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A mandatory pension for Sint Maarten

An attainable and robust pension for all employees in Sint Maarten

Philipsburg, December 3th, 2013

The Social Economic Council Sint Maarten (“Sociaal Economische Raad”, referred to below as “SER”) is an independent advisory body to the government of Sint Maarten. The SER advises upon request by one or more Ministers (solicited) or on its own initiative (unsolicited) on all important social economic issues.

The SER was established by law (“Landsverordening Sociaal- Economische Raad”) in 2010.

The SER consists of representatives of employees’ and employers’ organizations as well as independent experts. The objective of the SER is to achieve a broad concept of wealth in Sint Maarten by offering quality advice and reaching consensus on social economic issues.

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1. Introduction

This advice entitled ‘A mandatory pension for Sint Maarten’ is an unsolicited advice for the honorable Prime Minister Mrs. Sarah Wescot-Williams, the Minister of Public Health, Social Development and Labor, the honorable Mr. V.H. Cornelius de Weever and the minister of Finance, the honorable Mr. Martinus J. Hassink.

In this advice the Social Economic Council (hereafter SER) examines the feasibility of an introduction of a mandatory second tier pension in Sint Maarten. The advice will conclude (chapter 6) with recommendations for such an introduction.

Currently only 35%-50% of all workers have a pension arrangement. Moreover, only around one quarter of the AOV recipients receive full AOV of 1,000 ANG per month. This means a substantial part of the elderly do not have sufficient regular income for their old age. For this reason the elderly have been identified as a vulnerable group in Sint Maarten. This advice aims to address the financial situation of the future elderly and urges government to introduce a mandatory 2nd tier pension enabling the current workers to provide sufficient income for themselves when they retire and therefore obtain a financial ‘peace of mind’ for their old age.

The SER chooses to build the Sint Maarten second tier pension after the Aruban model. Aruba has to a large extent a similar economy to Sint Maarten and shares many similar social and economic challenges. The Aruban model was implemented on 1-1-2012 and this presents the opportunity to adjust the pension legislation in Sint Maarten for the lessons learned from Aruba, taking into account the existing Sint Maarten state pension (AOV) and characteristics for Sint Maarten society in general. Moreover, the Aruban model is derived from the Chilean model which is considered to be partly responsible for the strong state of the Chilean economy because it obligates pension funds and insurers to invest the accrued pension capital in the local economy. Chileans not only have a pension system but also a stimulus for their economy.

Sint Maarten pension system:

1st tier pension: state pension (AOV).

2nd tier pension: tax deductible contributions from employer and employee.

3rd tier pension: tax deductible voluntary private contributions.

The SER would like to emphasize that a sustainable and healthy pension system for Sint Maarten depends on all three pension tiers together. The earlier SER advice ‘the AOV system made affordable, sustainable and equitable’ deals with the first tier pension. The main recommendations of that advice will be mentioned in the concluding chapter 6. The workings of the new second tier pensions for Sint Maarten will be described throughout this advice. The recommendations for the 3rd tier pensions are included in this advice and form an integral part of the total pension system for Sint Maarten. Chapter 2 contains a more detailed description of the existing three tier system for those who are not familiar with the current pension system.

The financial consequences for employees, employers, pension funds, insurers and the government of Sint Maarten will be substantiated by an actuarial report written by Keesen Actuarissen. This report has

been written on request of the SER and is attached to this advice. This advice of the SER should be read together with the actuarial report because of the many references between both reports. The advice concludes with concrete and attainable recommendations for a mandatory second tier pension for all employees on Sint Maarten.

The Aruban pension model has also been used by Curaçao to write a draft law on a mandatory second tier pension [ontwerp landsverordening basispensioen]. Although the draft law has not been passed and implemented yet, the choices made in the draft law constitute another opportunity to learn. Therefore this advice will also discuss the choices made in Curaçao, albeit briefly. The SER aims to learn from both countries and to advise towards an attainable and robust second tier pension for Sint Maarten.

1.1 Scope of the advice

The first chapter contains an introduction and general overview of the advice and related legislation.

The second chapter describes the existing three tier pension system in Sint Maarten.

The third chapter describes the Aruban pension model and lesson learned from Aruba. This chapter will also take the draft law from Curaçao into consideration.

The fourth chapter describes the structural adjustments to the Aruban model and the choices Keesen Actuarissen and the SER have made to arrive at the best second tier pension for Sint Maarten.

The fifth chapter contains the financial consequences of these choices. These consequences are substantiated by the Keesen Actuarial report.

The sixth chapter consists of the advice of the SER regarding legislation and policy recommendations.

The seventh chapter lists the sources of this advice.

Appendix B consists of the complete report from Keesen Actuarissen.

1.2 The relation between a mandatory second tier pension and existing legislation

The introduction of a second tier pension needs to be placed within the existing framework for social security of Sint Maarten and also aims to stimulate labor productivity by enhancing voluntary labor mobility. This paragraph serves to outline briefly which other legislation that will need to be adjusted when or shortly after a 2nd tier pension will be introduced. These adjustments need to be kept in mind for the social-economic development of Sint Maarten.

The leading *social* argument for a mandatory 2nd tier pension is security and peace of mind for the elderly after a productive work-life. In Sint Maarten the elderly have been identified as a vulnerable group for many years. As the pension of the workers will grow over the years, less and less future elderly will remain financially vulnerable after reaching the pensionable age. The elderly will also be less dependent on financial aid benefits which for a large part currently functions as an addition to AOV benefits.

The leading *economic* arguments for a mandatory 2nd tier pension are labor productivity and more investments from insurers with accrued pension capital. In a service-based economy like Sint Maarten, higher labor productivity is a prerequisite for economic development. More investments of pension capital in the local economy would emphasize the need for higher labor productivity in order to achieve a decent rate of return on these investments. Two points are vital for labor productivity in our economy. The first point is education before and during employment. The second point is to lower barriers which deter employees to fulfill their most productive labor position in society thereby enhancing labor mobility. A flexible second tier pension is only one less barrier for more voluntary labor mobility.

The occupational mobility in the labor market of Sint Maarten is low and impedes labor productivity. The 2009 Labor Survey by the Central Bureau of Statistics Netherlands Antilles (CBS) shows that all temporary employment in Sint Maarten lumped together (part-time contracts, casual workers, temporary contracts shorter than 6 months, and temporary contracts of 6 months or longer) make up 19.7 percent of the labor force. Employees with a permanent contract on the other hand make up 64 percent of the labor force in Sint Maarten. The remaining category of self-employed workers make up 14.8 percent¹. The percentage of employees with a permanent contract is very high when compared to other countries and especially high for a small scale labor market. Since permanent employment benefits employees substantially in areas like job security, build-up of pension and borrowing capability, the employees in this category tend to stick with one employer throughout their career. An introduction of a mandatory 2nd tier pension whereby the pension capital moves with the employee to the new insurer or pension fund of the new employer would eliminate one of the reasons for employees to stay with an employer they are perhaps not happy with. A mandatory 2nd tier pension would also stimulate them to take up new positions with employers currently without a pension plan where their skills and ambition would be more beneficial for their own professional development and to the Sint Maarten economy. In other words, a well-designed mandatory 2nd tier pension would promote labor mobility and therefore labor productivity by strengthening the rights and development of workers; not only at retirement but also during their careers.

The current Cessantia² legislation functions for part of the labor force as a retirement plan. An employee is eligible for Cessantia when the labor contract ends for reasons outside the employees influence (i.e. bankruptcy, reorganizations, retirement, etc.[Dutch: 'ontslag buiten zijn toedoen']). Civil servants are exempted from the Cessantia law according to the civil servants ordinance [landsverordening materieel ambtenarenrecht]. Through civil law an employee can claim a lump sum from the employer if the employee is not receiving pension and AOV benefits together for the amount of twice the AOV benefits as defined by law³ when retiring. The lump sum depends on the number of years the employee has worked for the last employer. The buildup of Cessantia entitlements stops when an employee changes jobs voluntarily. Therefore changing jobs after a long period of employment with the same employer substantially disadvantages employees financially if that employer has no sufficient pension plan for its

¹ Labour Force Survey 2009

² The Spanish word is spelled as 'cesantía' although in all official Dutch documents it is spelled as Cessantia. The SER follows the spelling Cessantia

³ Cessantia landsverordening, AB 2013, GT no. 529

employees.

Another function of Cessantia is to insure employees against the financial consequences of unemployment if they become unemployed involuntary during their career. In this case employees could decide to stay with an employer as not to lose their buildup of Cessantia benefits in case they become unemployed. Again, employees could stay with their employer even if staying does not serve other interest of both parties (like job satisfaction and productivity).

After an introduction of a 2nd tier pension the number of Cessantia eligible employees would decrease over the years as their pension would grow and the combined income of AOV and pension would be more than twice the AOV benefits as prescribed by the AOV landsverordening⁴. Therefore it would be advisable to phase out the Cessantia legislation and replace it with unemployment benefit legislation geared towards the needs of employees who lose their job during their career and not geared towards those employees who use Cessantia as a pension plan. Moreover, it would be unbalanced for employers to both add to the pension of employees through premiums and keep capital in reserve if an employee would retire under the current Cessantia legislation.

⁴ AOV landsverordening, AB 2013, GT no. 522

2. The first, second and third tier pension in Sint Maarten

This chapter contains a description of the existing pension tiers in Sint Maarten and their background.

2.1 The first tier pension in Sint Maarten

The first tier pension, also known as a 'state pension', consists of the current AOV legislation⁵. All residents who have been residing legally on Sint Maarten, who reach the age 60, and after the current AOV draft law has been passed, the age of 62, will be eligible for a state pension. The AOV benefits depend on the number of years one was registered in Sint Maarten. The AOV is a 'pay-as-you-go' system depending on inter-generational solidarity [Dutch: omslagstelsel]. This means that current retirees receive benefits that are being paid into the AOV fund by current employees (with premiums deducted from their pay) and employer's contributions. AOV contributions are not 'personal savings' by employees for later but are, as the AOV abbreviation indicates, a general insurance for the financial consequences of growing old for the elderly who have been living in Sint Maarten. The AOV benefits do not depend on if, and how much, one has contributed into the fund over the years. The benefits and contribution are decided by government and depend (mostly) on the demographic make-up and linked government policies.

The SER has advised extensively on the future of the AOV in its advice 'The AOV system made affordable, sustainable and equitable'. The population build-up of Sint Maarten is much more favorable than the population build-up of the Antilles, therefore the reserves of the AOV fund will increase until 2028 reaching almost 1 billion guilders⁶. However, the AOV fund will be affected negatively by demographic characteristics in the long run. This means that only after 2028 more money will be drawn than added to the AOV fund. The AOV fund would start decreasing in the years after 2028 depending on the aging of the population and migration. Although for the next 30 years the AOV system should be covered by contributions and overfunding, after 30 years the AOV benefits will depend on demographic factors and government policies not known today. This is another reason to implement a mandatory 2nd tier pension as to become less dependent on demographic factors on which a country only has limited influence on. A private 2nd tier pension is 'closer to home' and depends more on the participants and less on external factors.

It is important to realize that due to the current AOV legislation (and also new draft law AOV) only a small group is currently receiving full AOV benefits of 1000,- guilders per month because AOV is connected with the number of years people are registered in Sint Maarten⁷. Residents can only obtain full AOV benefits if they are registered for 45 years in Sint Maarten; all years between the age of 15 and 60 (and when the new draft law is passed the age of 62). In 2013 for example, 26.7% of all AOV recipients received between 900-1000 guilders per month. 34% of all recipients receive less than 500 guilders per month. Although the purpose for AOV is to provide senior citizens with a minimal income, this goal is not met for many. The table below shows the distribution of AOV benefits over the recipients

⁵ AOV landsverordening, AB 2013, GT no. 522

⁶ Towards a sustainable and affordable AOV pension system, page 15

⁷ AOV landsverordening, AB 2013, GT no. 522, article 8

in 2012 and 2013⁸.

ALL AOV'ers			2012		2013	
1	NAF 0	NAF 100	279	5.17%	232	4.30%
2	NAF 101	NAF 200	419	7.76%	358	6.63%
3	NAF 201	NAF 300	454	8.41%	363	6.72%
4	NAF 301	NAF 400	544	10.07%	403	7.46%
5	NAF 401	NAF 500	594	11.00%	480	8.89%
6	NAF 501	NAF 600	556	10.29%	546	10.11%
7	NAF 601	NAF 700	611	11.31%	471	8.72%
8	NAF 701	NAF 800	599	11.09%	589	10.91%
9	NAF 801	NAF 900	1345	24.90%	516	9.55%
10	NAF 901	NAF 1000	0		1443	26.72%
			5401	100%	5401	100%

The AOV benefits have been raised from 856 to 1000 Nafl per 1-1-2013

Because the AOV legislation in its current form only benefits part of the elderly sufficiently, a large number of elderly additionally depend on financial aid. The 'Preliminary report revision of the ordinance for financial aid' states that 60 percent of the recipients of financial assistance are elderly over the age of 60⁹. This means that in 2011 360 out of 675 recipients of financial assistance were over 60 years old. Over the years the introduction of a mandatory 2nd tier pension will substantially alleviate the burden of financial assistance on the budget of the government. When the 1st and 2nd tier pension together provide enough income for the elderly, their dependency on financial aid will diminish over the years. These and other financial consequences for the government of Sint Maarten will be dealt with in chapter 5.

2.2 The second tier pension in Sint Maarten

In a nutshell, a second tier pension consists of premium contributions from both employer and employee, expressed in a percentage of gross pay, paid to pension funds or insurers as documented in a pension agreement. The employees can deduct their premiums from their taxable income. The employers can deduct the premiums from their profit tax obligation. The employee accumulates capital during the years before retiring minus the costs the pension fund or insurer charges for administration fees and management of the capital. After reaching the pensionable age the employee receives a beforehand agreed upon pension (defined benefit) from the pension fund, or uses his/her own accrued pension capital (defined contribution) with the insurer or pension fund to buy a lifetime annuity. The pension capital can, with some exceptions, only be used to draw a pension. The income derived from the pension fund and the lifetime annuity is considered a taxable income. In essence, the second tier pension is based on delayed pay thereby ensuring employees an additional income for their old age next to the first tier pension (AOV).

⁸ Data provided by SZV Strategy and Business Intelligence

⁹ Preliminary report revision of the ordinance for financial assistance, page 9

Sint Maarten has 2nd tier pensions although only for a part of the work force. According the report 'Towards a sustainable and affordable AOV pension system' 36% of the workers have a pension arrangement with their employer¹⁰. The report refers for this percentage to another report 'Oud worden in Sint Maarten zonder zorgen, advies over een duurzaam pensioenstelsel voor het nieuwe land' (2007). Both reports argue that Sint Maarten should expand its current 2nd and 3rd pension tiers.

Due to a lack of more up to date information the SER follows the estimate of Keesen Actuarissen that currently 50 percent of all employees have a pension arrangement with their employer¹¹. The employees with a pension plan are mostly working for government, government owned corporations and some large and small companies in the private sector. Through interviews with pension funds and insurance companies the SER has assessed that the ratio between premiums of employees and employers. The employee contributes (mostly) around ¼ or 1/3 of the premiums. This contribution is (mostly) between 4%-8% of the salary of the employee. Therefore the SER has assessed that all existing pension plans would be compliant with the core characteristics of the mandatory pension system as proposed by the SER (chapter 4 and 5). Moreover, the existing pension plans leave room to differentiate between employees within the same company. Some employees would like to contribute more for a higher pension due to their (higher) salary; others choose not to do so.

The existing pension plans with pension funds are mostly, although not exclusively, defined benefit plans. This means that employees are guaranteed of either 70% of their last or average pay after working a complete lifetime for the same employer. The pension fund is responsible to live up to its promises and the employee is certain of his/her income upon retirement. Smaller private companies tend to have pension agreements with insurance companies and these plans tend to be defined contribution plans. The pension benefits depend on the net rate of return of the pension capital the insurer is able to achieve and the market price and conditions of the annuity at the moment employees reach the pensionable age. Although the accrued pension capital with insurance companies can also be used to buy an annuity with another insurance company, this does not happen often and is regarded by the insurance companies as an 'administrative issue'. Employees tend buy an annuity with the same insurance companies which they relied upon during the saving-phase of their pension plan. Employees with accrued pension capital with a pension fund receive (defined) benefits from the fund after reaching pensionable age. Because pension funds rely to a certain extent on inter-generational solidarity between participants, employees are not allowed to withdraw their pension capital from the pension fund. The most frequent core characteristics of existing 2nd tier pensions in Sint Maarten as taken from interviews with stakeholders are summed up in the table below.

¹⁰ Towards a sustainable and affordable AOV pension system, page 10

¹¹ A General mandatory pension plan for Sint Maarten, page 14

	premium EE	premium ER	% contribution EE	% contribution ER	transfer capital	variable premiums within pension plans	defined benefit	defined contribution
pension fund	6%-8%	8%-16%	25%-33%	66%-75%	no	yes	yes	yes
insurance companies	3%-6%	6%-10%	25%-50%	50%-75%	accrued capital minus transfer costs	yes	no	yes

2.3 The second tier pension elsewhere

These core characteristics of Sint Maarten correlate with the characteristics in Aruba and Curaçao. Aruba introduced a mandatory 2nd tier pension on 1-1-2012. The pension arrangements before this date correspond with the above current findings in Sint Maarten. This means that on average the contributions of employees consisted of about 1/3 and employers contributed for 2/3¹². Defined benefit pension arrangements are mostly/only found with pension funds. Companies and (semi) government entities with a pension fund also tend to contribute relatively more into the fund than companies with a private defined contribution pension plan. The same can be said for the pension arrangements in Curaçao¹³.

Second tier pension systems can vary enormously per country and region due to different ideas on the role of labor and responsibilities of involved parties. However, some general remarks can be made about European countries. The SER chooses to compare European countries because due to historic reasons their existing legislation regarding social security has some similarities with Sint Maarten. The table below describes the ratio between employer and employee contributions in relation to the private-sector average wage in 2005 in percentages in Europe¹⁴.

The above table shows that employer contributions are always substantially higher than employee contributions except in Switzerland (in Finland and Denmark employer contributions are levied in a different manner). Employees give (some of) their productive years to the employer but they still have financial needs after retirement. Those needs can be met with an income derived from accrued capital from both parties during the productive years of life.

Country	Occupational pensions	
	Employee	Employer
Netherlands	5.31	12.64
Britain		
- DB	4.4	16.0
- DC	2.7	6.3
Norway	–	2.0–5.15
France	3.85	5.78
Sweden		
- SAF-LO	–	4.84
- ITP	–	6.50
Germany	0.25–0.30	2.2–2.69
Finland	2.31	–
Switzerland	3.30	3.06
Denmark	6.60	

2.4 The third tier pension in Sint Maarten

The third tier pension exists of additional private pension contributions from participants. Participants are free to choose their contribution which leads to a certain pension capital at retirement age with which the participant can buy an annuity. These 3rd tier private pension contributions exist next to AOV

¹² Data from interviews with stakeholders in Aruba.

¹³ Data from interview Keesen Actuarissen

¹⁴ Data from report 'Pension contribution levels in nine European countries', page 29

and the labor related 2nd tier pension. Additional private pension plans are most likely almost non-existent in Sint Maarten due to a lack of tax deductibility of 3rd tier premiums. This omission needs to be addressed.

The SER advises to increase the tax deductibility from 1,000 ANG to 12,000 ANG. The current tax deductibility of 3rd tier pension is set at 1,000 ANG per year according to the report 'towards a sustainable and affordable AOV pension system'¹⁵. This deductibility is too low to serve as an incentive and should be replaced with more favorable tax deductibility. The national ordinance on income tax needs to be altered for this change to take place¹⁶. This increase should not be debated extensively since its consequences are very difficult to assess. How many people will make use of an increase in tax deductibility depends upon, among other things, the familiarity of the public with the increase, confidence in insurers and institutions in general, pension awareness of the general public, and of course the future agreed upon contributions in second tier pension plans. All these factors are not known and very difficult to 'guestimate'. However, the demand will cause an initial decrease in tax revenue; only the extent of this decrease is difficult to ascertain. However, it should be noted that when the taxable benefits are paid out to the participants still residing in Sint Maarten, those tax revenues will likely compensate the initial decrease in tax revenue due to the collected interest over the accrued pension capital. Additionally, the incentive provided by higher 3rd tier tax deductibility will make people less dependent on government services like financial aid, and facilitates people to take responsibility for their own financial future.

¹⁵ Towards a sustainable and affordable AOV pension system, page 39

¹⁶ See Landsverordening inkomstenbelasting 1943, article 16.1.e and 16.2. Deductibility is now capped at Naf. 1,000.

3. The second tier Aruban pension model

On 1-1-2012 the mandatory general 2nd tier pension took effect in Aruba¹⁷. This pension plan is seen as a basic pension plan; in other words it was 'a good start'. The contribution from both employees and employers was kept low therefore only providing for a modest pension after 20-25 years of savings. We refer to the report by Keesen Actuarissen for an extensive summary of the Aruba plan¹⁸. The most important characteristics of the Aruba plan are also mentioned in Appendix A.

3.1 Lessons learned from Aruba

Although the ideas behind the mandatory 2nd tier pension in Aruba are valuable, some policies in the law and the wording of law itself contributed to a number of unwanted outcomes. Again, the report by Keesen Actuarissen lists extensively all the improvements a similar law for Sint Maarten should entail¹⁹. These improvements have the full support of the SER unless otherwise indicated in this advice. This chapter will describe the effects the law had on Aruban society to substantiate the improvements the SER and Keesen Actuarissen suggest. Below description are lessons learned from interviews with stakeholders in Aruba and these lessons have been confirmed by the report of Keesen Actuarissen.

3.1.1 Non-transparent pension product and not enough market competition

The main challenge with the Aruban pension law is that their 2nd tier pension system is designed to be a basic minimal pension plan but tries to encompass too many pension and insurance options (partner/spouse and orphan pension and death/disability insurance). This complicates the private pension product which is mandatory for almost half the employees in Aruba who did not have a pension before the implementation of the law. With the 3%+3% premiums as an accepted norm Arubans are now also buying disability, death risk and partner/spouse pension. These (insurance) risks can also be paid from the already minimal premiums. The pension of these employees will therefore be substantially lower when they retire. Because these extra insurance options, partly depending on personal circumstances (medical underwriting), are allowed in the basic mandatory pension scheme the pension product becomes non-transparent. It becomes difficult for employers and employees to judge if they received a fair offer from an insurance company. Moreover, there were only two insurance companies able to carry this product in Aruba. This has resulted in high administration costs (between 8%-14% of the premiums depending on the number of employees) and different guaranteed rate of returns for different participants (4% and 3%). The results are that the original goal of a decent pension disappears.

Lesson 1: a mandatory complicated non-transparent pension product combined with low market competition between pension providers must be avoided.

3.1.2 Too much regulation for existing pensions

The Aruban law also regulates existing pension agreements which provide a better pension than the mandatory pension. For example, the new law mandates that all employees within the same company

¹⁷ Landsverordening Algemeen Pensioen Aruba, AB 2011, nr. 85

¹⁸ A General mandatory pension plan for Sint Maarten, page 23-24

¹⁹ A General mandatory pension plan for Sint Maarten, page 16-18

must have the same relative contribution (normally 50% employer+50% employee). Existing pension agreements leave room for employees with (normally) higher wages to save more (e.g. 5%+7%). Under the new law this is not possible although different pension needs are very common. The new law also mandates that pension agreements end with the prescribed pensionable age of 60 unless a written statement is received by the pension provider. Existing pension agreements can have a higher pensionable age but are not confronted with an administrative burden. Moreover, the new law mandates the premiums over variable salary. However, the description of the calculation of the variable salary is not clear. Furthermore, the law mandates that the transfer of pension capital must be equal to the premiums and interest minus a transfer fee. This is sufficient for defined contribution plans but weakens defined benefit pension agreements. To dampen this possible weakening effect of losing too much pension capital, the pension capital with pension funds can only be transferred before 10 years of savings.

Lesson 2: Leave existing (and mostly better) pension agreements alone as much as possible.

3.1.3 No alignment with international standards

The new law has created an extra administrative burden because it does not follow international standards. In the new law all participants (employees) need to sign a pension agreement. The international standard organizes this differently. Normally employers sign the pension agreement [pension insurance or funding agreement] with the pension provider representing the group of employees. Employees sign the individual (or collective) labor contract which binds them to the pension plan [pension plan rules]. Employer and employee agree on the pension plan [pension plan rules]. In Aruba, now every five years all employees (about 40.000) need to sign a new pension agreement. This administrative burden leads to higher administration costs for insurers and therefore lower pensions.

Lesson 3: keep in line with international standards.

3.1.4 Differences between participants with insurer and pension funds

The new law does not allow employees to move their pension capital from a pension fund to a new pension provider after 10 years. This distinction is unwanted. When the transfer of pension capital is equal to the actuarial value (instead of premiums plus interest) there is no reason to deny this. The actuarial value will keep the solidarity between members of the pension fund intact but still allows the transfer of capital. Moreover, if pension funds have a funding ratio of less or more than 100% the transfer capital should be diminished or increased by the percentage under or over 100%. This would keep pension funds from extra funding problems when participants leave the fund.

Lesson 4: take measures to make the pension scheme equitable for participants in pension funds (defined benefit) and private pensions (defined contributions) as to optimize their options.

3.1.5 Too many or too few regulations for new pensions

Furthermore, the new law mandates pension agreements must have a time span of five years. This has left some employers and employees to sign a pension agreement with high administration costs or low guaranteed rate of return only with the option to correct this after five years. The law also put a

maximum on capital transfers fees (250 ANG). This has left employees in the lower income brackets who regularly switch jobs with insufficient capital from premiums to actually build-up a decent pension. When market competition is low and a mandatory pension plan needs to favor labor mobility the capital transfer costs should be zero.

Lesson 5: optimize the options for employees and employers to choose the best pension agreement and diminish barriers to switch between pension providers.

4 The best second tier pension for Sint Maarten

Several choices need to be made to create an attainable and robust pension system for Sint Maarten. First, the former chapter shows that there need to be changes in the structure of the law (4.1). Second, choices need to be made regarding the premiums, retirement age, administration costs, type of pension under the mandatory plan, and position of the pension providers (4.2). Some adjustments and choices are linked together and will be mentioned in both 4.1 and 4.2.

4.1 The Sint Maarten 2nd tier pension system

The following adjustments need to be made to come to the best 2nd tier pension model for Sint Maarten. The leading argument is that it should be a basic pension system which should operate in an effective and efficient manner to make sure that especially the lower income brackets can rely on a decent income (replacement ratio) after retirement. Most, but not all, remarks below are also mentioned in the report of Keesen Actuarissen²⁰.

- With the minimal premiums only old age pension can be covered before retirement (no death risk, disability or partner/spouse and orphan pension).
- When buying the lifetime annuity with the accrued pension capital at retirement participants are free to cover partner pension or other insurances.
- Employees' premiums are deductible from wage tax. Employers' premiums and administration costs are deductible from profit tax.
- Existing pension plans must comply with the mandatory minimal premiums (total 6%) and employer contribution (50% or more).
- Employees can buy extra insurances outside the pension plan to be financed outside the minimal premiums with no extra employer premiums. Employers do not pay administration fees for these extra insurances outside the pension plan. When these extra insurances are part of the (group) pension plan they need to be paid with extra premiums from both employer and employee (50% or more for employer, administration costs employer and employee 50% or less) but still next to the minimal premiums.
- Employers and employees are free to contribute more as agreed in the pension plan (e.g. 5%+5%) within the limits of MB PB 2002, nr. 35.
- Employees can also contribute more outside the defined contribution pension plan (e.g. pension plan is 3%+3%; if employee wants to contribute more, than 5%+3%; extra 2% as 3rd tier tax deductible contribution added to 2nd tier accrued capital).
- Employers can differentiate between premiums for and from employees as long as the minimal premiums are respected and the pension plan is approved by personnel or labor unions.
- Employers choose a pension agreement with the consent of the majority of the employees or consent of the labor union.
- Employers sign the pension agreement specifying the pension plan, employees enter the pension plan by signing the labor contract or fall under the collective labor agreement.
- Administration costs for private pension providers are defined by decree (separate from the ordinance) and are paid by the employer (as not to burden the already minimal premiums) separately from the premiums.

²⁰ A General mandatory pension plan for Sint Maarten, page 10-14

- Fixed and variable capital management fees for private pension providers are defined by decree (LB-ham in addition to the ordinance).
- Capital transfer fees for all pension providers are defined by decree (LB-ham in addition to the ordinance)
- Transfer of capital between all pension providers does not carry administration fees and is not limited by other restraints other than mentioned below.
- Pension funds are obligated to transfer the actuarial value of the accrued capital on request and must compensate for a funding ratio under and over 100%.
- The first defined contribution pension agreement with a private pension provider has a maximum time span of 3 years, all pension agreements after the first have a variable time span (to be agreed between pension provider and employer).
- Private pension providers must publish administration costs, gross rate of return the last five years, net rate of return the last five years, annuity rates (including all costs) in every quotation/proposal and every pension agreement.
- Banks are allowed to participate in the saving of pensions (until retirement). Only insurance companies and pension funds are allowed to offer annuities. All providers need to have a permit from the Central bank of Curaçao and Sint Maarten.
- The variable wage component is not part of the wage sum (no premiums are paid over variable wage component). If salary exists entirely out of a variable wage component, than the premiums are calculated from the monthly average salary of the last calendar year.
- When the employee dies before retirement the partner/spouse can only use the pension capital to buy an annuity directly or at pensionable age [Dutch: premievrij aanhouden], or move the capital to his/her own pension arrangement. This capital must be exempted from inheritance tax [Dutch: successierechten] when partners were married [Dutch: in gemeenschap van goederen] or signed a cohabitation contract with similar significance.
- Pension funds are allowed to offer pension plans to other parties with the permission of the Central Bank.
- Independent contractors (Dutch: zelfstandige zonder personeel) are allowed to make use of the 3rd tier tax deductible contributions.

All the changes mentioned above taken together would create the Sint Maarten 2nd tier pension system. In comparison with the Aruban model all unnecessary complications are eliminated and adjustments have been made to overcome the challenges created by the facts that there are a limited number of pension providers in the market. Most of the adjustments are self-explanatory given the challenges in Aruba. Other adjustments are substantiated by the report of Keesen Actuarissen. Some other important choices have to be made to arrive at an effective and efficient 2nd tier pension for Sint Maarten.

4.2 Characteristics of the Keesen Actuarissen calculation model

The choices for the Sint Maarten 2nd tier pension system are also elaborated on by Keesen Actuarissen²¹. The Keesen Actuarissen report contains all the variables that together calculate the benefits of different pensions after retirement for different income brackets, ages and gender. The most important choices are the premiums employer and employee, type of pension under mandatory plan, retirement age, administration costs, and fees insurer for capital management. Other variables like the expected rate of return and present market rates for lifelong annuities are given.

²¹ A General mandatory pension plan for Sint Maarten, page 8-11

The variable of expected rate of return depends on current market values and is set on 3% (current Central Bank interest rate). This is a very conservative value and should be read as a guaranteed rate of return by pension providers until retirement (or for the duration of the pension agreement). In case the interest increases in the future, this will substantially benefit the pension savings. Of course a lower interest rate (and therefore lower rate of return) would slow down the growth of pension capital. The real competitive element pension providers can offer is the extra return above 3% and which percentage of these extra gains will be returned to the pension capital of participants. Even with the limiting investment rules of the Central Bank currently in place 3% is a very conservative return. Currently a gross rate of return between 4% and 6% is considered achievable. The present market rates for lifelong annuities are also given in the model. In reality these market rates can improve (for retirees) when competition in this market improves or investment opportunities improve.

The Keesen model does not take inflation and real income growth into account. Because the model also uses real rates of return (real interest rates at 3%) these factors together compensate each other. This means that the income replacement ratio is calculated over the average income (and not last income). Moreover, the Keesen Actuarissen model takes full AOV benefits into account (calculating the replacement ratio over the average income).

4.3 Choices Keesen Actuarissen for the Sint Maarten 2nd tier pension system

Keesen Actuarissen advises the following²²:

- Premiums employer 3%
- Premiums employee 3%
- Administration costs are charged separately to the employer
- Standard retirement age at 65
- Accrued capital can only be used for old age pension (until buying annuity). Additional death risk insurance for partner/spouse and orphans before retirement is allowed only with additional funding/contributions. After retirement the accrued capital must be used to buy an annuity. Other insurances can be purchased from the accrued capital after retirement.
- Additional contributions allowed under present legislation
- Employer chooses the pension provider with consent of the labor union or majority of the employees

The advice of Keesen Actuarissen gives the following pensions for different ages, income brackets and gender for old age pension (no partner/spouse and/or orphan insurances):

²² A General mandatory pension plan for Sint Maarten, page 11

Table shows extra Monthly Old Age Pension											
Monthly Salary		1,200	1,600	2,000	2,500	3,000	4,000	6,000	8,000	10,000	15,000
Age	Gender										
20	M	498	664	830	1,037	1,245	1,659	2,489	3,319	4,149	6,223
20	F	426	568	710	888	1,066	1,421	2,131	2,841	3,552	5,328
30	M	325	433	541	676	812	1,082	1,623	2,164	2,705	4,058
30	F	278	371	463	579	695	926	1,390	1,853	2,316	3,474
40	M	196	261	326	408	489	653	979	1,305	1,631	2,447
40	F	168	223	279	349	419	559	838	1,117	1,397	2,095
50	M	100	133	166	208	250	333	499	666	832	1,248
50	F	85	114	142	178	214	285	427	570	712	1,069

This table clearly shows that a pension based on the chosen premiums is still a very basic pension. Even if participants are contributing more than 20 years to their pension, their benefits remain low compared to their average income. When participants also choose to buy partner pension when reaching pensionable age, their above calculated pension would decrease with around 30 percent.

The table below shows the replacement ratio of the average income. This table takes full AOV benefits (1,000 ANG) into account. The AOV benefits distribution of 2013 (paragraph 2.1) shows that 27 percent of the AOV recipients received between 900-1,000 ANG per month. The below replacement ratio will therefore be lower for many people.

Table shows Income Replacement Ratio (total Monthly Old Age Pension including 1000 AOV as % of salary)											
Monthly Salary		1,200	1,600	2,000	2,500	3,000	4,000	6,000	8,000	10,000	15,000
Age	Gender										
20	M	125%	104%	91%	81%	75%	66%	58%	54%	51%	48%
20	F	119%	98%	86%	76%	69%	61%	52%	48%	46%	42%
30	M	110%	90%	77%	67%	60%	52%	44%	40%	37%	34%
30	F	106%	86%	73%	63%	56%	48%	40%	36%	33%	30%
40	M	100%	79%	66%	56%	50%	41%	33%	29%	26%	23%
40	F	97%	76%	64%	54%	47%	39%	31%	26%	24%	21%
50	M	92%	71%	58%	48%	42%	33%	25%	21%	18%	15%
50	F	90%	70%	57%	47%	40%	32%	24%	20%	17%	14%

The AOV benefits contribute relatively more to the lower income brackets. Therefore the replacement ratio of these employees is more positive than for higher income brackets. The younger an employee was at the time of the start of the pension plan, the better the replacement ratio of the average income is. This table also shows that participants in lower and middle income brackets who save for 25 or more years are able to obtain a decent replacement ratio.

Both tables are a clear indication that all extra insurances and partner/spouse pension would not fit in this basic pension system based on 3%+3% premiums. It also shows that extra premiums and contributions, from employees or employers or both, should be stimulated. Moreover, also the tax deductibility of 3rd tier pension contributions should be expanded substantially. In the above table the capped and reduced costs of pension providers in comparison with Aruba (administration & capital management fees) are already taken into account. The administration costs can only be kept low if a transparent and simple pension plan also keeps the efforts of the insurance companies low to sell and administrate the pension agreement. The pension benefits are simply too low to accommodate extra needs from participants or high fees from insurance companies or pension funds. The Keesen report

gives the different pension benefits when varying the parameters (contributions, retirement age, expected rate of return and administration costs).

4.4 Choices in the draft law of Curaçao

Curaçao has taken the initiative to draw a draft law regarding the introduction of a mandatory 2nd tier pension. The commission 'Algemeen Werknemerspensioen' has written an advice [eindadvies verplicht basispensioen], a draft basic pension regulation [concept basis pensioenregeling] and the draft law [wetsontwerp en memorie van toelichting] on the request of the Minister of Social Development, Labor and Welfare (landsbesluit nr. 2012/35668 Curaçao). The commission finalized the findings in January 2013. Due to the introduction of the health insurance act this law has not been passed yet.

In Curaçao the commission advises a basic pension system with a 3%+3% contribution where employers contribute 50% or more. The commission further advises to mandate the maximum cost for the transfer of pension capital, administration costs (5% of premiums) and the manner the rate of return needs to be calculated [samengesteld rendementberekening] in a decree [landsbesluit houdende algemene maatregel]. This is another indication that also in Curaçao the market competition between insurance companies needs some management by laws. The commission further advises to expand the definition of employee to independent contractors [zelfstandige zonder personeel] although the commission recognizes that this will bring many challenges. Independent contractors are both employer and employee but are not necessarily registered as such. Other differences compared to the Sint Maarten pension system as advised by the SER are related to the serious financial difficulties the AOV (1st tier) pension has encountered in Curaçao. These difficulties, mostly caused by demographic buildup of the population in Curaçao, are grounds to consider replacing the entire AOV system with the mandatory 2nd tier system in the next 25-30 years. Therefore the commission opts for a more extensive pension system (partner/spouse and orphan pension, including independent contractors), although the basis of the system with 3%+3% premiums remains very modest. These financial difficulties with the AOV system are not present in Sint Maarten due to a different population buildup that actually causes substantial overfunding that is set to increase the fund until the year 2028. The proposed 2nd tier pension by the SER will be built on top of the 1st tier AOV system in Sint Maarten. Therefore the SER comes to the following choices.

4.5 Choices SER for the Sint Maarten pension system

The SER follows the advice of Keesen Actuarissen regarding the premiums of employer and employee, type of pension under mandatory plan, retirement age, administration costs, fees insurer for capital management and capital transfer fees. The choices below are imbedded in the structure of the Sint Maarten 2nd tier pension system (paragraph 4.1). The choices of the SER are elaborated below.

Premiums – The 2nd tier pension system aims to be a basic system. This pension system can be funded through mandatory minimal premiums of 6% of the wage sum for all pension plans whereby the employers contribute at least half. The SER strongly recommends that employees, without sufficient Cessantia entitlements, of 50 years of age or older at the time of the introduction determine in the

pension plan to voluntarily contribute 12% premiums together (and between 45-50 years of age 8% together). This will provide for a replacement ratio (including full AOV) of at least 50% for the income brackets between 1,200 and 3,000 ANG (for more details regarding the ratio employer and employee premiums see 4.1).

Only old age pension – The basic pension system should not be burdened with other insurances or partner/spouse and orphan pension due to the chosen premiums. Extra insurances and pensions can only be purchased outside the minimal premiums or after reaching pensionable age (see 4.1 for more details).

Retirement age 65 – The standard retirement in new pension agreements should be set to 65. Sint Maarten does not know a mandatory retirement age to dissolve [Dutch: ontbinden] the labor contract. Only if the labor contract includes a retirement age the contract ends. If there is no retirement age in the labor contract than the private sector employee can negotiate with the employer at what age he wants to retire given the AOV and pension/Cessantia benefits the employee expects to receive. The pension system should allow employees to retire earlier or later than 65 years of age but leave this decision up to employee and employer. Keesen Actuarissen gives an overview of the financial consequences if employees decide to retire at 60 years of age²³.

Administration costs – Due to insufficient market competition and the chosen premiums the administration costs of private pension providers must be mandated by decree [Landsbesluit houdende algemene maatregel] and set to be a maximum of 5% of the premiums. The administration costs can be set low because (most) insurance companies already have experience with the product and the pension is kept simple and transparent. The consequences for insurance companies are already very positive (see chapter 5). The administration costs are charged separately to the employer outside the chosen minimal premiums (see 4.1 for more details).

Capital management fees - Due to insufficient market competition and the chosen premiums the fixed and variable capital management fees of private pension providers must be mandated by decree [Landsbesluit houdende algemene maatregel] and set to be a maximum of 0,5% of the capital. This percentage is deemed reasonable by experts given the size of the market²⁴. Moreover, when private pension providers are mandated to publish their gross and net rate of return over the last five years, participants can be informed sufficiently in order to be able to purchase a good product.

Capital transfer fees - Due to insufficient market competition and the chosen premiums the capital transfer fees of all pension providers must be mandated by decree [Landsbesluit houdende algemene maatregel] and set to be a maximum of 0 (zero) ANG. The employees in the lower income brackets tend to change employer more than other employees. The chosen premiums do not leave sufficient space to deduct transfer fees from their pension capital. Moreover, zero capital transfer fees stimulate market competition between pension providers and facilitate employers to choose the best pension agreement for their employees.

²³ A General mandatory pension plan for Sint Maarten, page 20

²⁴ A General mandatory pension plan for Sint Maarten, page 12

The SER further advises government to consult with the pension providers and representatives of employers and employees regarding all the cost to be determined in a decree [Landsbesluit houdende algemene maatregel].

The SER believes that an extensive control mechanism to manage the compliance of employers and employees is not necessary. Employees will have sufficient reason to consult with their union or with the Labor Department if an employer is non-compliant. Still, as a last resort, the pension legislation should allow for fining the non-compliant employers [Dutch: bestuurlijke boete]. The experiences in Aruba indicate that about 85% of the employees not covered before 1-1-2012, were covered in new pension plans 16 months after the introduction²⁵. The smaller businesses were more often non-compliant in Aruba.

²⁵ Estimate from insurance companies and unions in Aruba mentioned during interviews

5 Macro-economic consequences of the mandatory pension

The macro economic consequences and consequences for pension providers are calculated in the report of Keesen Actuarissen²⁶. These consequences will be mentioned briefly below.

5.1 Consequences for the government of Sint Maarten

The government of Sint Maarten will experience a decrease in revenues between 5 and 10 million ANG per year after the introduction of the 2nd tier pension system. An increase in tax deductibility regarding the 3rd tier pension (2.4) has not already taken into account. This calculation assumes that 50% (see 2.2) of the employees in Sint Maarten do not have a pension before the introduction of the mandatory system. This decrease of 5-10 million is explained because the premiums from employees are deductible from wage tax and the premiums from employers are deducted from profit tax. See Keesen Actuarissen (page 14-15) for the calculation.

However, the decrease in revenues will only be temporary. Pensions are based on delayed pay. Over time interest is collected over the premiums causing the pension capital to grow. When the pension benefits are paid out, these payments are considered income and therefore taxable although this income would fall in a lower tax bracket.

The pension system will also create more local investments. More local investments are one of the main advantages to introduce this pension system. Pension providers are obligated to invest a percentage in the local economy (see 5.4). For example, the success of the economy in Chile has been largely contributed to its pension system and its investment rule. The investment in Sint Maarten would depend on the investment rule of the Central Bank and local investment opportunities. This regulation will evoke economic activity that is taxable by the government. See the table below under 'expected extra capital year end' for a calculated estimate. Note that the first year pension providers would look to invest around 45 million ANG extra than before the introduction of the mandatory 2nd tier pension. Since this number is added every year and draws interest the supply of investment capital would grow very rapidly.

Contribution ER				3.00%			
Contribution EE				3.00%			
Expected rate of return				3.00%	net of investment fee		
Administration cost deducted from contributions				0.00%	of contributions		
Administration cost charged separate to ER				5.00%	of contributions		
Investment fee				0.50%	of accrued capitals (average begin & end year		
Part of population that already has a compliant plan				50.00%			
Year	Total Extra Contributions ER (incl adm cost charged)	Total Extra Contributions EE	Total Extra Contributions	Expected Extra Capital yearend	Total Extra Admin fee	Total Extra Investment fee	Total extra fee insurers
2014	24,352,739	22,138,854	46,491,593	44,941,874	2,213,885	112,355	2,326,240
2015	24,352,739	22,138,854	46,491,593	91,232,003	2,213,885	340,435	2,554,320
2016	24,352,739	22,138,854	46,491,593	138,910,837	2,213,885	575,357	2,789,243

²⁶ A General mandatory pension plan for Sint Maarten, page 14-15

2017	24,352,739	22,138,854	46,491,593	188,020,036	2,213,885	817,327	3,031,213
2018	24,352,739	22,138,854	46,491,593	238,602,511	2,213,885	1,066,556	3,280,442
2019	24,352,739	22,138,854	46,491,593	290,702,460	2,213,885	1,323,262	3,537,148

Over time the pension system would substantially decrease the dependency of the elderly on financial aid. In 2012 already 60% of the recipients of financial aid were over 60 years old²⁷. Although the report 'Preliminary report revision of the ordinance for financial assistance' does not specify how much the group of elderly utilize of the 4.5 million ANG budget, a substantial reduction of this budget by alleviating the financial situation of the elderly in the future, is to be expected.

5.2 Consequences for pension providers

The table above also clearly indicates the positive consequences for pension providers after the introduction of the mandatory pension. Suddenly 50% or more of the pension market would be obligated to enter into a pension agreement. This leads to a sudden increase of revenue for the pension providers. The total extra administration and capital management fees for pension providers would start at 2.3 million ANG the first year and after six years would have reached more than 3.5 million ANG yearly. These are only the direct fees related to the administration of pension agreements. Most of these extra revenues will be divided over 5 insurance companies currently able to carry pension agreements and life-time annuities. The banks (only for pension agreement for pension savings until retirement) and existing pension funds (pension agreement and annuity) are also allowed to offer pension agreements to employers if they obtain the permission of the Central Bank. The SER would warmly recommend these parties to seek such a permit thereby increasing the number of market parties able to compete for the pension market.

Moreover, the private pension providers (insurance companies and banks) would also take a part of the return of investment above the guaranteed rate of return they would offer. Especially after several years (with large pension capitals to be managed) these profits could substantially increase the profitability of the insurance companies and in return lead to significant higher profit tax revenue. All in all, the introduction would also mean a substantial increase in activities for pension providers.

²⁷ Preliminary report revision of the ordinance for financial assistance, page 9

5.3 Consequences for employers and employees

The above table clearly indicates the aggregated consequences for employers and employees. Employers would be obligated to pay 24.3 million ANG per year into premiums. Although (part of) this sum would be otherwise taxable under profit tax, and the premiums are relatively low compared to international standards (see 2.3), the introduction would still cause an increase in ‘the costs of doing business’.

Therefore the SER advises to create for a period of five years an extra deduction for employers as to incentivize compliance with the 2nd tier pension legislation. More specifically, the contribution of the employer to the pension of the employees must be made deductible from the profit tax obligation (after the real contribution and administration costs are already deducted from the profit itself). The introduction of the mandatory 2nd tier pension would also create a (more) level-playing field for employers since the obligation to contribute would be applicable to all employers.

A 2nd tier pension would also express the concern of the employer for the well-being of the employee but not the responsibility of the employer to protect employees from poverty after retirement. Moreover, by contributing to employee’s pensions, employers will create a positive effect on the morale of the employees. Pension contributions of employers can also play a role to keep and attract competent employees. A joint responsibility of employee and employer also creates goodwill and loyalty from both parties thereby enhancing the goals of the businesses. These positive outcomes for the employer, combined with extra tax deductibility from profit tax (after the real contribution and administration costs are already deducted from the profit itself), will more than make up for the increase in ‘the costs of doing business’.

The above table also indicates that the employees together would pay 22.1 million ANG yearly into premiums. This causes a direct decrease in spending power for employees but the advantages for employees are substantial. Employees will be able to take responsibility for their financial future through 2nd and 3rd tier contributions. For those already with a pension agreement, the option to seek employment with companies currently without pension plan is substantially more attractive. Moreover, employees will be able to take their pension with them when changing employment without significantly decreasing their pension benefits.

5.4 The 60%-40% Investment rule

The investment rule for financial institutions set up by the Central Bank limits the potential height of pension benefits of participants. This investment rule, more or less, mandates the investment of capital of the banks, insurers and pension funds to be allocated locally (Curaçao and Sint Maarten) for 60%. The remaining 40% can be invested internationally. This rule was originally setup to protect the own economy by insuring sufficient investment from our own economy and to stop flowing money out of the Netherlands Antilles.

Over the years the situation has changed. Now, local investment opportunities are scarce and local investors are struggling to find opportunities with a decent rate of return. The main local investment of the financial institutions used to be government bonds of the Netherlands Antilles. Since 10-10-10 this is

no longer profitable because the Netherlands offered to buy all government bonds at very low interest rate. Even before 10-10-10 investment possibilities in both countries were limited. Therefore the return of investment, when 60% of the capital needs to be allocated locally, is substantially lower than it would be without this restriction. It is exactly this low(er) rate of return that prevents pension savings from employees to grow at a faster pace and provide a better pension. Moreover, especially the banking sector in Sint Maarten is currently overfunded. Therefore the investment rule, especially when it comes to pension or private savings, is actually slowing the economy down because pension benefits derived from the accumulated pension capital and a substantial part of private savings would be spent locally at retirement age.

The macro-economic consequences of a mandatory 2nd tier pension system clearly indicate that the supply of investment capital would go up substantially²⁸. Within 6 years after the introduction insurance companies, pension funds, and banks would need to invest around 300 million ANG more than before, of which 60% should be invested locally under current regulations. Moreover, this outlook would decrease first, the offered guaranteed rate of return by pension providers and second, the return on investment above the guaranteed rate of return in pension agreement from the beginning. In other words, the current investment rule is lowering the current and future pensions of Sint Maarteners.

Therefore the SER additionally advises the following:

- To request the Central Bank to adjust the investment rule for the banks, insurance companies and pension funds in Sint Maarten to a ratio of minimal 40% domestic and maximum 60% foreign.

²⁸ A General mandatory pension plan for Sint Maarten, page 14

6. Advice of the SER regarding a mandatory second tier pension

The Social Economic Council (SER) has described in depth the feasibility of an introduction of a Sint Maarten 2nd tier pension system. Following from the former chapters the SER unanimously advises the government of Sint Maarten the following:

- To introduce a mandatory 2nd tier pension model in Sint Maarten no later than 1-1-2015 with a phased three year introduction.
- To pass legislation at least six months before the date of introduction as to allow an organized and successful introduction
- To incorporate the following elements in the legislation as to create a transparent and robust pension system for Sint Maarten (full lists paragraph 4.1):
 - *Before retirement the minimal premiums only cover old age pension. Employees are allowed to buy extra insurances (death&disability insurance or partner/spouse and orphan pension) from premiums other than the minimal premiums. Pledging or lump sum payments are not allowed.*
 - *Pension capital in defined contribution plans can only be used after retirement to buy life-time annuity and other insurances (e.g. partner pension).*
 - *Employees' premiums are deductible from wage tax. Employers' premiums and administration costs are deductible from profit tax.*
 - *Administration costs for private pension providers are paid by employer next to the premiums.*
 - *Employers are allowed to differentiate premium contributions between employees with consent of personnel/unions.*
 - *Employees are allowed to contribute extra outside pension plan (tax deductible 3rd tier premiums) and to add 3th tier contributions to 2nd tier accrued capital.*
 - *Guaranteed rate of return of private pension providers is no more than the interest rate set by the Central Bank; currently 3% (private pension providers can compete with extra returns on top of the guaranteed rate of return).*
 - *Life-time annuities may be bought from local and foreign pension providers.*
 - *The time span of the first defined contribution pension agreement is three years; after which the length of the time span is up to the insurer and employer.*
 - *Private pension providers must publish administration costs, gross rate of return of the last five years, net rate of return of the last five years, annuity rates (including all fixed and variable costs) in every quotation/proposal and every pension agreement.*
 - *Employees with pension agreements with pension funds have the right to transfer the actuarial value of their pension capital and pension funds must correct this value for the funding ratio over and under 100%.*
 - *Independent contractors (Dutch: zelfstandige zonder personeel) are allowed to make use of the 3rd tier tax deductible contributions.*

- To choose the following parameters as advised by the SER (full list paragraph 4.4):
 - *Before retirement only old age pension is paid for by the minimal premiums (no death&disability insurance or partner/spouse and orphan pension).*
 - *Minimal premiums of the wage sum are set for 3% employer and 3% employee. Both can contribute more as long as employer contributes 50% or more of total premiums as defined in the pension plan. The SER strongly recommends that employees, without sufficient Cessantia entitlements, of 50 years of age or older at the time of the introduction negotiate with their employer in the pension plan to (voluntary) contribute 12% of the wage sum together (and between 45-50 years of age 8% together).*
 - *Set the standard retirement age at 65 years (employees who want to retire earlier or later can negotiate this with their employer).*
 - *To regulate that for private pension providers the administration costs are maximum 5% of total premiums, the fixed and flexible capital management fees are maximum 0,5% of total pension capital, and transfer value of accrued capital between all pension providers plans is not burdened by fees or any other restraints than mentioned in this advice. All three fees must be determined separately in a decree [Landsbesluit houdende algemene maatregel] (see also 4.4).*
- To consult with the pension providers and representatives of the employers and employees regarding all the costs and fees to be determined in a decree.
- To allow for a period of five years after the introduction to deduct the minimal premiums (3%) contribution of the employer and administration costs from the profit tax obligation as an extra tax deductibility (after the employers contribution and administration costs are already deducted from the profit itself). Additionally, within five years to come up with permanent legislation for a significant tax relief for employers.
- To request the Central Bank to adjust the investment rule for banks, insurance companies and pension funds [Dutch: institutionele beleggers] in Sint Maarten to the ratio of minimal 40% domestic and maximum 60% foreign.
- To increase the tax deductibility of third tier pension premiums to at least 12,000 ANG per year. To allow in the legislation that the 3rd tier pension contributions can be added to 2nd tier accrued pension capital

The SER would like to emphasize that the current challenges mentioned in this advice regarding the 1st tier AOV pension and 3rd tier additional pension could be addressed by implementing the earlier advice of the SER entitled ‘the AOV system made Affordable, Sustainable and Equitable’.

The SER further recommends to government to start a study to phase out Cessantia legislation in relation with the introduction of the mandatory 2nd tier pension legislation and replace Cessantia with unemployment benefit legislation (see separate advice SER ‘flexicurity’)

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Ministry of VSA Sint Maarten. *Preliminary report revision of the ordinance for financial aid*, Ministry of VSA (Public Health, Social Development and Labor), Department of Social Development, Sint Maarten 2012.

7.1 Legal framework

- Landsverordening regelende een algemene, de gehele bevolking omvattende, verplichte verzekering tegen geldelijke gevolgen van ouderdom, AB 2013, GT no. 522
- Landsverordening tot het vaststellen van nieuwe regelen inzake een verplichte eenmalige uitkering aan de werknemer, bij ontslag buiten zijn toedoen, alsmede tot wijziging van het B.W.N.A.. AB 2013, GT no. 529
- Landsverordening op de Loonbelasting 1976
- Landsverordening op de Inkomstenbelasting 1943
- PB 2002, nr. 35. Ministeriele beschikking met algemene werking van de 30ste januari 2002 ter uitvoering van de artikelen 6A, tweede lid en 6B, derde lid van de Landsverordening op de Loonbelasting 1976 (Beschikking pensioenen)

7.2 Interviews stakeholders Sint Maarten, Aruba and Curaçao

The SER held interviews with the following stakeholders on Sint Maarten, Aruba and Curaçao:

- 4sure Insurance Broker, managing director and member ATIA (Aruba)
- Algemeen Pensioenfonds Sint Maarten, director and deputy-director (Sint Maarten)
- Aruba government, prime minister (Aruba)
- ATIA, former director (Aruba)
- Bureau of Statistics Aruba, director (Aruba)
- Council of Advice, legal advisor (Aruba)
- Department of Social Development, department head (Sint Maarten)
- Ennia, managing director (Sint Maarten)
- Fatum, managing director (Sint Maarten)
- Fatum, manager sales and account manager (Aruba)
- Keesen Actuarissen, General Manager (Curaçao)
- Metacorp, Chief financial officer and board member Harbor Pension Fund (Aruba)
- Nagico, managing director & staff (Sint Maarten)
- Pan American Life, general manager (Sint Maarten)
- SEPPA, Secretary-General (Aruba)
- Sint Maarten Insurance Brokers Association, president (Sint Maarten)
- Sint Maarten Bankers Association, president (Sint Maarten)
- WTS (tax and pension consultants), director and owner (Aruba)

Appendix A – The Aruba 2nd tier pension characteristics

The most important aspects of the Aruban 2nd tier pension are:

- The Aruba pension plan is a basic pension plan benefitting the lower income brackets the most.
- At least 6 percent of the income has to be contributed for a pension (more is allowed).
Employers contribute at least half.
- A soft introduction (1st year 2%, 2nd year 4%, 3rd year 6%).
- Employer and employee are allowed to contribute more, but all employees from the same company have the same contribution ratio. (E.g. 3%+3% for workers, then also for management 5%+5% or 7%+7% and not 5%+7%)
- Employees of the same employer have a pension agreement with the same pension provider.
- All pension agreements have a minimal 5 year timeframe.
- Pension providers are registered pension funds and insurance companies.
- Employer contributions are not taxable under wage tax and deductible from profit tax.
- Employee contributions are not taxable under wage tax.
- Employees can transfer pension capital when changing employers (although not when employees are longer than 10 years with a pension fund).
- At retirement the pension capital has to be used to buy a lifelong annuity. Pension capital cannot be pledged or used for anything else but pension.
- Employees who leave the country can ask for a lump sum after three years.
- Employer chooses the pension provider but employees have a say.
- Partner pension and death and disability risks may be covered from the minimal premiums.
- When divorced or separated from registered partner, the partner has right to 50% of the pension capital accrued during the relationship unless otherwise arranged by a notary.

Appendix B – The Keesen Report “A General Mandatory Pension Plan for Sint Maarten”

A General Mandatory Pension Plan for Sint Maarten

Preliminary research report for the Social Economic Council



Sint Maarten, December 2, 2013

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Disclaimer

The calculations and figures in this report are made with the utmost accuracy. All calculations and figures are prepared and checked by Keesen Actuarissen. However all calculations are estimates based upon assumptions and data on for example population, income, benefits. These data are received from other parties like CBS, SVB, Civil Registry and Tax Office. We have not been able to verify all this data. Incorrectness in received data can lead to inexact estimates.

LIMITED LIABILITY NOTICE

Our services are provided on the basis that:

1. Any action, arising out of, or in connection with, our services, is to be determined by the competent court in Curaçao which shall have exclusive jurisdiction in relation thereto.
2. Reliance by anyone on our services will be deemed acceptance of such choice of law and forum and limitation of liability.
3. Any and all liability shall be limited to direct damage up to at most the amount of fees paid for the services in the matter concerned.
4. Excluded is our liability for any consequential damage, consequential loss, lost profits, lost savings, loss of goodwill, business interruptions and all other forms of indirect damage or injury.
5. For any right to damages to exist the damage or injury must always be reported to us in writing as soon as possible after it occurs. Any claim to damages against us expires 6 months after the claim arises.
6. In all cases any and all liability shall be limited to the amount which is paid out under our professional liability policy.

Introduction

Background

A large part of the retirees on Sint Maarten is dependent on the General Old Age Act or “Algemene Ouderdomsverzekering” (AOV) with respect to their income. In 2013 the full AOV benefit equals approximately ANG 1000 per month. Most of the retirees are not entitled to the full AOV (due to years abroad). The average AOV benefit of retirees living on Sint Maarten is equal to ANG 694 in 2013.

Only a small part of the working population is accruing an additional pension. A mandatory additional pension will increase retirement income and decrease the dependency on the AOV.

In 2010 we advised the Government of Sint Maarten on a new integral pension system for Sint Maarten (see our report “A sustainable Pension System for future country Sint Maarten”). In that report we advised to increase the AOV, and at the same time introduce a mandatory additional pension. Hereunder a short summary of the main advise.

Summary report “A sustainable Pension System for Sint Maarten”

The present pension system in Sint Maarten consists of 3 layers. The first layer is the AOV. The level of the benefit is in most cases insufficient to cover the cost of living. Some people have an additional pension through a plan with their employer. But still a lot of people do not. Private pensions are not very common, also because there is no tax incentive. So the financial future of retirees on Sint Maarten relies heavily on the AOV, which gives an insufficient benefit for a substantial premium. Moreover, the funding system of the AOV is vulnerable to ageing of the population.

The average retiree relies heavily on the AOV, with not too high benefits, and on a vulnerable method of funding (pay-as-you-go). So preferably some changes should be made in the pension system on Sint Maarten, such as:

- higher benefits, especially for the ones living on Sint Maarten and relying only on (a reduced) AOV;
- shift to another funding method (saving for your own pension), to make the system less vulnerable;
- stimulation of employers and employees to start additional pension plans (or even an obligation to do so);
- stimulation of private pensions through tax incentives.

Of course all changes should be financially sustainable. To help the financial sustainability an increase of the retirement age of the AOV (now 60) should be considered.

The objective of the changes is to improve benefits, especially for the ones on Sint Maarten relying heavily on the AOV, to keep the system sustainable on the long term, and to make the system less vulnerable for ageing on the long term.

The proposed changes have several advantages over the present situation:

- Better benefits especially for those on Sint Maarten for who the AOV now is their only source of income.
- Savings in social welfare.
- On the long term the pension system of Sint Maarten is less vulnerable to ageing of the population by:
 - a. Increasing the retirement age gradually to 65.
 - b. Introducing a compulsory pension savings plan.
 - c. Stimulating private pension savings with tax incentives.

The benefits of these pension savings plans are additional to the AOV. Therefore the pension system is less dependent on the AOV alone. This makes it easier to take necessary measures in the long term future when ageing occurs.

Report

The Social Economic Council defined the following research points:

1. Summary of Aruba plan.
2. Calculations of pension capitals and pensions.
3. Advise on contributions and retirement age.
4. Rules for pension providers (including supervision).
5. Consequences for pension providers.
6. Consequences for the Government of Sint Maarten.
7. Critical evaluation of the new law in Aruba (LAP).

In the following chapters we will elucidate each of the above points.

1. Summary of Aruba plan.

The main characteristics of the Mandatory Aruba Plan are (per category):

Eligibility

- a. Each resident employee of 18 years or older after the trial period (“proeftijd”).

Contribution

- b. At least 6%¹ of income has to be contributed for a pension
- c. Income is defined as at least 12 times the fixed gross monthly salary. If there is variable income on a monthly basis, at least half of the average variable income of the last 3 years should be added.
- d. The contribution has to be made to a registered pension foundation or insurance company.
- e. At least half of the contribution is for the employer, the remainder for the employee.
- f. The distribution of the total contribution over employer and employee has to be the same for all employees within the same company.
- g. Employer contributions are deductible from Profit Tax and not taxable for Wage Tax. Employee contributions are deductible from Wage Tax. So there are tax incentives.
- h. Employer and employees are allowed to contribute more (within certain limits).
- i. The 6% is a minimum contribution of the full salary. There are 2 other options (chosen by the employer):
 - i. If the contribution is at least 10% then an offset (“franchise”) of Afl 12,336 can be deducted from the salary before levying the percentage.
 - ii. It is also allowed to offer a Defined Benefit plan, the minimum annual pension accrual is then 1% of salary minus offset of Afl 17,616.

Transfer or surrender of pension capital

- j. It is not allowed to take lump sums or pledge the pension capital (with exception of the following points).
- k. Payout of the pension capital in a lump sum is possible:
 - a. after emigration (after being away for 3 years, and after deduction of taxes and tax debts and overdue premiums for social security).
 - b. if the pension is less than Afl 50 per month (after deduction of taxes).
- l. The employee has the right to transfer the pension capital when he changes employer. This is not applicable if he was a member in a pension foundation for more than 10 years. If he was member in a pension foundation less than 10 years then the transfer value is at least the sum of employer and employee contributions plus interest.
- m. An insurer or pension fund can charge not more than Afl 250 for a transfer of pension capital.

¹ The 6% is introduced gradually: 2% in 2012, 4% in 2013 and as from 2014 6%.

Retirement

- n. At retirement the pension capital has to be used to buy a lifelong annuity. If there is a partner², the annuity has to be combined with an annuity on the life of the partner which is at least 70% of the annuity for the employee.
- o. The employee can choose to buy the annuity at the earliest at age 60. The employee can also postpone the purchase of the annuity, each time with a year, till the latest at age 70.

Pension provider

- p. Employer chooses the pension foundation or insurance company, but employees have a say.
- q. There are some rules for insurers, pension funds and insurance brokers on how to advertise and present proposals.
- r. The insurer or pension fund has to send an annual statement to the employee.
- s. The insurer or pension fund has to inform employees on backlogs in payment of contributions (if the backlog is more than 3 months).
- t. The insurer or pension fund cannot end the pension agreement without good reasons.
- u. The pension fund of an employee who is a major shareholder of the employer ("directeur groootaandeelhouder") is exempted from most of the articles in the law

Other

- v. At divorce or end partner relation the accrued pension capital has to be split³, unless agreed otherwise by notarial contract or judge decision.
- w. There are certain penalties if not in compliance with the law.
- x. Separate from the new pension law which defines a minimum pension there are also new tax rules introduced, limiting the maximum pension accrual.

² Spouse or partner living on the same address if there is a cohabitation contract.

³ The split capital can only be used for the purchase of an annuity, lump sums are not allowed.

2. Calculations of pension capitals and pensions.

We prepared a tool to calculate pension capitals & pensions based on different:

- a. Contribution % employer
- b. Contribution % employee
- c. Retirement age
- d. Expected rate of return till retirement
- e. Administration cost deducted from total contribution by the pension provider (in % of total contribution).

The calculations are based upon present market rates for lifelong annuities (as used by the larger insurance companies on the island). The calculations assume an Old Age Pension only (no spouses- or partner pension).

The tool also calculates:

- The Income Replacement Ratio (pension as a percentage of salary⁴), assuming they receive the full AOV (ANG 1000 per month⁵) and no other pension income⁶.
- Which part of the pension capital comes from employer contributions, from employee contributions and from interest.

On the next page you will find the outcome in a preferred scenario. In the next chapter we will explain why this scenario is advised by us as the preferred scenario. In the preferred scenario we used the following parameters:

- Contribution 3% employer + 3% employee.
- Retirement age 65.
- Rate of return 3% per year⁷.
- No administration costs charged to the pension.
- Only Old Age Pension.
- Present annuity rates⁸.

The colors of the cells indicate whether the pension is high (green) or low (red), as an absolute amount and as a percentage of income.

The following other alternative scenarios are attached as an appendix:

- Effects of retirement at an earlier (60) or later (70) age.
- Effects of a higher contribution (4%+4%).
- Effects of administration costs (10%) charged to the pension capital.

With the tool many other scenarios can be calculated by changing the values of all the yellow cells.

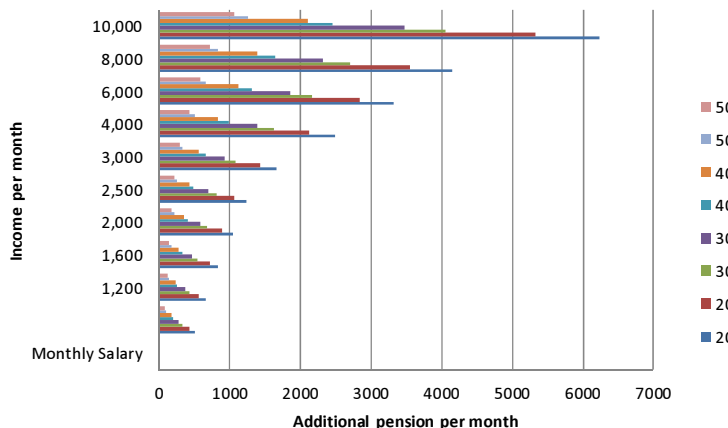
⁴ The tool does not take salary increases during the career into account, so in the tool salary = final salary = average salary.

⁵ Most retirees do not receive the full AOV due to years abroad. The average AOV benefit for the retirees on Sint Maarten equals ANG 694 in 2013.

⁶ Some retirees will receive other retirement income from pensions accrued prior to the introduction of a General Pension, additional pensions above the minimum General Pension (for example government workers and employees of larger companies who have a better pension plan than the minimum General Pension), additional private pensions and savings, rent of apartments, etcetera.

⁷ It is assumed that on the long term in a normal economy the real rate of return (nominal rate of return minus inflation) equals 3% per year. By assuming a 3% rate of return the rate of return above 3% can be used to cover inflation.

⁸ Rates are influenced by 3 factors: interest rates, life expectancy and costs. Annuity rates can change on a daily basis. We used the rates presently offered by the larger local insurers.

SXM Pension System											
Expected additional pension from Compulsory Plan											
Contribution ER		3.00%		<div>Present market rates for lifelong annuities</div> <div>Only Old Age Pension</div>							
Contribution EE		3.00%									
Retirement age		65									
Expected rate of return		3.00%									
Administration cost		0.00%		(part deducted from total contribution; till retirement)							
<div><div><div>Pensions from compulsory pension plan for different income, start age & gender</div></div></div>											
Table shows extra Monthly Old Age Pension											
Monthly Salary		1,200	1,600	2,000	2,500	3,000	4,000	6,000	8,000	10,000	15,000
Age	Gender										
20	M	498	664	830	1,037	1,245	1,659	2,489	3,319	4,149	6,223
20	F	426	568	710	888	1,066	1,421	2,131	2,841	3,552	5,328
30	M	325	433	541	676	812	1,082	1,623	2,164	2,705	4,058
30	F	278	371	463	579	695	926	1,390	1,853	2,316	3,474
40	M	196	261	326	408	489	653	979	1,305	1,631	2,447
40	F	168	223	279	349	419	559	838	1,117	1,397	2,095
50	M	100	133	166	208	250	333	499	666	832	1,248
50	F	85	114	142	178	214	285	427	570	712	1,069
Table shows Income Replacement Ratio (total Monthly Old Age Pension including 1000 AOV as % of salary)											
Monthly Salary		1,200	1,600	2,000	2,500	3,000	4,000	6,000	8,000	10,000	15,000
Age	Gender										
20	M	125%	104%	91%	81%	75%	66%	58%	54%	51%	48%
20	F	119%	98%	86%	76%	69%	61%	52%	48%	46%	42%
30	M	110%	90%	77%	67%	60%	52%	44%	40%	37%	34%
30	F	106%	86%	73%	63%	56%	48%	40%	36%	33%	30%
40	M	100%	79%	66%	56%	50%	41%	33%	29%	26%	23%
40	F	97%	76%	64%	54%	47%	39%	31%	26%	24%	21%
50	M	92%	71%	58%	48%	42%	33%	25%	21%	18%	15%
50	F	90%	70%	57%	47%	40%	32%	24%	20%	17%	14%
Table shows total Pension Capital at retirement											
Age / Monthly Salary		1,200	1,600	2,000	2,500	3,000	4,000	6,000	8,000	10,000	15,000
20		81,312	108,415	135,519	169,399	203,279	271,039	406,558	542,077	677,597	1,016,395
30		53,023	70,697	88,371	110,464	132,557	176,743	265,114	353,486	441,857	662,785
40		31,973	42,631	53,289	66,611	79,933	106,578	159,867	213,155	266,444	399,666
50		16,311	21,747	27,184	33,980	40,776	54,368	81,553	108,737	135,921	203,881
How is the Pension Capital accumulated?											
Age	Through ER contributions	Through EE contributions		Through interest							
20	24%	24%		52%							
30	29%	29%		43%							
40	34%	34%		32%							
50	40%	40%		21%							

3. Advice on contributions and retirement age.

The Income Replacement Ratios of the scenario presented in the previous chapter is fair to good to excellent for people with an income of ANG 4000 or less and age at the start of 30 or less. The contribution rates are equal to Aruba.

People with a higher income have their own resources to save extra for a better pension. That does not require regulation by the Government.

People who start later than age 30 will not always accrue a sufficient pension under the proposed mandatory plan. However some of them will have other pensions accrued during the period before the start of the new mandatory plan. Please note that the total group of people between 30 and 60 years is approximately 50% of the total population of Sint Maarten. A substantial part of this group will have to rely mainly on the AOV for their retirement income. This group will however shrink substantially over time after the introduction of the new mandatory plan.

The calculations assume that no administration costs are deducted from the contributions. This can be reached by regulating that the pension providers have to charge the administration costs separately (additional to the contributions) to the employer. This way there is an incentive for employers to negotiate low costs with pension providers. In general employers will have a stronger negotiation position than employees, because:

- they will negotiate for all their employees (more volume);
- they will have staff or advisors with more knowledge and experience in negotiating better deals with pension providers;
- they can have other substantial insurances which improves their position towards the pension provider.

If administration costs are charged separately to employers the full contributions can be used for the pension accrual of the employee. Employees will not feel negative consequences of pension providers charging high administration costs. We therefore advise to regulate that administration costs are charged separately to employers.

Charging administration costs to the employer can only work if the employer chooses the provider in a group plan for all employees⁹. To make sure that the interest of the employees is not overseen we advise to regulate that the employer chooses the provider with consent of the union or the majority of employees.

If an employee dies the accrued capital can only be used to purchase an annuity for the spouse or partner or children¹⁰. However if an employee dies relatively young the accrued capital will be small and totally insufficient to cover a reasonable income for the spouse or partner or children. For that purpose additional death risk insurance can be purchased, which supplements the accrued capital with the purpose of purchasing a reasonable income for the spouse or partner or children. It is very dependent on the individual situation of the employee how much is reasonable or sufficient for spouse or partner or

⁹ Leaving the choice to the employee will make the administration for the employer unnecessary complex. Furthermore it is difficult for an individual employee to evaluate what is best for his or her pension.

¹⁰ This can be a lifelong annuity starting directly or starting/ending at a certain age.

children. Does the spouse or partner work themselves? Do they also have a sufficient pension? How old are the kids? Are the dependents entitled to an AWW or AOV benefit? Is there already a mortgage with death risk insurance? Because of all these individual differences we advise not to include such death risk insurance standard in the minimum plan, but allow employees and employers to add this to the plan¹¹. Funding of such additional death risk insurance should be done with an additional contribution, because if it is funded out of the minimum contribution the Old Age Pension will decrease, and that is not desirable. In our calculations we did not include additional death risk insurance for an additional spouses or partner or orphans pension.

Other advantages of regulating that the minimum pension only covers Old Age Pension are:

- No medical underwriting is necessary. If death risk insurance or disability insurance is added, we expect that providers will do medical underwriting, which has undesired side effects such as extra procedures and administration, exclusions, increased premiums.
- The plan is more simple and transparent. Features like death and disability coverage make it difficult to understand and evaluate proposals of pension providers.

Considering the above we advise the following:

- a. Set the contributions at 3% employer and 3% employee¹². On the long term this leads to a good Income Replacement Ratio for the ones who need it the most (lower income).
- b. Regulate that administration costs are charged separately to the employer.
- c. Standard retirement age 65 (with the possibility to retire early with a lower pension and late with a higher pension). The age of 65 is internationally accepted, and leads to a higher retirement income than for example 60. If a lower income at for example age 60 is sufficient for the individual employee there is the possibility for the individual employee to retire early with a lower pension.
- d. The 6% contribution has to be used for accrual of a pension capital which can be used for the purchase of an Old Age Pension at retirement or Spouses or Partner and/or Orphans Pension at death before retirement. Covering additional Spouses- or Partner and/or Orphans Pension with an additional death risk insurance is allowed, but only if funded with additional contributions and/or additional capital.
- e. Additional contributions are allowed (up to what is allowed under the present tax rules, see also MB PB 2002 nr 35).
- f. Regulate that the employer chooses the pension provider with consent of the union or the majority of employees.

¹¹ The law should allow individual employees to add death risk insurance and also employers to include it in their group plan for all employees (as is general practice in local group plans). The additional death risk insurance can be paid by employee, employer or a combination.

¹² To avoid a shock in employer cost and employee net income a gradual introduction similar to Aruba (1% + 1% first year, 2% + 2% second year and 3% + 3% thereafter) could be considered. This is not included in our calculations, but does not have a very material effect on the pension outcome.

4. Rules for pension providers.

We believe it is very important that the mandatory pension system is run in an efficient and cost effective way. That will lead to the best pensions for the lowest price. This is best realized if there is a perfect market.

There are 2 examples we can learn from: Chile and Aruba.

Chile has a mandatory pension plan, which is provided for by a number of market parties. The market is very transparent, efficient and competitive which is forced and stimulated by regulations.

Aruba recently introduced a mandatory pension plan, which is also provided for by market parties. But there are only a few market parties (most employers and employees can only choose between 2 major providers). There is some regulation to avoid inefficiency and high prices, but it does not really work smooth.

Learning from these examples and to ensure there will be a competitive market without too high prices, the Government can set the following rules.

1. As much (professional) providers as possible. That means that not only life insurance companies and pension foundations should be allowed, but also banks (not allowed in Aruba). The mandatory plan has the same characteristics as a savings plan, and therefore banks will be able to offer it. Pension foundations should be allowed to provide the pension plan for other companies than their main sponsor¹³.
2. The pension annuities (when the capital is used to purchase an annuity at retirement) are a form of life insurance. This is a very specific industry that requires specific risk management, knowledge and experience. Under the present laws only life insurance companies and pension foundations can offer pension annuities. We advise to keep this as it is. Banks can then offer the accrual of the pension capital, the annuity at retirement has to be purchased at a life insurer or pension foundation.
3. Cap the costs providers are allowed to charge (a % of contributions for administration costs¹⁴, 0.50% of pension capital for investment costs¹⁵, no charges for transfer of pension capital to another insurer¹⁶, no other charges or fees¹⁷). We advise to cap the costs not

¹³ This is allowed in Sint Maarten under the present Central Bank regulations (see for example Vidanova). In Aruba this is not allowed, because there is no level playing field between insurance companies and pension foundations (insurers pay profit tax and pension foundations not; there are some differences in supervision by the Central Bank). It is advisable to level the playing field if pension foundations are allowed to enter the playing field.

¹⁴ Normal in the market of group pension plans is 6.5% - 10%. Because of the volume of the new market the cap can be on the lower end. And if the product is kept simple as advised, the cap can be even lower (for example 5%). We advise to discuss the cap with the pension providers.

¹⁵ Normal in the market of group pension plans. We advise to discuss the cap with the pension providers.

¹⁶ Normal in the market is a charge, but the market will become more competitive if switching is free of charge. We advise to discuss the cap with the pension providers.

¹⁷ Sometimes providers charge for other things such as death and disability coverage. This makes the market less transparent which will lead to less competitiveness. We advise to discuss this with the pension providers.

in the law but through a “Landsbesluit houdende algemene maatregel” so that if necessary it can be adjusted to market developments without changing the law.

4. Make it mandatory for providers to annually publish:
 - i. Administration costs they charge.
 - ii. Gross rate of return they made the last 5 years.
 - iii. Net rate of return granted to pension capitals the last 5 years.
 - iv. Their annuity rates (including all costs) for purchasing Old Age Pension at age 65.
5. Make it mandatory for providers to mention this information in every proposal and contract.
6. Give employers (with consent of employees) the right to switch provider without penalties or fines. This right can be granted for example on an annual or a 5 year basis. The advantage of an annual basis is that competitiveness is increased. The advantage of a 5 year basis is that pension providers might be able to offer better rates and higher guarantees. We advise to discuss this with the stakeholders before making a decision.
7. Keep the product simple and transparent. This will make the market more competitive. A simple “savings” product without several bells and whistles (death risk insurance, disability insurance, etcetera) is much easier to understand for employees and employer and therefore they are able to negotiate better and make better decisions.

All pension providers have to be under supervision. We believe the existing regulatory framework of the Central Bank is sufficient for this.

Presently there are also investment rules for pension providers. Basically 40%-60% of the investment (depending on the total assets of the provider) has to be invested locally. There is a pro and a con with respect to this rule:

- Pro: money is not leaving the country and staying in the local economy.
- Con: there are not enough local investment possibilities with a low risk profile and a good return¹⁸.

We advise to adjust the investment rule. The % that has to be invested locally should be brought to the level where there are sufficient local investment possibilities with the correct risk and return profile. This will need further investigation.

¹⁸ In the past there were plenty local investment possibilities: government bonds. Since 2010 these local investments are not available anymore.

5. Consequences for pension providers.

The consequences for pension providers are mainly positive. They will see a substantial increase of their market. They will have to make small changes to their systems, but in general they already have the products available. So they do not need much initial investments or effort to gain a share in the market. The only initial effort they have is to market their product so that employers and employees choose for their product.

We made some calculations on the new market for pension providers, based on our advice in chapter 2. Hereunder you will find the results¹⁹.

Macro effect Compulsory Pension Plan							
Contribution ER				3.00%			
Contribution EE				3.00%			
Expected rate of return				3.00%	net of investment fee		
Administration cost deducted from contributions				0.00%	of contributions		
Administration cost charged separate to ER				5.00%	of contributions		
Investment fee				0.50%	of accrued capitals (average begin & end year)		
Part of population that already has a compliant plan				50.00%			
Year	Total Extra Contributions ER (incl adm cost charged)	Total Extra Contributions EE	Total Extra Contributions	Expected Extra Capital yearend	Total Extra Admin fee	Total Extra Investment fee	Total extra fee insurers
2014	24,352,739	22,138,854	46,491,593	44,941,874	2,213,885	112,355	2,326,240
2015	24,352,739	22,138,854	46,491,593	91,232,003	2,213,885	340,435	2,554,320
2016	24,352,739	22,138,854	46,491,593	138,910,837	2,213,885	575,357	2,789,243
2017	24,352,739	22,138,854	46,491,593	188,020,036	2,213,885	817,327	3,031,213
2018	24,352,739	22,138,854	46,491,593	238,602,511	2,213,885	1,066,556	3,280,442
2019	24,352,739	22,138,854	46,491,593	290,702,460	2,213,885	1,323,262	3,537,148
Based upon a stable population (ageing / mortality / migration / retirement is not taken into account)							
Based upon CBS and Census data as used in NHI model 2011							
Assumed is that all income of population under 60 falls under compulsory plan							

The calculations assume that 50% of the employees already have a compliant pension plan. This is a rough guess based on a report from 2007, and our experience that the Government and most of the larger companies have a plan. More precise estimates can be made after an investigation is done on existing plans.

In the calculation tool all yellow cells (and the yellow cells from chapter 2) can be adjusted and the effect on the outcome shows immediately.

¹⁹ We did not take a “soft introduction” into account (contribution starting 1%+1%, then 2%+2% and the 3%+3%).

6. Consequences for the Government of Sint Maarten.

We expect the following consequences for the Government of Sint Maarten.

1. On the short term there will be less tax income. Employer contributions and charges are deductible for Profit Tax, and employee contributions are deductible for Wage Tax ("Loonbelasting"). From our calculations in the previous chapter we derive that there will be a reduction of the annual tax base for Profit Tax of approximately ANG 24 million and a reduction of the annual tax base for Wage Tax of approximately ANG 22 million (rough estimates based on assumptions²⁰). Dependent on how much companies are paying profit tax and on what the average wage tax is, the loss of tax income for the Government can be roughly estimated between ANG 5 and 10 million.
2. On the long term this will be compensated by higher wage tax, because pensions are taxable under wage tax. Tax will not be given away, tax is only postponed from now till retirement.
3. There will be more investments from the private sector (pension providers). Dependent on the investment rule and the opportunities that are created this can be a boost to the economy, which will lead to more income for the Government. The large economic growth in Chile over the past decades has mainly been caused by the introduction of their mandatory pension plan (including the rule that investments had to be done locally).
4. On the long term there will be less poverty amongst the elderly. This will lead to a higher standard of living for (older) citizens, and to less costs for the Government in financial aid and other support.
5. On the longer term the dependency on the present AOV system is decreased. This is necessary, because the AOV is funded on a pay as you go basis. Present workers are paying for present retirees. With the ageing of the population more retirees will have to be supported by less workers. This is not maintainable on the long term. In the mandatory pension system every worker saves for his or her own pension, and is therefore less dependent on other workers paying for him or her.

We believe the described General Mandatory Pension Plan can be feasible for Sint Maarten. At the start there will be a minimal and gradual financial burden for employees, employers and Government (less Tax Income), but on the long term the benefits will outweigh this.

We do not believe an extensive control mechanism is required for a General Mandatory Pension. From our experience in other countries we believe most employers will comply with the law. If they do not comply the employee is the disadvantaged and in first instance the employee will bring this forward directly or through a union or through the Department of Labor Affairs (just like it works with compliance with minimum wages). If a Government institution performs another review at an employer, directly proof of compliance with this law can be requested..

²⁰ We used the assumptions as disclosed in the prior chapter. Furthermore we used the population distribution from CBS (2010) and the income distribution provided by the Tax Office (2007). This received income distribution was specified to age, gender and income bracket. We updated the income distribution 2013 by adding 3% income increase per year. From this adjusted income distribution we calculated the weighted average income for the age group 15 to 60. This average income was multiplied with the actual population data 2010.

7. Critical evaluation of the new law in Aruba (LAP).

The mandatory pension plan in Aruba is laid down in the General Pension Act ("Landsverordening Algemeen Pensioen") or LAP. Although the ideas behind this new law are good, the LAP is unnecessary complex, unclear, inconsistent and not in line with the existing practices. This is confirmed by several stakeholders in Aruba (employers, employees, pension advisors, providers, lawyers, tax office, Central Bank). We should learn from this Aruban example. Hereunder some recommendations for a mandatory pension plan law for Sint Maarten.

1. Do not regulate more than necessary. In Aruba the following points are unnecessary in the law:
 - a. Variable salary is included in the definition. This is administratively very complex and it is not clear how the calculation of variable salary should be made every month or year.
 - b. Other options than a 6% contribution plan are regulated. This is not necessary, as long as it is clear that every plan is allowed as long as the contribution is at least 6% and the employer pays at least 3% (and there is compliance with the other rules).
 - c. The distribution of the total contribution over employer and employee has to be the same for all employees. This is unnecessary and unwanted. It is common that for different groups of employees different plans and contributions apply, just as salaries differ. This can be part of the (collective) labor agreement and should be left to employer and union or employee(s) to agree upon.
2. There are some issues in the Aruba law that are not desirable in Sint Maarten:
 - a. The law regulates that the transfer value is at least equal to contributions plus interest. This is sufficient for Defined Contribution plans. But for Defined Benefit plans the actual value of the accrued Defined Benefit can be less than contributions plus interest. Defined Benefit plans are often funded with a fixed contribution (% of salary or pension base)²¹. Through this funding system there is solidarity between members in the plan (for example young members "support" older members). This is a system that is used often in Defined Benefit plans. If these young members are allowed to transfer their contributions with interest when they leave, the support for the older members will be lost. And that will be the beginning of the end of this solidarity system. This can easily be solved by regulating that in a Defined Benefit plan the transfer value is equal to the actuarial value of the accrued benefits based on the methods and assumptions used by the provider.
 - b. A pension foundation can have a funding ratio ("dekkingsgraad") of less than 100%. That actually means the accrued benefits are not fully covered. If the law then regulates that transfer of the value of the accrued benefits is allowed, the pension foundation can get into financial trouble on a short term. Therefore we advise to allow pension foundations to decrease the transfer value if their funding ratio is under 100%, by allowing them to

²¹ Examples in Sint Maarten are the plan of the Government workers at APS and the plans of several utility companies at Vidanova.

multiply the accrued value with their funding ratio²². In the Aruba law members in a pension foundation who were member less than 10 years do not have the right to transfer their value to another provider. This inequality is unwanted.

- c. In Aruba the introduction of the new pension law was combined with new rules on the tax deductibility of pension contributions. This was necessary in Aruba, because there were hardly any regulations with respect to tax deductibility of pension contributions. In Sint Maarten there are existing rules (PB 2002 nr 35) which make new rules unnecessary. These rules already limit the tax deductibility of pension contributions (especially for employees who are a major shareholder (“directeur groootaandeelhouder” or “DGA”). The existing rules might need an update, but not very radical and not necessarily at the same time as the introduction of the mandatory pension law.
 - d. Retirement age. In Aruba there is legislation that forbids employers to end the labor agreement at retirement. Due to this the employee can choose to retire whenever he or she wants. The employers in Aruba are very unhappy about this. Recently the Aruba labor law changed in this respect, and retirement can now be a reason for ending a labor agreement, but this is arranged only for new contracts. In Sint Maarten an employer can have a retirement age in the labor contracts and retirement can be a reason for ending the agreement. We therefore advise to leave room in the pension law that employer and employee agree on the retirement age. The standard retirement age could be set on age 65, and the law can regulate that employer and employee can deviate from the standard retirement age.
 - e. The pension fund of an employee who is a major shareholder (“directeur groootaandeelhouder” or “DGA”) is exempted from most of the articles in the Aruba law. But most of the DGA's do not have a separate pension fund; they accrue their pension in their working company. The Aruba law is not clear if this is allowed. In line with the tax rules (PB 2002 nr 35) the DGA who accrues pension in the working company should also be exempted. In our opinion the DGA does not have to fall under the new law at all.
3. The new law should not have the consequence that existing plans unnecessarily have to be adapted. This can be arranged by exempting existing plans from the new law as long as the total contribution is at least 6% of salaries and the employer pays at least 3%. Existing plans should be made in compliance with the law as soon as the existing plan is being changed.
 4. Use the existing and international accepted structure that the employer and employee create a plan (Plan Rules) and the employer has a group agreement with a provider (Pension Insurance or Funding Agreement). In the Aruba law every employee has to enter into an agreement with the Provider, which is unnecessary complex and difficult to manage and check. It is much easier to let the employer enter into an agreement with the Provider covering the whole group of employees (and with the possibility for the employee to transfer the capital when switching

²² For example: an employee has a capital accrued of 50,000 at a pension foundation with a coverage ratio of 98%. If he wants to transfer the capital, only 98% of 50,000 is 49,000 is transferred.

employer). It is normal and existing practice that in the individual or collective labor agreement a reference is made to the Pension Plan or Pension Plan Rules. By signing the labor agreement an employee approves the pension plan.

5. Use the existing and international accepted terms such as:
 - a. Pension Plan Rules (“Pensioenreglement”) for the document that arranges the pension plan between employer and employee.
 - b. Pension Insurance or Funding Agreement (“Pensioenovereenkomst” of “Verzekeringsovereenkomst”) for the agreement between the employer and the pension provider.
6. The Aruban law assumes that Pension Foundations only have Defined Benefit plans and Insurance Companies only have Defined Contribution plans. This is not correct. The Aruban law gives for example rules for Insurance Companies based on the idea that the plan is then Defined Contribution, which does not have to be the case. This way the rules for Defined Contribution plans also apply for insured Defined Benefit plans, which is unwanted.
7. The Aruban law makes an unnecessary and in our opinion unwanted distinction between employees who are a member of a plan with a Pension Foundation and a member of a plan with an Insurance Company. We advise Sint Maarten not to copy this.

Appendix: calculations of pensions in alternative scenarios

In this appendix we present the calculations of pensions in the following alternative scenarios:

- Effects of retirement at an earlier (60) or later (70) age.
- Effects of a higher contribution (4%+4%).
- Effects of administration costs (10%) charged to the pension capital.

Early retirement at 60

SXM Pension System

Expected additional pension from Compulsory Plan

Contribution ER	3.00%	Present market rates for lifelong annuities
Contribution EE	3.00%	Only Old Age Pension
Retirement age	60	
Expected rate of return	3.00%	(net of investment fee; till retirement)
Administration cost	0.00%	(part deducted from total contribution; till retirement)

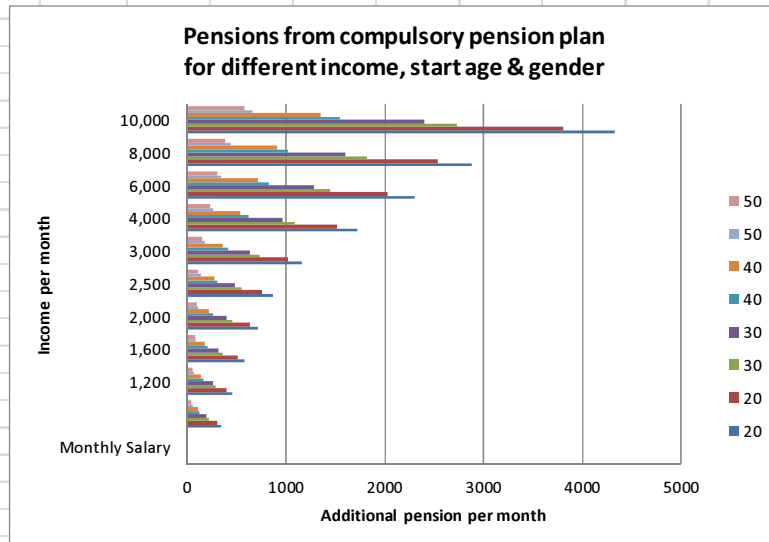


Table shows extra Monthly Old Age Pension

Monthly Salary		1,200	1,600	2,000	2,500	3,000	4,000	6,000	8,000	10,000	15,000
Age	Gender										
20	M	346	461	576	720	864	1,152	1,728	2,304	2,880	4,320
20	F	304	406	507	634	761	1,014	1,521	2,028	2,535	3,803
30	M	218	291	363	454	545	727	1,090	1,454	1,817	2,726
30	F	192	256	320	400	480	640	960	1,280	1,600	2,399
40	M	123	164	205	257	308	411	616	821	1,026	1,540
40	F	108	145	181	226	271	361	542	723	903	1,355
50	M	53	70	88	109	131	175	263	350	438	657
50	F	46	62	77	96	116	154	231	308	385	578

Table shows Income Replacement Ratio (total Monthly Old Age Pension including 1000 AOV as % of salary)

Monthly Salary		1,200	1,600	2,000	2,500	3,000	4,000	6,000	8,000	10,000	15,000
Age	Gender										
20	M	112%	91%	79%	69%	62%	54%	45%	41%	39%	35%
20	F	109%	88%	75%	65%	59%	50%	42%	38%	35%	32%
30	M	102%	81%	68%	58%	52%	43%	35%	31%	28%	25%
30	F	99%	78%	66%	56%	49%	41%	33%	28%	26%	23%
40	M	94%	73%	60%	50%	44%	35%	27%	23%	20%	17%
40	F	92%	72%	59%	49%	42%	34%	26%	22%	19%	16%
50	M	88%	67%	54%	44%	38%	29%	21%	17%	14%	11%
50	F	87%	66%	54%	44%	37%	29%	21%	16%	14%	11%

Table shows total Pension Capital at retirement

Age / Monthly Salary	1,200	1,600	2,000	2,500	3,000	4,000	6,000	8,000	10,000	15,000
20	66,124	88,165	110,206	137,758	165,310	220,413	330,619	440,826	551,032	826,549
30	41,722	55,629	69,536	86,920	104,304	139,072	208,609	278,145	347,681	521,522
40	23,564	31,419	39,274	49,092	58,911	78,547	117,821	157,095	196,369	294,553
50	10,053	13,404	16,756	20,945	25,133	33,511	50,267	67,022	83,778	125,667

How is the Pension Capital accumulated?

Age	Through ER contributions	Through EE contributions	Through interest
20	26%	26%	48%
30	31%	31%	38%
40	37%	37%	27%
50	43%	43%	14%

Late retirement at 70

SXM Pension System

Expected additional pension from Compulsory Plan

Contribution ER	3.00%	Present market rates for lifelong annuities
Contribution EE	3.00%	Only Old Age Pension
Retirement age	70	
Expected rate of return	3.00%	(net of investment fee; till retirement)
Administration cost	0.00%	(part deducted from total contribution; till retirement)

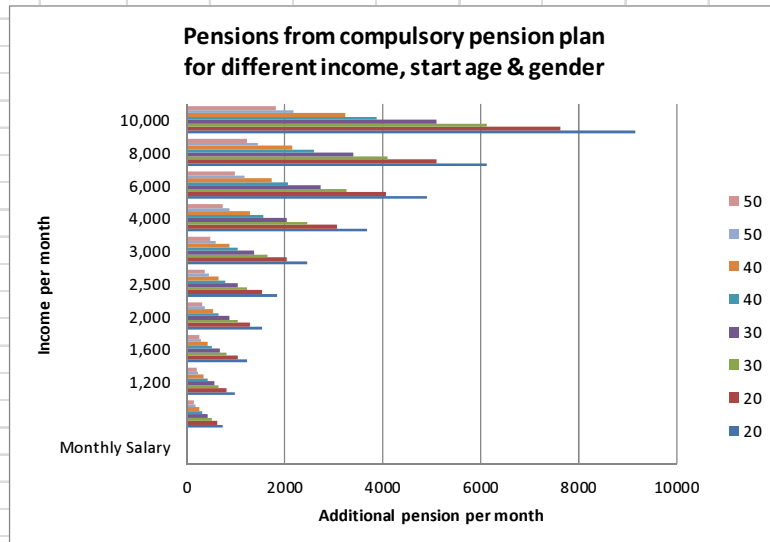


Table shows extra Monthly Old Age Pension

Monthly Salary		1,200	1,600	2,000	2,500	3,000	4,000	6,000	8,000	10,000	15,000
Age	Gender										
20	M	733	977	1,222	1,527	1,833	2,444	3,665	4,887	6,109	9,164
20	F	610	814	1,017	1,271	1,526	2,034	3,051	4,068	5,085	7,628
30	M	490	653	817	1,021	1,225	1,633	2,450	3,267	4,084	6,126
30	F	408	544	680	850	1,020	1,360	2,040	2,720	3,399	5,099
40	M	309	412	515	644	773	1,031	1,546	2,061	2,577	3,865
40	F	257	343	429	536	643	858	1,287	1,716	2,145	3,217
50	M	175	233	291	364	437	582	873	1,164	1,455	2,183
50	F	145	194	242	303	363	485	727	969	1,211	1,817

Table shows Income Replacement Ratio (total Monthly Old Age Pension including 1000 AOV as % of salary)

Monthly Salary		1,200	1,600	2,000	2,500	3,000	4,000	6,000	8,000	10,000	15,000
Age	Gender										
20	M	144%	124%	111%	101%	94%	86%	78%	74%	71%	68%
20	F	134%	113%	101%	91%	84%	76%	68%	63%	61%	58%
30	M	124%	103%	91%	81%	74%	66%	58%	53%	51%	48%
30	F	117%	96%	84%	74%	67%	59%	51%	46%	44%	41%
40	M	109%	88%	76%	66%	59%	51%	42%	38%	36%	32%
40	F	105%	84%	71%	61%	55%	46%	38%	34%	31%	28%
50	M	98%	77%	65%	55%	48%	40%	31%	27%	25%	21%
50	F	95%	75%	62%	52%	45%	37%	29%	25%	22%	19%

Table shows total Pension Capital at retirement

Age / Monthly Salary		1,200	1,600	2,000	2,500	3,000	4,000	6,000	8,000	10,000	15,000
20		98,918	131,891	164,864	206,080	247,296	329,728	494,592	659,456	824,320	1,236,479
30		66,124	88,165	110,206	137,758	165,310	220,413	330,619	440,826	551,032	826,549
40		41,722	55,629	69,536	86,920	104,304	139,072	208,609	278,145	347,681	521,522
50		23,564	31,419	39,274	49,092	58,911	78,547	117,821	157,095	196,369	294,553

How is the Pension Capital accumulated?

Age	Through ER contributions	Through EE contributions	Through interest
20	22%	22%	56%
30	26%	26%	48%
40	31%	31%	38%
50	37%	37%	27%

Higher contribution (4%+4%)

SXM Pension System

Expected additional pension from Compulsory Plan

Contribution ER	4.00%	Present market rates for lifelong annuities
Contribution EE	4.00%	Only Old Age Pension
Retirement age	65	
Expected rate of return	3.00%	(net of investment fee; till retirement)
Administration cost	0.00%	(part deducted from total contribution; till retirement)

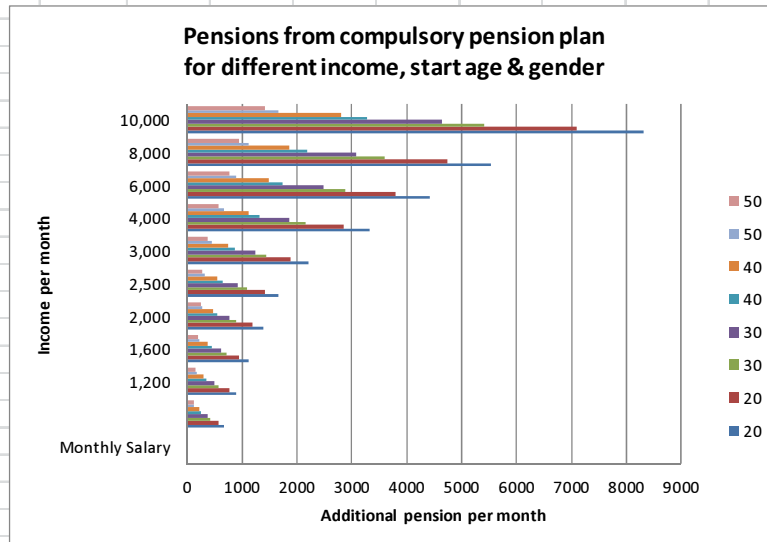


Table shows extra Monthly Old Age Pension

Monthly Salary		1,200	1,600	2,000	2,500	3,000	4,000	6,000	8,000	10,000	15,000
Age	Gender										
20	M	664	885	1,106	1,383	1,659	2,213	3,319	4,425	5,532	8,297
20	F	568	758	947	1,184	1,421	1,894	2,841	3,789	4,736	7,104
30	M	433	577	721	902	1,082	1,443	2,164	2,886	3,607	5,411
30	F	371	494	618	772	926	1,235	1,853	2,470	3,088	4,632
40	M	261	348	435	544	653	870	1,305	1,740	2,175	3,263
40	F	223	298	372	466	559	745	1,117	1,490	1,862	2,793
50	M	133	178	222	277	333	444	666	888	1,110	1,664
50	F	114	152	190	237	285	380	570	760	950	1,425

Table shows Income Replacement Ratio (total Monthly Old Age Pension including 1000 AOV as % of salary)

Monthly Salary		1,200	1,600	2,000	2,500	3,000	4,000	6,000	8,000	10,000	15,000
Age	Gender										
20	M	139%	118%	105%	95%	89%	80%	72%	68%	65%	62%
20	F	131%	110%	97%	87%	81%	72%	64%	60%	57%	54%
30	M	119%	99%	86%	76%	69%	61%	53%	49%	46%	43%
30	F	114%	93%	81%	71%	64%	56%	48%	43%	41%	38%
40	M	105%	84%	72%	62%	55%	47%	38%	34%	32%	28%
40	F	102%	81%	69%	59%	52%	44%	35%	31%	29%	25%
50	M	94%	74%	61%	51%	44%	36%	28%	24%	21%	18%
50	F	93%	72%	59%	49%	43%	34%	26%	22%	19%	16%

Table shows total Pension Capital at retirement

Age / Monthly Salary		1,200	1,600	2,000	2,500	3,000	4,000	6,000	8,000	10,000	15,000
20		108,415	144,554	180,692	225,866	271,039	361,385	542,077	722,770	903,462	1,355,193
30		70,697	94,263	117,829	147,286	176,743	235,657	353,486	471,314	589,143	883,714
40		42,631	56,841	71,052	88,815	106,578	142,104	213,155	284,207	355,259	532,889
50		21,747	28,996	36,246	45,307	54,368	72,491	108,737	144,982	181,228	271,842

How is the Pension Capital accumulated?

Age	Through ER contributions	Through EE contributions	Through interest
20	24%	24%	52%
30	29%	29%	43%
40	34%	34%	32%
50	40%	40%	21%

Administration costs (10%) charged to the pension capital

SXM Pension System

Expected additional pension from Compulsory Plan

Contribution ER	3.00%	Present market rates for lifelong annuities
Contribution EE	3.00%	Only Old Age Pension
Retirement age	65	
Expected rate of return	3.00%	(net of investment fee; till retirement)
Administration cost	10.00%	(part deducted from total contribution; till retirement)

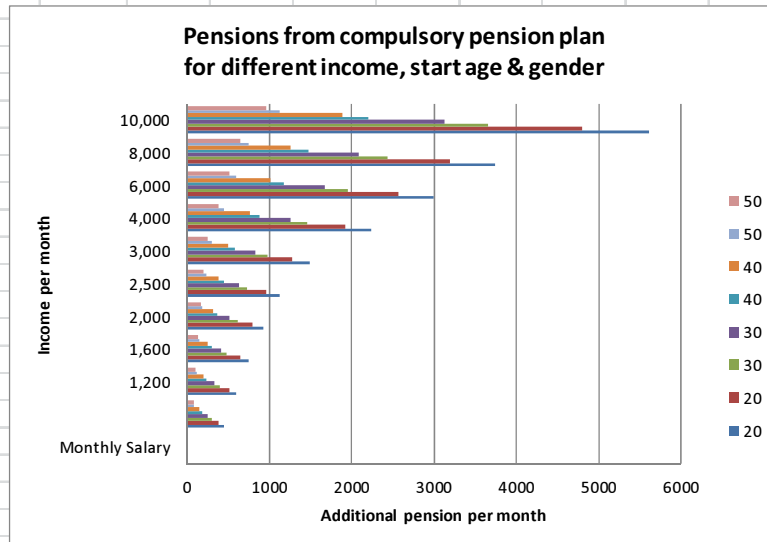


Table shows extra Monthly Old Age Pension

Monthly Salary		1,200	1,600	2,000	2,500	3,000	4,000	6,000	8,000	10,000	15,000
Age	Gender										
20	M	448	597	747	933	1,120	1,494	2,240	2,987	3,734	5,601
20	F	384	511	639	799	959	1,279	1,918	2,557	3,197	4,795
30	M	292	390	487	609	730	974	1,461	1,948	2,435	3,652
30	F	250	334	417	521	625	834	1,251	1,668	2,084	3,127
40	M	176	235	294	367	440	587	881	1,175	1,468	2,202
40	F	151	201	251	314	377	503	754	1,006	1,257	1,885
50	M	90	120	150	187	225	300	449	599	749	1,123
50	F	77	103	128	160	192	256	385	513	641	962

Table shows Income Replacement Ratio (total Monthly Old Age Pension including 1000 AOV as % of salary)

Monthly Salary		1,200	1,600	2,000	2,500	3,000	4,000	6,000	8,000	10,000	15,000
Age	Gender										
20	M	121%	100%	87%	77%	71%	62%	54%	50%	47%	44%
20	F	115%	94%	82%	72%	65%	57%	49%	44%	42%	39%
30	M	108%	87%	74%	64%	58%	49%	41%	37%	34%	31%
30	F	104%	83%	71%	61%	54%	46%	38%	33%	31%	28%
40	M	98%	77%	65%	55%	48%	40%	31%	27%	25%	21%
40	F	96%	75%	63%	53%	46%	38%	29%	25%	23%	19%
50	M	91%	70%	57%	47%	41%	32%	24%	20%	17%	14%
50	F	90%	69%	56%	46%	40%	31%	23%	19%	16%	13%

Table shows total Pension Capital at retirement

Age / Monthly Salary	1,200	1,600	2,000	2,500	3,000	4,000	6,000	8,000	10,000	15,000
20	73,180	97,574	121,967	152,459	182,951	243,935	365,902	487,870	609,837	914,756
30	47,721	63,627	79,534	99,418	119,301	159,068	238,603	318,137	397,671	596,507
40	28,776	38,368	47,960	59,950	71,940	95,920	143,880	191,840	239,800	359,700
50	14,679	19,573	24,466	30,582	36,699	48,932	73,397	97,863	122,329	183,493

How is the Pension Capital accumulated?

Age	Through ER contributions	Through EE contributions	Through interest
20	24%	24%	52%
30	29%	29%	43%
40	34%	34%	32%
50	40%	40%	21%