



Sociaal Economische Raad
Social Economic Council



To the Honorable Prime Minister of Sint Maarten
Mrs. S.A. Wescot-Williams
Philipsburg
Sint Maarten



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URGENT

Philipsburg, July 9th, 2013

Our reference: SER /13/AA/041

Re: Letter of advice re. LV verhoging ouderdomspensioen en pensioenleeftijd

Honorable Prime Minister,

In reply to your request for advice of June 3, 2013, regarding the "*Landsverordening verhoging ouderdomspensioen en pensioenleeftijd*" the Social Economic Council informs you as follows.

The council took the following points into consideration:

- In November 2012, the SER presented government with a comprehensive advice on the subject matter at hand, entitled "The AOV system made Affordable, Sustainable and Equitable". Throughout the present letter of advice, reference will be made to the earlier advice. The earlier –solicited- advice was based on a government policy paper entitled "Towards a Sustainable and Affordable AOV pension system".
- The draft ordinance "*Landsverordening verhoging ouderdomspensioen en pensioenleeftijd*" comprises only selected policy measures, whereas the earlier advice entailed a broader array of changes to the AOV system. The SER will therefore presently advise on the proposed measures at hand, without losing sight however, of the context of the earlier advice.
- The present draft ordinance can be summarized as follows:
 - I. Changes to the AOV ordinance;
 - a) Raising the monthly AOV entitlement from Naf. 726,- to Naf. 1,000.-
 - b) Raising the pensionable age in terms of entitlement to AOV from 60 to 62, while the elucidation anticipates a further increase to 65.
 - c) Increasing the income limit up to which AOV premium is levied from Naf. 77,544.- to Naf. 100,000.-
 - d) Several related indexations of monetary amounts related to the implementation of the AOV ordinance.
 - e) Changes to the calculation of the annual increments between the ages of 15 and the pensionable age, related to the increase from 60 to 62.
 - II. Changes to the AWW (Algemene Weduwen- en Wezenverzekering) ordinance;
 - f) Several adaptations to the AWW law to keep this ordinance in line with the AOV ordinance, and implementing several indexations of entitlement amounts.
- According to the scenario model mentioned in the elucidation to the draft ordinance, the AOV fund is presently heavily overfunded. Under unchanged policies, income would exceed expenses each year until the year 2028, making the reserves grow to a maximum of roughly Naf. 1 billion in that year.



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- The AOV measures proposed in the draft law, taken together, even result in a slight improvement to that already favorable baseline scenario. The negative effect of the increased entitlement is more than cancelled out by the increase in age and income limit. This is according to the same mathematical model mentioned above.
- In the elucidation to this ordinance, the government rejects the SER proposal to decrease the AOV premiums with 1% for employer and employee alike. Government connects lowering the AOV premiums to plans for a general (supplemental) pension scheme. This would make sense only when the same AOV premiums would somehow be re-assigned to a general pension scheme. This seems unlikely however, as such supplemental schemes are (unlike AOV) connected to a person's employment history and personalized in nature. The SER therefore reaches the opposite conclusion: lowering the AOV premium is advisable precisely to make room for future supplemental pension schemes, meanwhile offering much needed relief in terms of purchasing power to the employee and cost of doing business to the employer.
- The same goes for the connection made by the draft law between the level of AOV premiums and a possible future decrease of government contribution to health insurance, which would possibly make health insurance premiums go up. The SER fails to see how this is an argument not to lower AOV premiums now.
- The elucidation of the ordinance rejects the introduction of full AOV entitlement to anyone who has legally resided in Sint Maarten for at least 10 years between the ages of 15 and 60, (now 62). The argument is that more research is needed, in order to prevent unequal treatment of citizens before the law. Unequal treatment is far-fetched however, because the nature of AOV is a general social security measure. Making the entitlement conditional on the number of years lived in Sint Maarten/ Antilles is what actually creates unequal treatment. After all, AOV is a pay-as-you-go system (omslagstelsel). Those insured do not pay or 'save' for their own AOV, they pay at any point in time for those who are entitled to the AOV benefit at that same moment. The rule connecting the amount of AOV entitlement to the number of years resided in our country, is not meant to reflect the contribution the person made to the AOV fund, it is originally based on a European context and is meant to prevent persons from receiving double AOV benefits from different countries of residence. In this day and age, it is unrealistic to expect a citizen to have lived on Sint Maarten for 47 years uninterrupted from age 15 to age 62. At the same time, many immigrants hail from countries that have no AOV-type social security in place. As a consequence, reality is that a large number of residents over 60 are now receiving financial assistance (onderstand) based on their reduced AOV entitlement, as a result of having lived in the Antilles/ Sint Maarten less than 45 years. This is strictly speaking stretching the purpose of the financial assistance regulations, but socially imperative nonetheless. Practical considerations such as the question whether any pension-type entitlements can be derived from previous countries of residence are easy to solve for persons from countries without such a type of social security, and these questions should not delay this measure.
- The elucidation to the ordinance argues that an increase in the tax deductibility of private pension premiums (lijfrentepremies) is not opportune, because it would lead to lower tax income in the short run. The SER does not follow this line of reasoning. Total tax income is influenced by many factors. Making private pension premiums tax deductible to a meaningful degree is a necessary building block for a comprehensive pension system and is relatively easy to implement.



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The SER has reached consensus on the following:

- As such, the proposed measures a), b) and c) above, i.e. increasing the AOV entitlement, raising the AOV age to 62 with the intention to further increase to 65, and increasing the income over which premium is levied to NAF. 100,000.- have the full consent of the SER.
- Measures d) e) and f) above follow logically from the core measures mentioned above and have the consent of the SER as well.
- However, the package presented here improves the already favorable position of the AOV fund and is financially conservative to an unnecessary degree. Therefore, it can and should be supplemented by measures lowering premiums and/or extending benefits. There is room for the proposed 1% decrease in premium and for allowing full AOV to those who have lived in the Antilles/Sint Maarten for over 10 years. See for the calculations involved the attached SER advice 2012-003.

The SER therefore unanimously advises as follows:

1. Proceed with the proposed draft ordinance taking into consideration the advice of the SER.
2. Once the implementation of the 62 entitlement age has been reached, to proceed immediately with the implementation of the second increase towards the age of 65.
3. Follow the earlier SER advice and take immediate measures to lower AOV premiums with 1% for employees as well as employers. This has no bearing on this draft ordinance as such, as the premium percentage is established by decree entailing general measures (LB ham);
4. Follow the earlier SER advice and introduce full AOV entitlement for those who have lived in Sint Maarten/ Antilles for 10 years or more when reaching pensionable age under the conditions that they have been legally residing and are able to substantiate the level of AOV benefits from other countries where they have lived before.
5. Implement the increase in tax deductibility for private pension premiums (lijfrentepremies) from NAF. 1,000 to NAF. 12,000 a year.

Should you require any additional information after reading the above, please feel free to contact us at your earliest convenience.

Respectfully,

R.A. Richardson
Chairman

9/7/2013

G. M.C. Richardson
Secretary-general

9/7/2013

c.c. the Honorable Minister of Public Health, Social Development and Labour, Mr. V.H.C. de Weever

Attached:

SER advice 2012-003 "The AOV system made Affordable, Sustainable and Equitable"