Pension Reform: Is Working Longer the Answer?

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Abstract

Governments have considered various reform strategies to address the impact of population ageing on pension funding but still need to tackle the fiscal and financing challenges sufficiently, the low compensation payment levels, and the sustainability of the pension systems. Instead, they have primarily delayed the entitlement of old-age pensions; this raises the question, "Is working longer the answer?" In the Caribbean, there has been an increase in the projected old-age dependency ratio: the ratio of retirees to the working-age population. This paper attempts to disentangle the proposition that working longer is the answer by focusing on a vital question: Would a two-tier approach that promotes mandatory private investment help to craft a more sustainable pension scheme, produce higher compensation payments and lower negative fiscal impact? The study achieves its objective by investigating the usefulness of a pension reform policy framework that recognizes the economic and investment income losses that result from a mandatory public retirement income system. Furthermore, it applies the lifetime income smoothing theory, takes a financial economics methodological approach, and utilizes financial data on the securities market, earnings, government-mandated deductions, and social security benefits.

Keywords: pension reform, lifetime income smoothing theory, pension funding, macroeconomic, financial economics, private investments

JEL Classification: H55, H53, B26, D15, E21

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