"PENSIONS AND THE SMALL MAN AND WOMAN"

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Mr. Chairman, distinguished colleagues at the head table, Professor Andrew Downes, Chair of the Executive Committee and Dr. Shelton Nicholls, Director of the Caribbean Centre for Monetary Studies, Mr. Sean Ifill, acting Chief Executive Officer of the Caribbean Association of Industry and Commerce, ladies and gentlemen, friends,

I first wish to sincerely thank the Director of the CCMS for the very kind invitation to me to participate in this important and timely Conference and to share some of the thinking of the labour movement with you. I have taken one liberty with the very challenging theme that you have given me and that is to make one change to it, namely to add the word - "woman" since I believe that pensions and investment issues are of equal concern to both the "small man" and the "small woman" in the Caribbean!

LABOUR AND PENSIONS

I first, Mr. Chairman, wish to offer a word on "labour and pensions". This is because it is often not recognised that the very establishment and development of pension plans here in the Caribbean was due to the progressive and proactive role of organized labour. We perhaps could classify pensions under the following heads:

- National pensions schemes, as for example the National Insurance Scheme

- Government pensions such are as paid by the government as employer to its employees
- Private pension plans that provide for the employees of a given company
- Private pension arrangements provided for by a range of financial instruments of which the annuity is the oldest and most popular
- Government provided "old age pensions"

When we examine these various categories we shall see that it was organised labour being concerned, as it should, with the well being and quality of life of working people both during their working life and in retirement, that advocated and struggled for the introduction of pension arrangements. For example, in the case of the latter - old age pensions, the early labour movement in the Caribbean - and here I am referring to the 1920's and 30's - made the demand for "old age pensions, health and unemployment insurance", amongst other far reaching social,' economic and political reforms.

Further, the introduction of private pensions plans was at the direct instigation of the trade unions. Thus, in 1963 the Oilfields Workers' Trade Union through the process of collective bargaining with Texaco established a pension plan for employees of that multinational company. This was a "first" in Trinidad and Tobago. Today, thanks to the OWTU, pension plans are now an established part of one's terms and conditions of work - or compensation package, if you prefer. Once established, pension plans then became the norm for both unionized and non- unionised workplaces since employers had to ensure that they offered competitive packages.

The point must also be made that prior to 1963 pension plans for Texaco employees did exist, but these plans were only for the expatriate managers and supervisors. They belonged to plans that were not resident here in Trinidad and Tobago. The benefits of having a pool of savings available for investment therefore did not only not exist, but these pension plans - the FSSU's - were actually a source of leakage of savings and foreign exchange from the domestic economy. So organized labour has contributed much to our economic development and to the expansion of the financial services sector through our efforts to establish and improve pension plans throughout the country.

Similarly, with the "localization" of the colonial civil service, which process began following the major anti-colonial revolts of the 1930's, governments in the Caribbean were forced to provide pensions for public servants. The only area therefore, where we cannot claim to have been instrumental in its development is that of private pensions arrangements - annuities and the like.
The so called "small man and woman" have therefore been the "drivers" of pensions, and thus are more than just stakeholders, we have the critical stake in

the issue of ***"Pensions and Investments - Future Benefits Through Effective and Efficient Management"***

THE TRADITIONAL VIEW OF PENSIONS

Traditionally, pensions have been viewed as:

(a) a principal means of saving,

(b) an investment in the future well-being of the members of the plan and,

(c) a key social security instrument.

With respect to the savings objective, trade unions have always viewed pensions as deferred wages/salaries. That is, the percentage of a worker's income that goes to the plan together with the employer's contribution (which we believe should always be at least twice that of the employee's) represents wages or salary that ought to be paid to the worker, but which is being set aside as savings, which savings would then be prudently invested so as to guarantee a stream of income that would enable the worker to live in relative security and comfort when retired.

That is the principle on which we have always operated. This principle implies that there is an important savings function of pensions - namely that workers who are members of a pension plan will save through a compulsory instrument. It also implies that there would be investment, but the principle does not direct that investment, the only guideline is that it be prudent. It, however, also sees investment both as a means and as an end. Thus, one has to invest the capital prudently (the means) in order to guarantee the future income stream which really can be seen as the investment in the well-being of the retiree (the end). And thirdly, the principle implies that pensions are key instruments by which social security is given effect.

While these objectives are still as valid now as they were when we first pioneered pensions, our traditional view did not encompass and could not envision the dynamics of pensions today, and it to some of these that we now turn our attention.

CURRENT ISSUES IN THE MANAGEMENT OF PENSION PLANS

There are a number of crucial issues that are central to the efficient and effective investment and management of pensions which will, depending on how they are resolved, result either in the enhancement of both the future benefits of plan members and the generation and equitable distribution of wealth, and thus the well- being of all citizens, or in the possible diminution of benefits, the potential for the total loss of retirement savings and the making of fortunes by some financial speculators.

The issues that are currently being debated and which I wish to focus on, are:

1. The size of the pension funds and the investment priorities for the funds
2. Who should control and manage the funds?
3. Changing demographics and implications for funding of social security
4. The cost of pensions to the State - Old Age Pensions and Pensions for Government employees - and Implications for Reform
5. The Process of Policy Formulation and Decisions

1. The Size of Pension Funds and the Investment Priorities for the Funds

You may wonder, Mr. Chairman, why I should identify "size" as an issue. Suffice it to say that when we first established pension plans 40 years ago, we did not envision that today pension funds would constitute such a large pool of capital. We have estimated, for example, that the pension funds that the OWTU alone has negotiated have assets in excess of $7 billion. Total private plans assets should be in excess of $12 billion. One study stated that in 1994 the total annual contribution (employer and employee) to these plans was some $233 million. Given salary and wage increases since that time I expect that this figure today would be in excess of $500m.

The National Insurance Scheme itself also has fund assets of some $7 billion. And with the increase in contributions effected some years ago, together with improved rates of return on investment, this fund must now be growing quite rapidly. I have not included in my estimates the size of assets for individual pension instruments. This category, I am sure, is also growing fast and, given the fact most who utilize these instruments are in the upper income levels, will also represent a substantial pool of savings.

The total amount of pension funds is therefore very large indeed and is, in fact, the largest. single source of savings in the country. This is undoubtedly a positive development. However, the issue arises as to the direction of investment since it is not enough to save, one must invest.

As we all know, the range of investment instruments available for pension fund managers has been very limited. The local stock and regional market offers fairly limited options for absorbing the very large pool of saving's that is being added annually. Government bonds are getting close to being exhausted since the government debt, and in particular domestic debt, has reached a point where it is dangerously high and therefore new borrowing needs to be curbed. There are fairly conservative legal limits on the extent of investment in foreign securities, while the investment portfolio for mortgages is also constrained.

This raises two questions. Firstly, should the legal restrictions on investment be revisited? And more importantly, to what use should this large pool of savings be put, in terms of investment? The OWTU has advocated that workers should be able to benefit from their pensions twice - once as a retirement benefit (which benefits should be constantly upgraded based on the plan performance - for example through the indexing of pensions paid) and once as an active worker through accessing the funds for low interest mortgages. We argue that it is wrong for others to be able to borrow from the fund to which we contribute, but from which we can't borrow. Thus we have fought for "Housing Plans" whereby the worker could obtain loans at say 4 or 5%, with the difference between this and the minimum return on investment required by the plan - say 8 or 9% - being met by the employer as part of the worker's compensation package. This approach is beneficial to both worker and employer since rates of interest are lower than the market place, while the pension fund receives a fair rate of return.

This is one option, but we also believe that the entire issue of the utilization of pension savings must be examined in the context of an overall strategy for increasing domestic savings, and the mobilization of these savings for national development. Thus, for example, if we are on the cusp of a huge increase in oil and gas production, we must see to what extent that increase will accrue to nationals. Many are of the view that what will happen is that GDP will increase far more than GNP as net factor income to the foreign transnational investor increases.

Should we not, therefore, be pursuing equity in these investments? For a substantial equity holding will ensure both future revenue streams to the local investor and a narrowing of the gap between GDP and GNP. If this is the case then we should be seeking to expand the stock market through the listing of these investors on the local exchange and therefore opening up new avenues for institutional investors such as pension funds. And is this not more creative and likely to yield more options than divestment, which seems to be the only approach being advocated for increasing the size of the market? After all we, as a nation, already own the state enterprises. Any divestment is therefore not going to increase the total stock of nationally owned assets, while the listing of ALNG or BPTT or BHP on the market will enable us to buy into the firms that are the producers of wealth from our natural resources - our patrimony. And to this we need to add a regional perspective. The process of ownership of our productive capacity and expanding that productive capacity cannot be tackled at the national level only, it must be done regionally.

2. Who Should Control and Manage the Funds?

In the early period of pension funds it was accepted that special expertise was required for pension fund management. Thus in most of the plans the investment decisions were left up to the Trustees. In addition, actuarial matters were left up to the actuaries alone. In today's dynamic this is not good enough. Workers not only wish to be empowered, the more enlightened of their representatives are able to engage in direct negotiations with actuaries and investors.

We therefore advocate that the Management Committees of pension plans, on which Committees the members are represented ought to have a greater say in the investment of the funds. This will help to ensure that the investment decisions will be balanced since it is very easy for major conflicting interests to exist between the members and others who want access to the fund. Secondly, we are very clear in our understanding of pensions, and that is that they represent the deferred income of employees. The funds therefore belong to the employees. And so too do the surpluses! We have noted with considerable concern developments where the employer believes that it has the right to the surplus. This is wrong and any attempt by an employer to mess around with a plan's surplus will be met by a strong reaction by us. Petrotrin's illegal use of the surplus to fund VERP, for example, is being addressed by us at this time.

We are equally concerned about the new accounting standard - the IAS 19. In our view this is simply a mechanism being used by global capital to mess with money that isn't theirs in order to improve the balance sheet and hence the bottom line. By being able to locate the surplus of a pension plan as a company asset, companies can artificially improve their balance sheet and therefore falsely show better performance and management. This in turn impacts positively on share price and, with it, the pay packets of the executive management rise. All this improved performance is pure illusion, however, and therefore the poor investor (but not the executive managers!) will lose. Enron is a case in point.

Thirdly, we insist, that there should be absolutely no change in the present arrangement whereby occupational plans - the plans for employees at the workplace - are part of the worker's teffi1S and conditions of employment and therefore are the subject of collective bargaining. These pension plans must continue to be collective plans. We are totally opposed to the individualisation of the principal source of retirement benefits. That is the present occupational plans must not be broken up so that each worker has an individual annuity type plan. The plans must remain collective - all employees at the workplace must be members, and the recognized majority trade union must be the bargaining agent that is responsible for the improvement of benefits from that plan.

We are adamant on this point. We will not accept a Chilean, or World Bank model here. The US model of individual plans will not be acceptable here. We have struggled to hard, invested too much to have the $12 plus billion broken up into individual plans where companies - some reputable and some speculative and crooked - will compete to get the workers to buy their product, with the offer of the best returns. This will lead, as it has done in the UK and elsewhere to many workers losing their entire retirement savings - Enron is the best example! - because somebody was promising them pie in the sky.

We do support more information, greater transparency in the operation of pension plans and therefore members ought to be given proper and timely infoffi1ation about the state of the plan, its investment perfoffi1ance, the options for enhancing benefits etc. But the objective of greater transparency can be achieved within the context of defined benefit plans. Those who wish to top up their retirement benefit through various individual plans are encouraged to do so. Indeed, we will actively assist in this process. The OWTU's initiative to have the perfoffi1ance pay of Petrotrin workers placed in a savings instrument of the T &T Unit Trust Corporation is an example of our commitment in this regard. But these individual plans must not replace the traditional defined benefit plans.

3. Changing demographics and implications for funding of social security

A third concern is that of the changing demographics. One aspect of this has to do with the aging of the population. Dr. Karl Theodore has done work in this area and has cited in a 1998 paper the World Bank data that projects that by 2025 the proportion of persons 65 and over will increase to 9.9% in T &T, up from 5.7% in 1990. This implication is that there will be both more people whose incomes are via one or more sources of retirement savings and that these persons will live longer thus placing additional demands on funds to provide retirement benefits.

I wish to focus on another aspect of concern to labour and that is that the ongoing strategy of reducing the size of the permanent workforce to the barest minimum possible is having a deleterious effect on pension funds. Take the oil industry, for example. Over the years, successive voluntary employee retirement plans (VERPs) have been implemented. This has resulted in a much smaller permanent workforce and a much larger number of retirees. There are implications for the pension plan to this development. On the other hand, the work is now increasingly being done by casual, temporary and contractor workers. They do not belong to the plan. When they reach retirement age they will be dependent on NIS pension, which as we all know is just not enough to sustain an adequate quality of life.

The process of casualisation of the workforce therefore has many negatives. In addition to the problems of low health and safety standards, poor work quality due to the low standard of skills employed and the super exploitation of these workers, there is also the longer term cost of providing social security to these workers, at the same time that pressure is being placed on pension plans for the permanent workers, whose numbers are fewer.

4. The cost of pensions to the State - Old Age Pensions and Pensions for Government employees - and Implications for Reform

The issue of the cost of pensions to the state has been driving the decision by successive Governments and Ministers of Finance to pursue pension reform. As the then Minister of Finance stated in 1998 -"We have found that the cost of government's unfunded pension scheme is growing at an exponential rate. In 1997, this cost, which does not include payments of old age pension, food subsidy or NIS contributions by government, was approximately $562 million for retired public servants alone. Provisional estimates of the cost for 1998 is close to 41 billion. By the year 2002, these unfunded payments are likely to escalate to over $2 billion. This situation is highly untenable."

His estimate of the cost to government was perhaps on the high side. I have pulled figures from the 2001/2002 Budget that show that the cost of the non-contributory pensions and gratuities to the government was estimated to be $973 million, while the cost of Old Age pensions was $600 million, the latter no doubt increased due to the increase to $1,000 in OAP. Nevertheless, the cost is rising, and increasing oil and gas revenues notwithstanding, it cannot continue to escalate to the point of it being unsustainable.

The solution therefore must be reform. The issue is - what type of reform? The IDB and World Bank have been ardent advocates of reforms that seek to do one or more of the following:

- Remove old age pensions and establish a single national pension system to cover all persons - both those who contributed to NIS and those who didn't
- Have this national pension system privatized with pensions being individualized
- Establish a contributory pension plan for public employees, either as a collective, defined benefits plan or as individual, defined contributions plan

- Harmonise the private pension plans with the national pension system

Let me state Mr. Chairman, that it is our view and from the 40 year experience of the OWTU in dealing with pensions that the best route for public employees pension benefits to be secured and improved over time is for a contributory defined benefits plan to be established. The initial cost to the employer will be high since past service has to be factored in, but over time the cost will not escalate as fast as the present non contributory arrangement now is. As stated earlier we oppose the individual pension arrangement as the base plan. As supplement - fine. And we oppose the defined contributions approach.

Secondly, we oppose any attempt to harmonise the private plan and the national plan. We are prepared to pay into a private plan as well as the NIS as we now do. And if we are prepared to do so, so too should the employer! We will not concede our pension benefits by bringing the total of NIS and private plan benefit down to the level of the private plan just so that the employer can save some money in the amount of the NIS contribution. If we allow the IDB or World Bank to get their way this will impact negatively not only on the level of retirement benefit, but also reduce our national savings! And our dependence on foreign savings will increase. This is retrograde.

Thirdly, we are opposed to any attempt to privatize the national pension system. The present NIS must stay, but with adequate reforms to ensure greater efficiency in the management of the funds, including restrictions on government access to this fund for such projects as the Airport or TlDCO bonds for road paving etc. We do not believe that there should be an NIS 2, with all persons with more than a certain income having to contribute. What is needed is a reform of the existing benefits paid out. We are of the view that this can be done at the present level of contributions.

Indeed, we are extremely unhappy about the 1999 reforms to the NIS. While they referred to the 1995 Actuarial Report of the NIS done by the ILO, the fact is that the performance of the fund was significantly different by 1999 since the economy had improved with respect to growth and therefore rates of return increased dramatically, unemployment had declined and therefore more persons were contributing, and the difficult periods of poorly performing mortgage loans was behind the NIS. We advocated a substantial increase in benefits since it was this that needed urgent fixing given the fact that $400 or so per month was totally insufficient for a retiree and did not even reflect contributions made. Yet the earnings categories were amended while the actual pension benefit remained virtually unchanged. We certainly had concerns that this would result in a significant increase in the size of the fund which could then be utilised by government to finance its "election promises". We do not think that our concerns were misplaced.

We do not support any effort to break up the NIS as a defined benefits plan and replace it with individual arrangements. Quite apart from the performance issues and the matter of protecting ill informed individuals from unscrupulous operators, there is a need, we believe, for us to encourage a value system of collective effort and collective responsibility. The individualisation of society has huge social costs, the description of which is beyond the scope of this paper. We do support the idea of getting rid of "Old Age Pensions" and having a single national system of providing social security. The details of how this is to be done would obviously have to be carefully worked out.

5. The Process of Policy Formulation and Decisions

Finally, Mr. Chair, the issue of process. We are very happy that the CCMS and the CAlC is having this Seminar toady. It follows several similar seminars held in 1998 by the OWl, CLICO and the OWTU and another one that we had in 2000. We are concerned that the government - regardless of party in office is proceeding along a path of reforn1 that either does not have the input at all or has a rather minimal input of key stakeholders. We are of the view that there should be no decisions on these crucial matters unless and until all the issues and the implications of each policy position are fully ventilated in the national community and there is consensus on the way forward. This seminar, we believe, will assist tremendously in this regard.

Thank You.