that the NIS might want to move closer towards the individual-capitalisation model. This may even increase compliance owing to the fact that, even if the maximum insurable category is removed, there may be an incentive to pay since (as with the provident funds) "at retirement the participant would receive his accumulated contributions plus accrued interest".<sup>55</sup> In the context of the Barbadian economy such a move may not be feasible as such a system implies further social equity and it also assumes regular and sound employment. What might be feasible is that the NIS advocate freewill contributions over and above the contributions paid (in conjunction with other financing policies). If such an idea is to work, the NIS must make more of an effort to educate the public about the role of the Scheme. People must recognise their moral responsibility as members of society to each other.

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<sup>55</sup>*Public Finance and Fiscal Issues in Barbados and the O.E.C.S.* p. 5

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1. An ILO definition of social security is: a comprehensive system of protection against social risks embracing social insurance, family allowance, social assistance, and public health care programmes or national health systems. Social insurance is said to have a more restricted scope, encompassing old age, disability, and survivor benefits, medical and hospital care and compensation covering work related risks, ordinary illnesses, maternity and unemployment. (Mesa-Lago, 1994:180)

	<u>Coverage</u>	<u>Financing</u>	<u>Organisation</u>
Social security	Universal	Diverse (including taxes)	Generally integrated
Social insurance	More limited	Restricted to wage contribution	Rarely integrated

2. For a discussion on the relationship between social security schemes and economic development in the Caribbean, see the article *Social Security Schemes and the Development Process in the Caribbean* found in Kempe Ronald Hope's *Economic Development in the Caribbean*.

3. For more on the Chilean experiment with privatisation of its social security system, see Carmelo Mesa-Lago's *Changing Social Security in Latin America: Toward Alleviating the Social Costs of Economic Reform*.

4. For a look at the pros and cons of a state-administered versus a private pension, see *The Theoretical View of Social Security Systems* by Luiz Guilherme Schymura de Oliveira.

Table 1

Population for Selected Years - 1891 - 1993  
('000s)

Year	# Of Persons	Year	# Of Persons
1891	182.8	1979	254.8
1911	172.3	1980	249.4
1921	156.8	1983	251.8
1946	192.8	1984	252.5
1960	232.3	1985	252.6
1970	237.7	1986	253.5
1974	251.2	1989	256.6
1975	255.0	1990	260.8
1976	258.3	1993	263.9

Source: Barbados Statistical Service, *Labour Market Information Reports*  
Ministry of Finance and Planning, *Barbados Economic Reports*  
*Barbados Economic Survey*

Table 2

## Benefits Administered by the National Insurance Scheme

Year	Benefit Introduced
1970	Pensions became payable. To date these include old age contributory, survivors', invalidity, employment injury and disablement.
1971	Coverage was extended for <u>Employment Injury Benefits</u> . Long and short-term benefits were introduced and extended to the employed persons for funeral, invalidity, survivors', and old age contributory benefits.
1 Jan, 1973	The <u>Barbados Severance Scheme</u> was started under the Severance Payment Act Cap 355A of the laws of Barbados. This Act is a direct quote from the English Redundancy Payments Act of 1965, implying that many of the provisions of the English Redundancy Act are not applicable to Barbados. The Act was not well researched keeping the Barbadian socio-economic situation in mind. This now means that some of the provisions are subject to many interpretations.
1974	Coverage in respect of short-term benefits, namely sickness and maternity benefits was <u>extended to the self-employed</u> .
1975	Coverage in respect of funeral grants extended to spouses - even if not contributors of the fund. Also, grants were increased from \$100 to \$200 (and by 1992, the grant was \$1,000).
1977	Age of survivor's pension was reduced from 55 years to 50 years. The Scheme does not discriminate on the basis of sex.  Initially, contributions were paid by means of affixing stamps of the appropriate value to the card of the insured person. This method of collecting contributions was abolished at the end of 1977, and replaced in 1978 by direct methods of payment. Contributions were paid in monetary form to the NIS office.
1981	Introduction of the <u>Unemployment Benefits Scheme</u> . Benefits became payable from July 1982. Barbados remains the only English-speaking Caribbean country which provides such a coverage. It is currently financed at a rate of 1.5% by employer and 1.5% by employee. Initially, 40% of coverage of insurable earnings was payable for 13 weeks. In 1984, the rate of benefit was increased to 50%. By 1985, the rate of benefit was increased to 60% payable for 26 weeks. From October, 1991, a two-tiered system of benefits was introduced. 60% of the average weekly insured earnings is now paid for the first 10 weeks and then, 40% for the remaining 16 weeks.
1982	Benefit regulations were amended to provide for the payment of non-

Table 3

## Investment Portfolio

Category of Investment	Year					
	1988		1989		1990	
	Amount	%	Amount	%	Amount	%
Treasury Bills	172.7	39.41%	179.5	37.79%	185.19	36.96%
Debentures	72.4	16.52	79.76	16.79	88.60	17.68
Fixed Deposits	169.0	38.55	186.98	39.37	189.12	37.74
Equity Investment	12.7	2.89	12.66	2.67	12.66	2.53
Development Bonds	11.6	2.64	11.05	2.33	11.05	2.21
Treasury Notes			5.00	1.05	14.45	2.88
<b>Total:</b>	<b>438.3</b>	<b>100.00</b>	<b>474.92</b>	<b>100.00</b>	<b>501.06</b>	<b>100.00</b>

Category of Investment	Year			
	1991		1992	
	Amount	%	Amount	%
Treasury Bills	191.4	36.87%	190.8	35.39%
Debentures	96.3	18.55	91.5	17.0
Fixed Deposits	182.0	35.05	181.9	33.7
Equity Investment	12.7	2.44	13.8	2.6
Development Bonds	11.1	2.13	11.1	2.0
Treasury Notes	25.8	4.97	50.0	9.3
<b>Total:</b>	<b>519.3</b>	<b>100.00</b>	<b>539.2</b>	<b>100.0</b>

Category of Investment	Year			
	1993		1994	
	Amount	%	Amount	%
Treasury Bills	225.10	38.39%	18.00	2.89%
Debentures	89.90	15.33	317.30	51.02
Fixed Deposits	176.50	30.10	169.70	27.29
Equity Investment	21.80	3.72	25.20	4.05
Development Bonds	13.00	2.22	13.00	2.09
Treasury Notes	60.00	10.23	78.70	12.65
	<b>586.3</b>	<b>100.0</b>	<b>621.9</b>	<b>100.0</b>

Source: National Insurance Board, Annual Reports.

Table 4

**Table of Contribution Income and Benefits Paid**  
National Insurance Fund  
Receipts and Payments  
(Bds \$000,000)

Year	Contribution Income	Benefits Paid Out	Total Revenue	Total Expenditure	Balance	Number of Claims	Reserves
1969	5.8	0.7	6.5	0.8	5.7		
1970	6.5	0.8	7.6	0.9	6.7		
1971	8.2	1.3	9.9	1.4	8.5		
1972	8.4	1.7	10.3	1.9	8.5		
1973	9.6	2.3	12.4	2.6	9.8		
1974	13.1	3.2	17.7	4.4	13.3		
1975	14.2	5.0	19.9	5.8	14.1		
1976	15.9	6.3	21.8	7.4	14.4		
1977	18.3	7.4	24.8	8.7	16.1		
1978	25.5	9.6	32.3	11.1	21.2		
1979	31.4	11.5	40.7	13.3	27.3		
1980	34.1	14.8	45.6	17.1	28.4		181.8
1981	41.3	23.0	53.5	25.7	27.7	37,350	208.4
1982	67.6	55.9	95.7	60.2	35.4	33,697	
1983	83.0	66.3	116.6	71.9	44.6	35,300	
1984	91.9	77.4	115.1	82.0	32.7	35,880	
1985	99.6	83.4	125.6	88.4	37.0	39,824	
1986	105.7	97.5	129.0	104.7	23.1		
1987	115.8	104.5	142.3	115.3	26.9		
1988	122.1	110.2	177.5	130.2	47.1	48,673	452.0
1989	137.9	123.0	176.0	140.5	34.8	62,611	29.6
1990	133.9	133.6	179.0	150.1	26.1	69,950	
1991	142.6	150.8	196.0	171.8	13.4	57,499	23.2
1992 (~June)	69.2	75.1				32,124	over 1/2b
1992	134.5	151.5	195.3	177.4	6.6	63,610	
1993 (~June)	63.6	73.3	100.4	85.4	12.7	32,445	559.0
1993	128.9	147.8	226.8	171.8	52.2		651.7
1994 (~June)	84.7	78.5	104.5	83.5	20.5		
1994	169.2	159.1	217.4	170.4	46.3		
1995 (~July)	111.1	99.7	140.5	105.8	35.4		750.0

Source: Central Bank of Barbados, *Economic and Financial Statistics: September 1995*

: National Insurance Scheme *New InSight Magazines*

: National Insurance Board, *Annual Reports*

Table 5

**Pension Activity**  
(Bds \$000,000)

Year	Total	Benefit Payments		% Total	
		Contrib. Old Age	onContrib Old Age	Contrib. Old Age	Contrib + NonContrib
1980	14.8	9.7		65.43%	65.43%
1981	23.0	14.6		0.637	0.637
1982	55.9	16.1	29.8	0.288	0.821
1983	66.3	18.0	35.7	0.272	0.810
1984	77.4	20.9	43.7	0.270	0.835
1985	83.4	28.8	39.2	0.345	0.815
1987	104.5	36.8	45.7	0.352	0.789
1988	110.2	43.2	45.7	0.392	0.806
1989	123.0	50.4	47.1	0.410	0.793
1990	133.6	54.5	49.9	0.408	0.782
1991	150.8	65.1	52.7	0.432	0.781
1992	134.5	68.3	52.0	0.508	0.895
1993	147.8	72.3	49.7	0.489	0.826
1994	159.1	76	49	0.480	0.791

Source: National Insurance Board, *Annual Reports*.

In 1988, non-contributory benefits = 41% of total benefits paid and 37% of contributory income.

Table 6

**Table of Unemployment Fund Activity**  
(Bds \$000,000)

Year	Contribution Income	Benefits Paid Out	Total Revenue	Total Expenditure	Balance	Unemploy-ment Claims	Unemploy-ment Rate (%)
1982	10.9	0.2	11.1	0.2	10.8	1,228	13.9
1983	13.4	2.2	14.4	2.2	12.2	4,505	15.0
1984	14.2	4.9	15.7	4.9	10.8	8,082	18.3
1985	12.4	8.6	15.5	8.6	6.8	9,814	18.7
1986	2.3	16.1	10.7	16.1	-5.5		17.8
1987	9.2	17.3	11.6	17.3	-5.7		17.9
1988	10.0	11.5	15.7	26.0	-10.4	7,635	18.0
1989	10.8	11.2	12.2	11.3	0.9	11,431	15.0
1990	10.4	14.5	12.2	15.5	-3.3	13,549	14.7
1991	14.0	18.9	16.1	19.4	-3.2	18,209	17.1
1992 (-June)	25.1	14.0	0.0	0.0	0.0	11,075	0.0
1992	55.6	27.0	57.8	27.6	30.2	20,396	23.0
1993 (-June)	30.3	10.1	31.1	10.1	21.0	9,128	27.1
1993	58.1	17.0	58.9	45.6	13.4		24.7
1994 (-June)	20.6	6.2	22.4	6.2	16.2	6,836	22.9
1994	36.9	13.3	42.4	13.9	28.5		21.9
1995 (-July)	21.1	6.3	24.6	6.7	17.9		

Source: Central Bank of Barbados Statistical Report

- : National Insurance Scheme, *New InSight Magazines* NIB Annual Reports, 1992 - 1994
- : National Insurance Board, *Annual Reports*
- : Barbados Statistical Service

The Unemployment Fund legally constitutes part of the National Insurance Fund but for accounting purposes and in keeping with actuarial advice they are accounted for separately.

In 1988, the Unemployment Fund generated a deficit of \$10.4 m. Much of this was caused by the UF having to repay the NIF on account of a debt outstanding since 1986.

In 1991, though benefit payments exceeded contribution income by \$4.9 m, the deficit for the year was only \$3.2 m because of the investment income received.

The general trend for this Fund seems to be benefit payments being in excess of contribution income.

The contribution rate before October, 1991 was 1%. From October, 1991, it was raised to 2.75%. In December, it was raised again to 5.5% so as to cope with the expected increase in unemployment claims resulting from high and rising levels of unemployment.

This new rate was only to be continued until the following year but it remained until December, 1993. On 1 Jan, 1994, the rate of contribution was lowered to 3.0% of insurable earnings with the employer and employee paying 1.5% each.

In 1992, for the first time since 1988, contribution income exceeded benefit payments.

Table 7

**Barbados Severance Payments Scheme**  
(Bds \$000,000)

Year	Contribution Income	Benefits Paid Out	Total Revenue	Total Expenditure	Balance	# of Apps for Employee Payments	# of Claims for Rebate
1982	1.7	0.7	2.2	1.0	1.3		
1983	1.5	1.7	2.3	2.0	0.3		
1984	1.6	2.3	2.1	2.3	-0.2		
1985	1.6	7.6	5.5	7.9	-2.4		
1986	1.7	4.3	2.0	4.7	-2.7		
1987	2.0	3.4	5.6	3.5	2.0		
1988	2.1	3.8	8.7	8.4	0.3		
1989	2.3	4.5	2.4	4.9	-2.5		
1990	2.1	2.3	2.2	2.7	-0.6	493.0	258.0
						1,133 (783 in last 2 months)	266.0
1991	6.7	5.8	6.7	6.2	0.6		
1992 (-June)	4.0	0.0	4.0	0.0	4.0	691.0	0.0
1992	8.9	5.9	8.9	6.2	2.6	1,838.0	377.0
1993 (-June)	5.0	2.6	5.0	2.6	2.3	68.0	147.0
1993	9.2	6.0	9.3	6.4	2.9		
1994 (-June)	4.8	4.9	4.8	5.3	-0.6		
1994	9.2	10.2	9.4	11.3	-1.9		
1995 (-July)	5.8	2.5	15.9	2.8	13.1		

Source: Central Bank of Barbados, *Economic and Financial Statistics: September, 1995*: National Insurance Scheme, *New InSight Magazines*.

In 1987 and 1988, the Severance Payments Scheme borrowed \$3.5m and \$6.5m respectively, increasing its receipts for these two years.

The decrease between January - June 1993 from 691 applications for employee payments to 68, is a reflection of the absence of large layoffs.

The increase in excess of contribution payments between January - June 1992 from \$1.9m to \$2.4m during the same time period in 1993 is because of the increase in contribution rate.

The Severance Payments Scheme is nonetheless technically insolvent.

Prior to April 1991, the contribution rate was 0.25%. After April 1991, the rate was raised to 1%.

Table 8

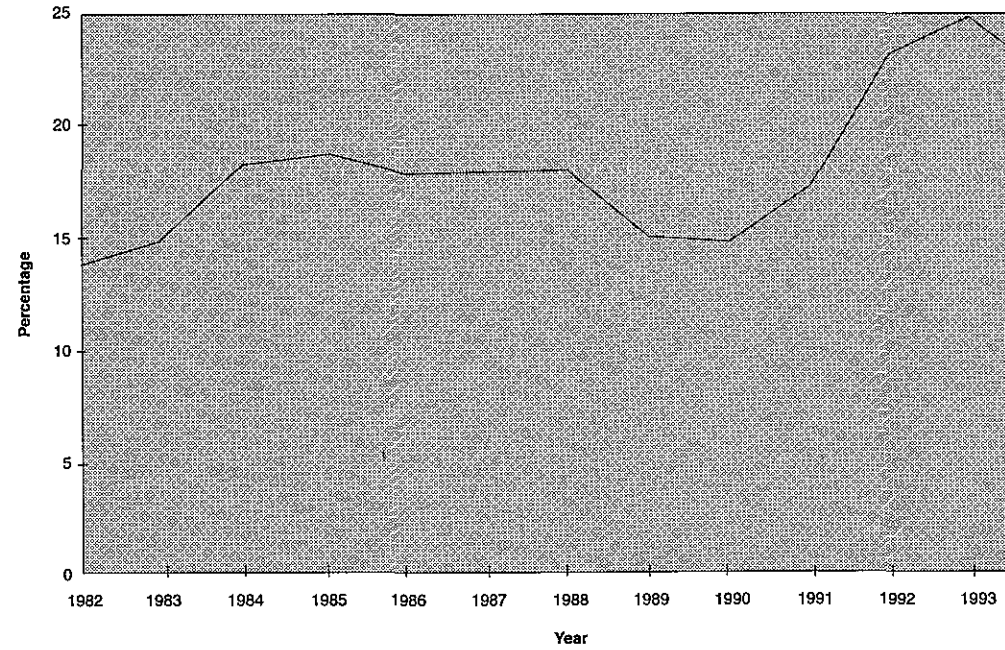
**Maximum Insurable Earnings**  
(Bds \$)

Year	Weekly	Monthly	Annually
1967	50	N/A	2,600
1974	100	N/A	5,200
1978	230	1,000	11,960
Jan. 1982	506	2,200	26,312
June, 198	598	2,600	31,200
1987	600	2,600	31,200
Oct. 1991	715	3,100	37,200

Source: National Insurance Scheme, *The National Insurance and Social Security Scheme of Barbados*.

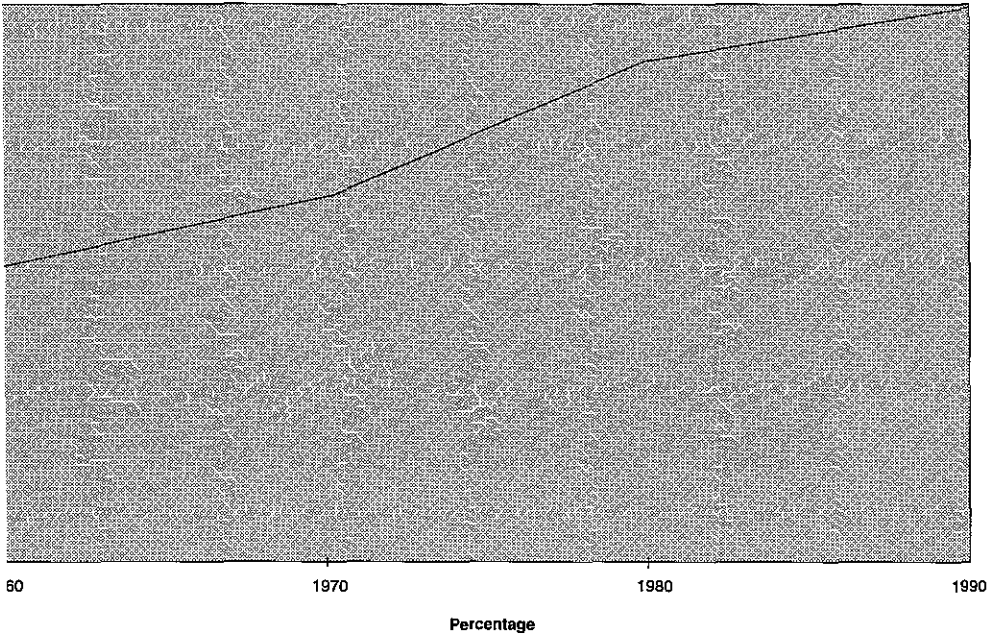
Graph 1

**Unemployment Trends**



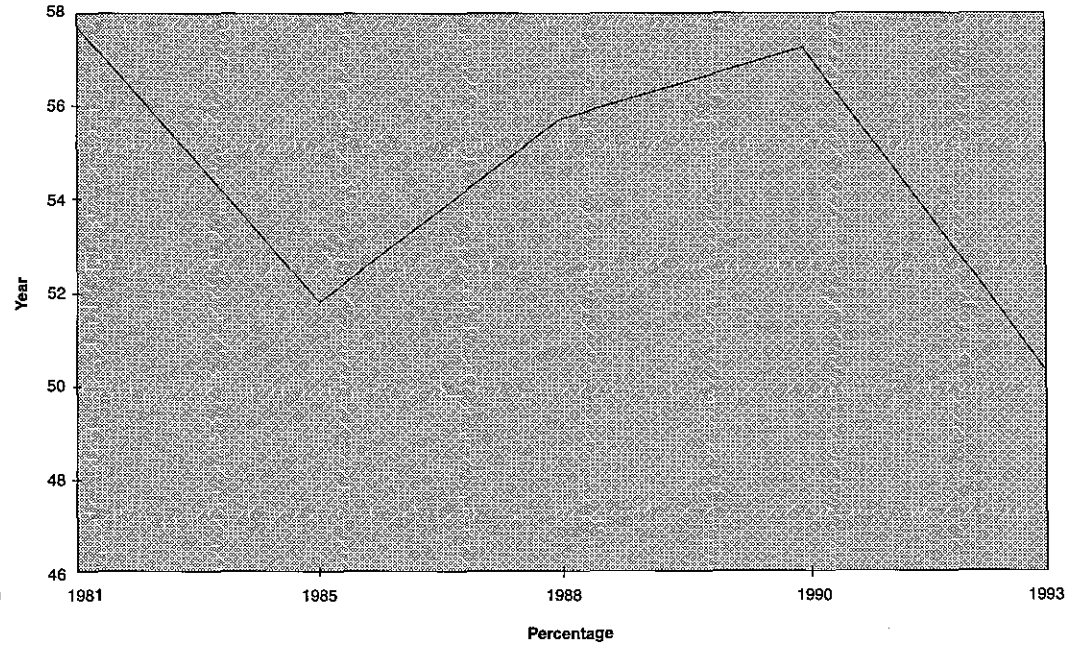
Graph 2

65+ Age Group as % of Population



Graph 3

Number of Persons Employed as a % of the Adult Population



Graph 4

Labour Force as % of the Adult Population

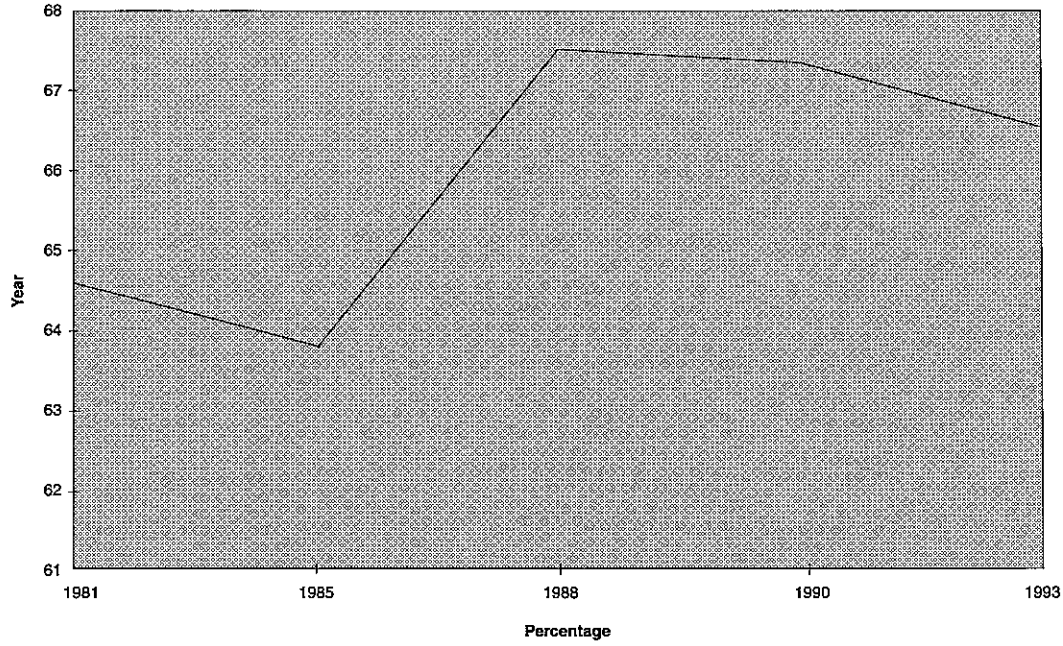


Chart 1

Unemployment Fund Activity - Contribution Income Vs. Benefits Paid Out

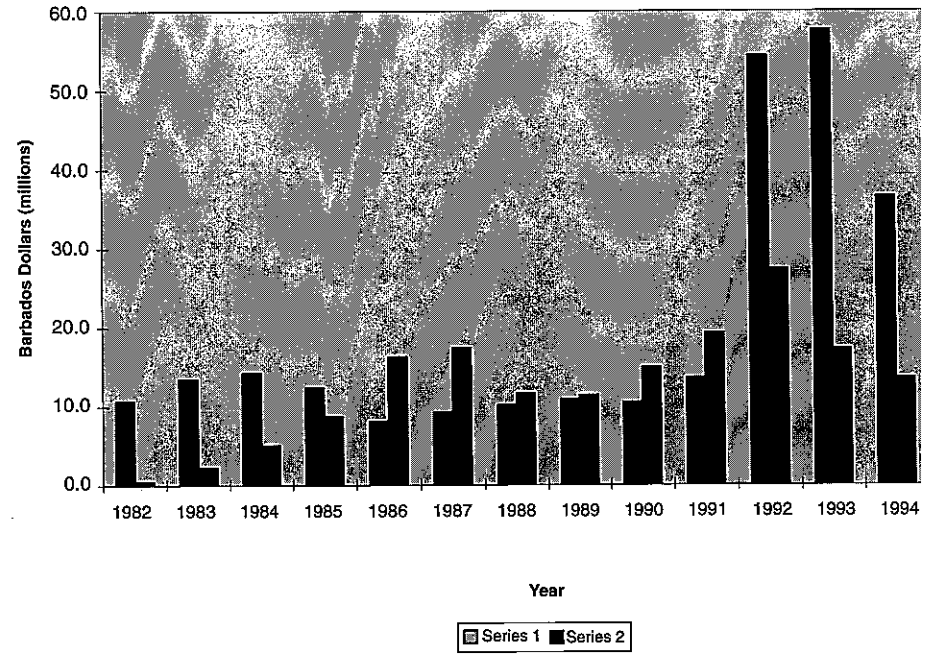




Chart 4

1980 Demographic Profile By Age Group

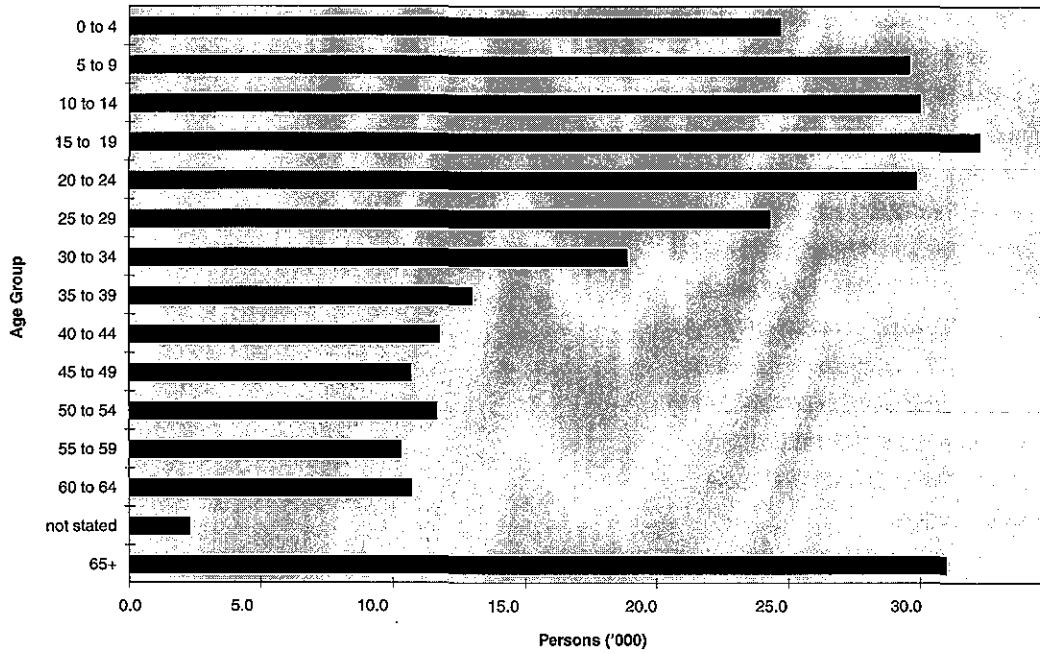
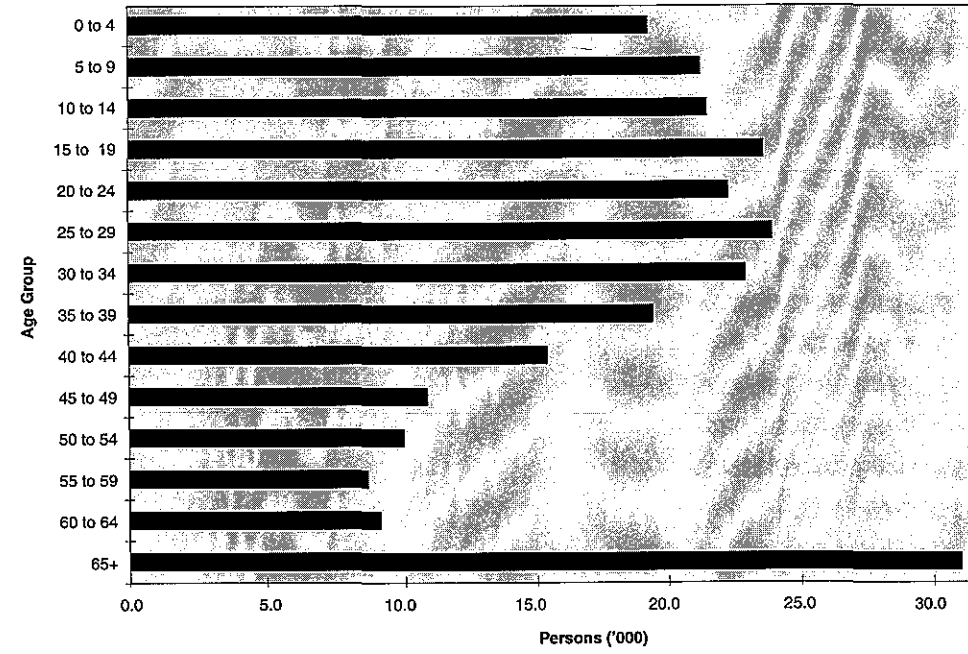
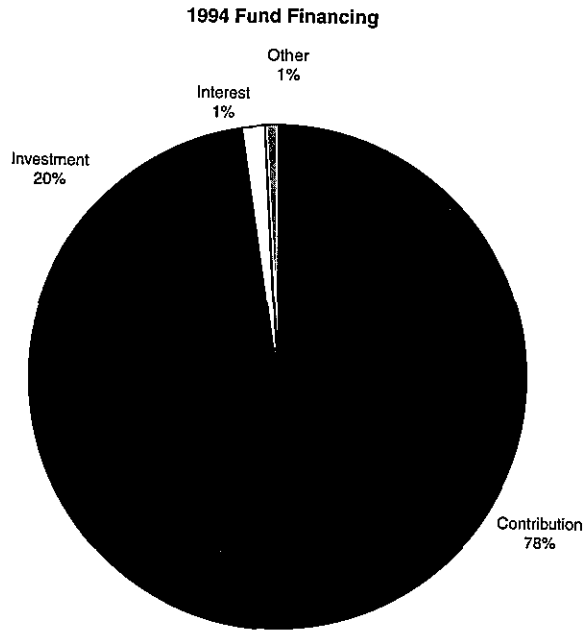


Chart 5

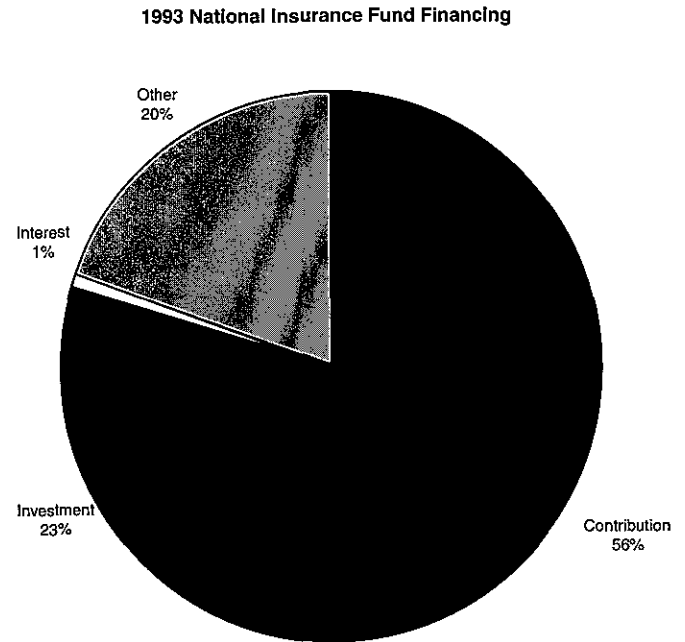
1990 Demographic Profile By Age Group



Pie Chart 2

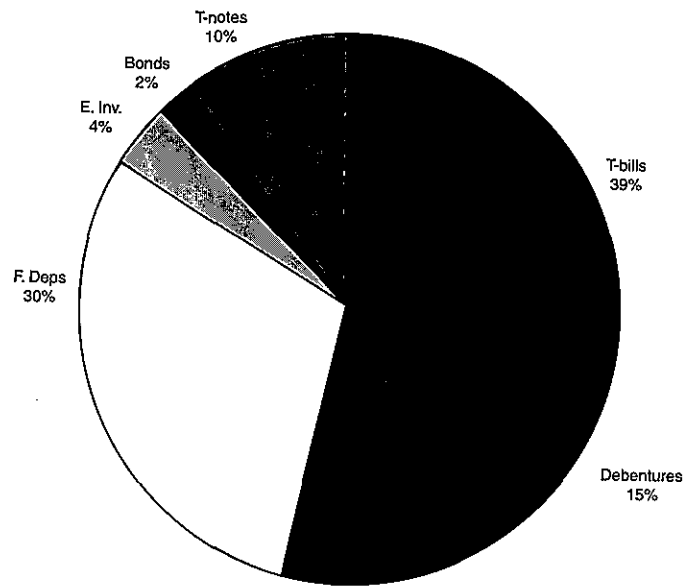


Pie Chart 3



Pie Chart 4

1993 Distribution of Investment Income



Pie Chart 5

1994 Distribution of Investment Income

