

# Trinidad and Tobago

**Technical note**

**Extension of social  
security to self-employed  
workers**

**Prepared by  
Mr. Gilles Binet  
Ms. Ursula Kulke**

International Financial and Actuarial Service (ILO/FACTS)  
Social Protection Sector  
International Labour Office Geneva  
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## Executive summary

This following technical note discusses options and issues relevant for the extension of social security coverage to the self-employed in Trinidad and Tobago. It provides guidance to the Government for adopting appropriate policy decisions for the design and implementation of a social security scheme for self-employed in order to guarantee effective social security coverage to this category of workers.

The note makes an overview of problems and difficulties in reaching full-coverage of self-employed and analyzes the potential strategies for the Government of Trinidad and Tobago to achieve its objective.

A detailed analysis of many aspects of the problems identifies areas for further investigation and leads to specific recommendations. Major recommendations include:

- the need to strengthen the policy design within the current system for salaried workers and ensure its proper implementation,
- the necessity to enhance close coordination between the contributory social insurance system and the Old-Age Pension program,
- linking social security affiliation with registration and licensing of economic activity and other similar measures,
- the need to adopt a strategy of a gradual extension of coverage by the contributory social insurance starting with certain categories of self-employed,
- the coverage for long-term benefits (old-age, invalidity and survivors'), maternity benefits and funeral grants,
- the need for various forms of subsidisation by the state for the coverage of the low-income self-employed,

The extension of social security coverage to self-employed is a challenge for any social security organisation. A thorough strategy has to be developed and adopted. ILO will provide actuarial, legal and administrative support when the Government has defined its position.

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## Introduction

Within the framework of the Seventh Actuarial Review<sup>1</sup> of the National Insurance System (NIS), the International Labour Office (ILO) has been appointed to provide recommendations for the development of strategies to extend the coverage of social security to the self-employed. During the mission of the ILO staff<sup>2</sup> in Trinidad and Tobago in June 2006, it was decided to draft an orientation paper in the form of a technical note, which addresses the major issues as a first part of the requested study on the extension of social security to the self-employed,

Section 1 of this technical note discusses general issues concerning the coverage of self-employed while Section 2 discusses various policy options. Section 3 presents challenges but also guidelines for the design of a contributory social insurance scheme for self-employed in the context of Trinidad and Tobago. Section 4 outlines the next steps to be taken in view of developing the policy design and implementation strategy.

This note is based on the Terms of Reference as agreed upon between the ILO and the National Insurance Board (NIBTT). It reflects as well the main outcomes of the discussions on the issue of extension held with stakeholders, officials of the NIBTT, several ministries and other public institutions. The main background references include the current social security legislation, the survey *Final Report on National Insurance Coverage*<sup>3</sup> and former technical actuarial reports prepared by the ILO for the NIBTT as well as other studies on the extension of social security coverage to self-employed persons in different CARICOM countries. Furthermore, the note takes into account the minimum standards laid down in the Social Security (Minimum Standards) Convention 1952, (No. 102) and social security principles, such as those of solidarity and of pooling of risks, of tripartite supervision, of equity, of equality and non-discrimination, and of the general responsibility of the State for the provision of benefits.

Subject to agreement, the ILO will produce a financial review on the extension of social security to the self-employed and a separate assessment of the administrative requirements necessary for the effective implementation of the extension. The whole set of technical notes should thus provide the NIBTT with a sound basis for the development of a strategy for the effective extension of social security to self-employed persons.

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<sup>1</sup> *Funds-in-Trust Project: Seventh Actuarial Review of the National Insurance System and a Feasibility study on the extension of social security to the self-employed* concluded between the International Labour Organization, which is represented by the International Labour Office (ILO), and the Government of Trinidad and Tobago represented by the National Insurance Board of Trinidad and Tobago (NIBTT) in 2006.

<sup>2</sup> Mr. Gilles Binet, Ms Ursula Kulke and Mr. Charles Crevier, all from the Social Security Department of the ILO Geneva.

<sup>3</sup> This document was prepared for NIBTT by Market Facts & Opinions (2000) Ltd., August 2005, in order to gain information from self-employed persons in Trinidad and Tobago regarding their possible future social security coverage.

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## 1. Current situation

Self-employed workers are expressly included in the definition of “employees” under Section 2 of the Social Insurance Act No. 35 of 1971. They are, however, explicitly excluded from provisions regulating contributions and benefits under this act. As a result, the 116,000 self-employed workers (18 per cent of the labour force in 2004) and their families are left without any social insurance coverage. Those few who can afford it are covered by private insurance, while the majority of the self-employed have to rely on means-tested State support in case of disability and advanced age, but have no coverage for other contingencies. As the number of self-employed is growing each year, the extension of scope and levels of coverage by social security to the self-employed is thus a necessity in order to prevent high levels of poverty.

For several years, the National Insurance Board of Trinidad and Tobago (NIBTT) has been trying to extend the social security coverage to the self-employed.<sup>4</sup> Practical experiences worldwide, but notably in most of the neighbouring countries, show the difficulties inherent in the extension of social security coverage to self-employed workers. In most of the CARICOM countries, social security is either mandatory or voluntary for self-employed workers<sup>5</sup>, however, the effective rate of coverage under all schemes is very low. The key explanations as set out in the paper “The Self-Employed: A critical gap in the English speaking Caribbean social security systems” can be summarized as follows:<sup>6</sup>

- The usual seasonal or cyclical fluctuations in the levels of economic activity of some groups of the self-employed and the irregularity of their incomes affect their capacity to pay contributions regularly.
- The erroneous assumption that “one size fits all”. It should not be assumed that the needs for social security coverage of the self-employed are identical of those of employed persons. Also, the self-employed themselves form a very heterogeneous group with respect to types of economic activity, priority needs for social security coverage and levels and regularity of income.
- Enforcement is much more difficult than in case of regular employees working in establishments employing a certain number of workers. Mechanisms to enforce compliance are often flawed or missing.
- Low participation in the schemes for self-employed causes cash flow management problems.
- Limited scope and levels of coverage often discriminating self-employed workers as compared to regular employees leads to disappointment and to the belief that they would not get benefits worth the money they contribute. This affects compliance negatively.

In addition, in some countries, governance failures in social security schemes undermine confidence in public social security and discourage participation.

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<sup>4</sup> See: *ILO, Report to the Government on Social Issues. Part I: An Overview*. Geneva, Switzerland, 1992 (ILO/TF/Trinidad and Tobago/R.13); *ILO, Trinidad and Tobago: Fifth Actuarial Valuation of the National Insurance Scheme as of 1 July 1995; Project Findings and Recommendations*. Geneva, Switzerland, 1997 (ILO/TF/Trinidad and Tobago/R.15).

<sup>5</sup> See Annex I.

<sup>6</sup> Frank W. Alleyne, *The self-employed: A critical gap in the English-speaking Caribbean social security systems*. Paper prepared for the Meeting of Directors of Social Security Organizations in the English-speaking Caribbean, International Social Security Organization; British Virgin Islands, July 2005.

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## 2. Preliminary considerations for the extension of coverage to the self-employed

It is not possible to look at the extension of coverage to self-employed in Trinidad and Tobago without looking at experiences in other countries and taking into account the different policies applied in these countries and the actual performance of these policies. At the same time, social protection structures existing in Trinidad and Tobago, their performance, including both achievements and failures, have to be taken into account as well. A brief overview of options is presented below.

### 2.1 Contributory or non-contributory social security protection?

Careful analysis of the performance of the existing contributory National Insurance System and the means-tested Old-Age Pension Programme, which is complementary to the NIS, is essential in order to assess their ability to provide effective income security to self-employed. In analysing possible policy options for the protection against different contingencies, it is necessary to acknowledge at the outset that the earnings of the self-employed are often low and nearly always irregular. The need to ensure minimum basic income security, independently from levels of income received while still working and thus independently from the amounts of contributions paid is thus even more obvious. The two main policy options are therefore shortly summarized below.

#### 1<sup>st</sup> policy option: Introduction of basic non-contributory and universal pensions and enhancing voluntary participation of self-employed in a strengthened social insurance scheme to top-up benefits

The first policy option would include the conversion of the Old-Age Pension Programme into a universal pension scheme covering all persons beyond a certain age and based on residency. The scheme could provide a basic flat-rate pension irrespective of the means of the beneficiary and/or the beneficiary's family to all those above certain age and possibly to those fully disabled. The pension would be financed from the general revenues and could be administered by either the NIBTT or the Ministry of Social Affairs. NIS benefits would thus be topping up the guaranteed universal minimum benefits for all the employees on a mandatory basis and for self-employed on a voluntary basis. NIS long-term benefits would have to become strictly earnings and/or contribution related.

Coverage of self-employed for other social security benefits – like sickness, maternity, and employment injury benefits – could be gradually extended under the contributory social insurance system.

The first option would guarantee basic minimum old-age (and possibly also disability) benefits to everybody, including the self-employed. However, it would entail a major reform of the country's entire social protection system. Such reform would change the role of the State and ways it is guaranteeing and financing income replacement for different population groups through contributory social insurance and tax-financed measures. This option would also require an entire reform of the institutional framework and delivery mechanisms. Furthermore, income tax policies would need to be reconsidered. Proper monitoring mechanisms would have to be put in place in addition to the regular household surveys. Significant capacity building would be necessary to ensure the Government has the necessary competencies to meet the obligation of its policy.

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This policy option entails further advantages and disadvantages. A more elaborate discussion of this issue is beyond the present mandate given to the ILO in the Terms of Reference and thus the discussion is limited only to the above. However, the ILO is ready to provide a more elaborated study upon request.

## 2<sup>nd</sup> policy option: Extension of mandatory social insurance coverage to the self-employed

The second policy option focuses on the extension of coverage to self-employed through the *Social Insurance Act No. 35 (1971)*<sup>7</sup>. This option addresses directly concerns of the Terms of Reference for the Conduct of the Seventh Actuarial Review (Appendix E, paragraph 1). The provisions of *Social Insurance Act No. 35 (1971)* would need to be amended according to the policy decisions adopted. The scheme would be financed through contributions paid by the self-employed workers, and possibly supported with subsidies from the Government to enhance the self-employed participation in and compliance with the new scheme. The NIS would be responsible for the administration of the scheme and the rules governing the existing social security legislation would be applicable to the extent possible.

This policy option would require significant additional administrative capacities to register the self-employed and collect contributions from them. It would require that the policy design of the existing NIS be improved to make it attractive to contribute for all categories of self-employed.<sup>8</sup> The functioning of the system with respect to minimum pension and other provisions have also to be harmonised and strongly coordinated with the Old-Age Pension Programme.

It is understood that the wish of the Government is to implement the second option and the ILO is prepared to assist the government in the implementation of the second option that can be supported by the following arguments:

1. The self-employed are already mentioned in the NIS legislation. Through the inclusion of the self-employed in the definition of employees in the social insurance Act NO. 35 (1971), the government clearly expressed its wish to provide social insurance in case of the occurrence of contingencies also to the self-employed. In addition, according to its Social Insurance Policy 2005-2010<sup>9</sup>, the NIBTT is mandated to provide universal coverage and the protection of workers against hazards, which adversely affect individual economic self-sufficiency, through the timely provision of defined long- and short-term benefits financed via a system of contribution.

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<sup>7</sup> These provisions are based on the defined benefits approach. One may ask whether a defined contribution approach would not be more appropriate for self-employed workers as such schemes are much easier to administer. However, the latter approach lacks recourse to redistributive functions as deemed necessary to satisfactorily meet the needs of the self-employed. As such schemes are based on a fixed commitment in terms of contributions, benefits cannot go beyond what has been paid in by each worker. This approach leaves workers very vulnerable to interest and investment risks over time. It is thus considered inappropriate for the self-employed due to their limited earnings capacity and the fact that they would unlikely receive a benefit at a sufficient level.

<sup>8</sup> Relevant recommendations are expected to be included in the Seventh Actuarial Review currently under progress.

<sup>9</sup> See Terms of Reference for the Conduct of the Seventh Actuarial Review, Appendix F, paragraph 1.



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2. Mandatory coverage of the self-employed is consistent with the objectives of Vision 2020<sup>10</sup> for the attainment of the status of a developed country, as in most developed countries self-employed workers are covered under mandatory social insurance provisions.
  3. The discussions with stakeholders held during the June 2006 ILO mission noted the strong public support for the NIBTT, which is considered to provide the most relevant framework and institutional capacity for the extension of coverage to the self-employed.
  4. The survey *Final Report on National Insurance Coverage* indicates that the self-employed expressed a high level of interest for acquiring social insurance (80.6 per cent).
  5. The NIBTT finds that there is good momentum for the extension through its organization given that the *Seventh Actuarial Review of the Social Security System* is now in progress, which will result in legislative changes.
  6. From an administrative point of view, the NIBTT appears to be the most relevant institution for the extension of social security coverage as it has in place already the necessary infrastructure for the collection of contributions and the payment of benefits. In addition, some of the self-employed persons, who work as sole traders, are familiar with NIBTT procedures, as they are already registered as employers and pay contributions on behalf of their employees.

The ILO however believes that implementing changes to the rules of the Old-Age Pension Programme would bring a significant contribution to the success of this policy option. Such changes would aim at harmonizing benefits paid under this Programme and under the NIS legislation. The means test provided for in the Old-Age Program should be changed in a way, which provides effective basic income but at the same time does not harm incentives to contribute to NIS.

The ILO is also convinced that the success of the scheme depends on the implementation of certain changes to the rules of the NIS. In this regard, the ILO's main concern relates to the consequences on the current benefits of past practices in indexing the benefits. The minimum pension currently applies to most old-age pensioners. This is not consistent with usual earnings-related contributory scheme. The system now behaves in practice as a flat-benefit scheme. Clarification of future intentions of the Government through policy disclosures supported by appropriate actions is necessary to properly inform the self-employed about the system that they will have to join in the future.

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<sup>10</sup> The Government of Trinidad and Tobago has identified the achievement of developed nation status by the year 2020 as the principal developmental goal of the country.

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### **3. Implementation of social security protection to the self-employed**

This section presents and discusses the different issues relevant for the extension of social security to self-employed workers.

#### **3.1 Voluntary or mandatory coverage**

Even if the mandatory social security coverage of the self-employed was already foreseen when the NIS law was adopted, it is important to reassess whether the approach remains appropriate in the current context.

A key disadvantage to voluntary coverage is the administrative costs that are usually very high due to low participation, necessitating cross subsidisation, either from the NIS or other sources. Experience shows that abuse is likely to be higher in voluntary schemes as insured persons have more opportunities to use the eligibility provisions to their own advantage. Alternatively, compulsory coverage has the potential advantage of providing pensions to all eligible persons and thus relieving the Government of eventually subsidizing persons during their retirement through social assistance. In addition, only mandatory coverage would meet the objective of providing comprehensive social security to all workers - given that it is effectively enforced. For these reasons, the ILO recommends the implementation of mandatory social security coverage for the self-employed.

When analysing the situation in the other CARICOM countries, it can be observed that some of them provide for mandatory social insurance for self-employed<sup>11</sup>, while others cover the self-employed under a voluntary scheme<sup>12</sup>. The experience in these countries shows that, under both mandatory and voluntary schemes, there is only limited effective coverage of the self-employed. The reasons for the failure of these mandatory schemes are, as pointed out above (see paragraph 1 of this technical note), the following: specific needs are not sufficiently taken into account, delivery mechanisms are not adapted, public information is missing and mechanisms enforcing compliance are inefficient or nonexistent.

#### **3.2 Full, limited or gradually increasing coverage?**

According to most studies and national experiences, it is very difficult to cover self-employed workers with contributory, earnings or income-related social security schemes, as their income patterns are irregular and limited in amount compared to those in regular employment.<sup>13</sup> Thus, it is of utmost importance to set such adapted provisions so that the self-employed are not only obliged but also motivated to join the system and pay the required contributions. NIBTT would need to take significant steps so as to promote innovative means for reaching the self-employed, which would take time and both financial and human resources.

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<sup>11</sup> Antigua and Barbuda, Bahamas, Barbados, Dominica, Guyana, Jamaica and Montserrat.

<sup>12</sup> Belize, Grenada, St. Kitts and Nevis, St. Lucia and St. Vincent and the Grenadines.

<sup>13</sup> ILO, *Social Security Principles (First Volume)*, Geneva, Switzerland; 1998. p. 24.

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It is important to define 'self-employed workers'. According to the project Terms of Reference<sup>14</sup>, the self-employed are: "... *persons who are engaged in economic activities on their own account otherwise than for an employer.*" Such persons can be, amongst others, consultants, directors of corporations, independent contractors, network marketers, partners in partnerships, religious leaders and sole proprietors. On an occupational basis, self-employed persons include but are not limited to accountants, artists, consultants, contractors, doctors, domestic workers, farmers, fishermen, hairdressers, lawyers, market and street vendors, shop keepers, taxi drivers, and tradesmen.

For the decision making process, it is advisable to carefully analyze, based on currently available household income and expenditure and labour force surveys, the composition of the self-employed population with respect to their demographic, family and social characteristics, income levels, types of economic activities, occupational structures etc.

The difficulty of achieving coverage of all self-employed persons immediately is fully recognized. Therefore, the legislation should foresee mandatory coverage of all self-employed and the corresponding regulations should provide for the implementation of social security coverage in phases according to a specified timetable. The first phase would cover those self-employed who are relatively easy to identify, particularly those who are already officially registered or have the obligation to register with their respective agencies or associations, e.g. doctors, lawyers, owners of small enterprises in receipt of government loans, sole traders, taxi drivers, and so on. In this respect, the acquisition of loans and licenses by this category could be linked by an affiliation to the social security scheme. The coverage of the other categories of self-employed workers should be implemented in a second phase.

### **3.3 Eligibility criteria for registration**

At present, the eligibility criteria for employees for coverage by NIS are earnings of not less than \$100 per week. Eligibility criteria for affiliation by the self-employed to the social security system should in principle remain the same as those for employees in the NIS. The reason for this is that, on the one hand, the self-employed should have the same treatment as employees and, on the other hand, the NIBTT should facilitate the coverage of workers moving between salaried employment and self-employment. The major problem is of course how to assess the actual level of earnings for self-employed: on what basis, for what period and who will be doing it. For those self-employed who are tax-payers, the assessment could be based on assessed or declared taxable revenue and done by the tax office. One of the possible solutions is that self-employed are declaring to NIBTT their income levels but they are obliged to contribute at least on the basis of income equivalent to \$100 per week or whatever minimum declared income would be adopted.

The assessment of income and thus eligibility on a weekly basis as stipulated for employees will probably be impractical for most of the self-employed as their earnings are irregular, fluctuate seasonally and may be very difficult to define on a weekly basis. When the self-employed do meet registration criteria, payment of contributions in each period could be submitted if earnings are above the minimum level (see paragraph 3.7 of this technical note). The periodicity upon which contributory assessments are levied should be sufficiently long to take account of irregular patterns of work. Special measures could be introduced for periods when the self-employed have no earnings.

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<sup>14</sup> *Terms of Reference for the Conduct of the Seventh Actuarial Review*, The National Insurance Board of Trinidad and Tobago, p. 14.

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Both questions, the mechanism for the determination of earnings and the reference period of earnings for determination of eligibility need to be further analysed.

### 3.4 Coverage of which contingencies for the self-employed?

According to the survey entitled *Final Report on National Insurance Coverage*, a benefit package, inclusive of short-term and long-term benefits (old-age, invalidity and survivors' benefits, and sickness and maternity benefits) seems to be most desired by self-employed persons in Trinidad and Tobago<sup>15</sup> (56.0 per cent), of whom a significant number seems to opt only for long-term benefits (39,4 per cent). This contrasts to other CARICOM countries where preference often is given to short-term benefits only, such as for sickness.

Experience in ILO Member states shows that the implementation of short-term benefits for self-employed workers is usually difficult to administer. Strict control and anti-selection mechanisms and well functioning medical services are necessary to preclude abuse.

When taking the needs of the self-employed into account, there seems to be no doubt that:

- *Long-term benefits* (old-age, invalidity and survivors' pensions) should be provided on a mandatory basis.
- *Employment injury benefits*, comprising a short-term disability benefit as well as a long-term invalidity and survivors' benefit, appear to be difficult to administer for self-employed persons due to the possibilities of abuse and should thus not be included in the package, at least within the first years of implementation. The Terms of Reference given by the NIBTT also exclude this type of benefit from the application for self-employed workers.

However, as *Assistance in the event of an accident* (30.8 per cent) seems to be the main reason for the self-employed persons willing to have coverage for short-term benefits, according to the *Final Report on National Insurance Coverage*, reconsideration of this approach should be made in the future after careful analysis of the situation.

- Entitlement to *sickness benefit* is difficult to administer in the case of the self-employed, as abuse is difficult to monitor and it is difficult to devise entitlement conditions which would reflect the problem of continuous payment of contributions. A sickness benefit should thus not be included in the benefit package, or at least limited to clearly identifiable situations.
- *Maternity benefits* were confirmed by stakeholders as essential benefits, which should be included in the benefit package. Although short-term, this benefit is easier to monitor than other short-term benefits (sickness, temporary disability and unemployment) as the abuse is naturally limited. Accordingly, the maternity benefit is in line with general developments in modern societies, being essential for the well being of mothers and children.<sup>16</sup>
- Funeral grants should be part of the mandatory coverage benefit package.

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<sup>15</sup> *Idem*, p. 29.

<sup>16</sup> Maternity Protection Convention, 2000 (No. 183).

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### 3.5 Financing

The coverage of self-employed workers under the NIS should, in general, be financed through contributions fully paid by the self-employed workers, the self-employed having to pay a total of both employees' and employers' contributions calculated from their assessed/declared income. At present, the full contribution rate amount to 9.9% for all branches. It would slightly be reduced for self-employed as employment injury and sickness benefits would not be included in the scheme of self-employed. Such contribution rate appears affordable at the present time according to the survey *Final Report on National Insurance Coverage*<sup>17</sup>. However, it is well known that the current contribution rate financing employees' social insurance coverage will have to be increased in the future in order to ensure financial sustainability of the scheme. In this context, it has to be carefully analysed what would be the upper limit of the contribution that the self-employed would accept.

In any case, in order to promote self-employed affiliation to the NIS and to reduce their burden of payment of high contributions, it is recommended that Government subsidises, at least for a transitional period, that part of the contribution which, in an employment relationship, the employer would be obliged to pay. The subsidy should be designed as to support mainly the low-income self-employed. Its amount could be the same for all covered self-employed and thus would be decreasing as percentage of assessed/declared income. Such Government subsidy would be justifiable as an investment for the reduction of future Old-Age Pension Programme costs. Such commitment by the Government to contribute to the scheme may raise an equity concern with NIS insured salaried workers. Further financial and policy analysis is required.

Regarding the question of accounting and financial monitoring, the financial statement could present separately the assets and liabilities of salaried and self-employed. This would mean that gains and losses from each scheme would be fully separated from each other. Then, it would make it possible to define the funding policies according to the objectives. In some countries, funds for self-employed are separate form the rest and there is no possibility of transfers form one scheme to the other. In other countries as in Canada and the United Kingdom to a certain extent, there is no separate accounting, the principle of solidarity between all categories of workers being fully applied. Therefore, the funding policy should be carefully designed according to the objectives of the overall social protection policy of the government. In any case, for investment purpose, revenues of both schemes should be pooled and invested together.

### 3.6 Determination of contribution rates for self-employed workers

It is recommended that the rate of contributions for the self-employed, which would comprise contributions for employees and employers, should be set at the same percentage as that for employees (employees' and employers' contributions together) under the specific branches of NIS Law subject to the considerations expressed under section 3.5. Contribution rates recommended in the *Seventh Actuarial Review*<sup>18</sup> will not include the impact of the extension. Even though it could be feasible to modify the recommendations on the basis of the assessment of the financial impact of the extension, the political

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<sup>17</sup> *Idem*, p. 34-35.

<sup>18</sup> *Idem*.

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desirability of doing so should be addressed. The next actuarial review would, however, consider the impact of the extension.

The NIS Law stipulates that contributions are paid according to 12 different wage classes included in the NIS Law but subject to adjustments at each actuarial review. It is for discussion whether, in order to facilitate administration, to apply to self-employed workers the same wage classes as for salaried employees. Each self-employed worker would either select a wage class or be assigned to one, depending on the decided approach with respect to assessing the income subject to contributions.. In this context, the question arises as to the intervals the workers would have to declare/to be assigned to the wage class for the purpose of contributions, which would have to be the same as the periodicity of earnings required for determination of eligibility.

### **3.7 Periodicity of the payment of contributions**

The survey *Final Report on National Insurance Coverage*<sup>19</sup> indicates that most of the self-employed (79,6 per cent) would prefer to contribute monthly to the scheme, while 9.5 per cent of them would prefer to pay quarterly. The monthly collection basis could be, however, difficult to implement for those with very irregular or seasonal income patterns. As the receipt of contribution revenue is crucial for the well functioning of the scheme, the issue of contribution payment needs to be analysed. Within this context, the balance between the prompt payment of contributions to maintain the liquidity of the scheme and the practicalities of collecting contributions from the self-employed has to be taken into account.

### **3.8 Entitlement conditions to benefits**

In principle, for reasons of equality of treatment, the same qualifying conditions should be applied to the self-employed as are applied to employees covered by the NIS Law. However, some considerations have to be pointed out regarding eligibility to maternity benefits. At present, employees are entitled to maternity benefits under the NIS if they have ten weeks of contribution in the 13 weeks before the last six weeks before the expected date of childbirth. Such period appears as too short for self-employed. The alternative provisions contemplated under the current actuarial review would be more appropriate.

### **3.9 Level of benefits**

For reasons of equality of treatment between salaried employees and self-employed workers, it is recommended to apply to self-employed workers the same provisions specifying the levels of benefits as are applied to employees. As the contribution rate and entitlement conditions should be the same for both salaried employees and self-employed workers, the provisions governing the minimum pension should be applied in the same way to both categories of workers. However, it is expected that far more self-employed workers will contribute at the minimum income class level than is the case for employees. Therefore, the NIS minimum pension level needs to be carefully determined and brought into alignment with the social policy of the Government and in particular with its Old-Age Pension Programme. This is necessary to guarantee the sustainability of the fund and the relevance of the minimum pension.

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<sup>19</sup> Idem, p. 36.

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### 3.10 Institutional arrangements for the affiliation and the collection of contributions of self-employed workers

Under this point, questions arise as to whether social partners such as associations of self-employed workers should be involved in the registration process of their own members, and which institution would be responsible for the collection of self-employed contributions. Where appropriate, associations of the self-employed could be very useful to reach certain categories of the self-employed. Contractual arrangements could be proposed to them, which could contribute to reinforcing their role as intermediaries and social partners.

The institutions, which appear to be best suited to the collection of social security contributions, are the tax revenue office and the NIBTT. The tax revenue office seems to have the advantage as it has already registered the names and incomes of self-employed persons, while the NIBTT, which already collects the contributions made under the NIS, has the advantage of a well-established infrastructure for, and long-standing experience with, the collection of contributions. It appears to be doubtful that the tax-revenue office alternative would be practical in the short-term given the currently limited scope of its client coverage. However, it must be pointed out that there needs to be close collaboration between the NIBTT and the tax revenue office with a view to identifying the most cost-effective long-term collections mechanisms.

In addition, mechanisms enforcing compliance would need to be reinforced and adapted to completely different circumstances when dealing with self-employed as contributors. The Government would need to invest additional resources to provide the necessary information to self-employed and to enforce the law through inspection and other measures.

### 3.11 General policy

In order to guarantee equality of treatment between employees and self-employed workers and to in order to facilitate the administration of the new scheme, it is recommended to link the self-employed scheme to the extent possible to the existing NIS scheme for employees. In this respect, where reference is made to quantitative parameters of the current system, these parameters should be updated in the same as manner as is done for employees after the recommendations of the *Seventh Actuarial Review*<sup>20</sup> are enforced (e.g. minimum income class, minimum pension, and so on). The rules for regular indexation of these parameters and amounts should also be the same. This needs to be further analysed.

### 3.12 Further considerations

In order to ensure that the scheme is appropriate and the self-employed will join and benefit from the scheme in the long run, it is important to put monitoring mechanisms in place. Such mechanisms should be based on information from properly designed and maintained administrative records and from regular surveys on labour force participation and household income designed in such a way as to identify self-employed workers' needs for social security, their actual social security coverage and its impact as distinct from those of salaried workers.

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<sup>20</sup> Idem.

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## 4. Next steps

The immediate next priority should be the adoption by the NIBTT of a position regarding the proposals outlined in this orientation note. If the framework of this technical note is accepted and policy directions selected, then next steps could be undertaken, which are:

1. *An analysis of the different categories of self-employed workers* before the gradual extension of social security coverage to them. In this respect, the NIBTT should identify the categories of workers who have to register in order to exercise their profession. In addition, the NIBTT should identify those self-employed workers who are recipients of government credits or grants (small businesses, and those self-employed who are already contributing to the scheme on behalf of their employees). In this regard, it is of utmost importance that close collaboration be established with relevant government agencies.
2. *Identification of the institutional partners*, public and non-public, that should be involved in the implementation.
3. *Completion of an in-depth administrative analysis* to develop a business plan for the effective implementation inclusive of additional infrastructure, staff training and public information. ILO would hire a consultant to perform that operation.
4. Agreement with partners on the timetable for gradual implementation.
5. *Collaboration with the central government* on the design of the Old-Age Pension Programme. A formula should be proposed for the benefits from the Programme when an applicant receives income from another source.
6. *Legal and regulatory framework*: Finalization of the details of provisions regarding insurable earnings and eligibility to benefits. Design of transitional rules, including but not limited to allocation of past credits and temporary financial participation of the central government for financing.
7. *Determination of the financial impact* of the coverage of the self-employed, taking into account different policies. ILO would accomplish this in collaboration with NIBTT.
8. Based on the financial assessment, *finalization of the policy strategy* that could serve as the basis for the drafting of the law/amending of NIS Law;
9. *Development of strategies* in order to sensitise the public about the proposed extension of social security to the self-employed.

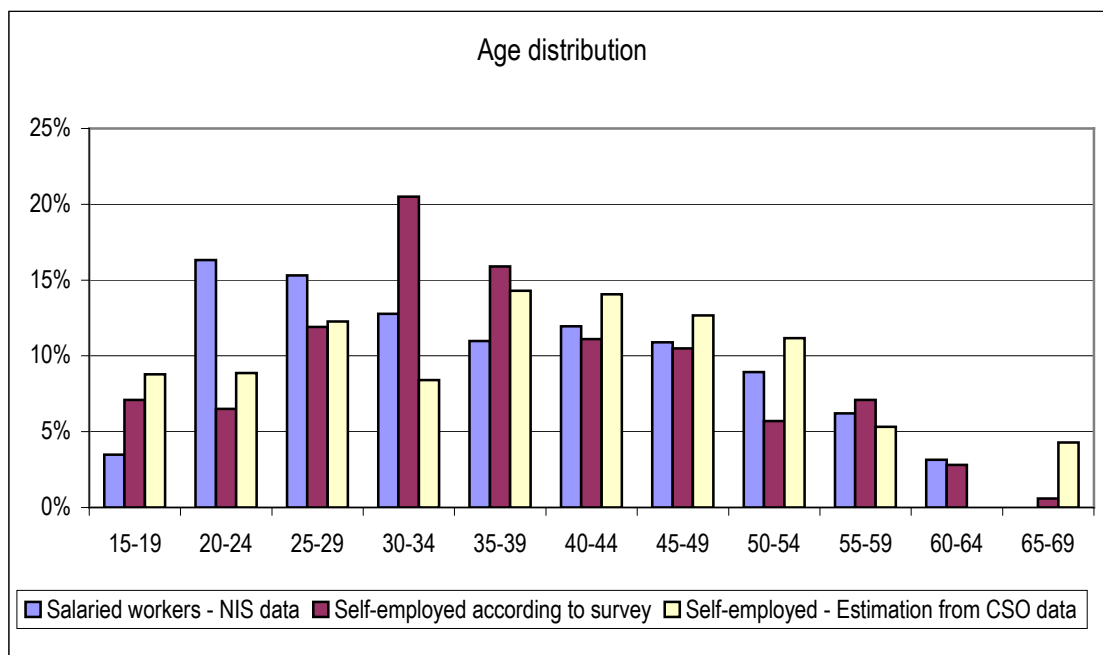


## Annex 1 Coverage of the Self-employed in CARICOM countries

Country	Effective date	Status	Benefits
Antigua and Barbuda	April 2001	Mandatory	All
Bahamas	April 1998	Mandatory	All – Work injury is available for certain categories of self-employed
Barbados	January 1978	Mandatory	All – Except unemployment and work injury
Belize	January 2003	Voluntary	All
Dominica	Early 1980s	Mandatory	Long-term
Grenada	June 1988	Voluntary	Long term
Guyana	April 1971	Mandatory	All – Except unemployment and work injury
Haiti	Information not available.		
Jamaica	Date not available	Mandatory	All – Except unemployment and work injury
Montserrat	March 1996	Mandatory	All
St. Kitts and Nevis	July 1996	Voluntary	All – Except unemployment and work injury
Saint Lucia	2003	Voluntary	All – Except unemployment and work injury
St. Vincent and the Grenadines	1997	Voluntary	All – Except unemployment and work injury
Suriname <sup>1</sup>			

<sup>1</sup> Suriname currently does not have a social security system similar in nature that of other Member states and it has not started the required legislative process.

## Annex 2 Statistical information



The distribution by age of the self-employed is different according to the source, though average age is comparable, 37 in survey and 38 in the estimation from the Central Statistical Office (CSO) data. However, both sources indicate that the self-employed tend to be more concentrated in the ages 30 and over than the salaried workers.