

SOCIAL SECURITY IN SINT MAARTEN

TOWARDS A STRENGTHENED SYSTEM

REPORT

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Summary

About this research

The goal of this research is to identify policies that can help to modernize and strengthen the social security system of Sint Maarten. The social security system should protect income and work of those who need it the most, and at the same time stimulate them to accept paid work. At the same time, the social security system should remain affordable for future generations.

This report presents the results of the research into social security system of Sint Maarten as part of the country package (E.4). It takes stock of the current social security system (regulations, execution and financial state of affairs), develops reforms aimed at a strengthened and modernized system, calculates the financial impact of these reforms, and reflects on the economic and social feasibility and the implementation of the reforms.

This research is based on analysis of many documents, interviews with a large group of stakeholders, and the analysis of data. The desk research includes the analysis of policy documents, previous recommendations in the field of social security, an assessment of relevant regulations, and relevant academic literature. The research team has interviewed amongst others government representatives, policymakers, social partners, advisory councils, and experts. The findings and recommendations included in this report were presented to the stakeholders in Sint Maarten and they were able to provide their feedback.

The findings and recommendations presented in this report are the result of independent research. The full responsibility for its content is taken by the organizations who have conducted this research: SEO Amsterdam Economics (SEO), Economisch Bureau Amsterdam (EBA), De Beleidsonderzoekers, and Tackling Law.

Problem analysis

Lack of compliance, partly due to ineffective enforcement, is a fundamental problem to the current social security system. Enforcement concerns control, risk analysis, detection, and sanctioning. Lack of compliance and enforcement leads to lagging payments of taxes and premiums, evasion of the minimum wage, illegal employment, unlawful use of temporary contracts, and improper use of social security benefits. There are also indications of abuse and fraud with social security benefits in both the Dutch and the French side of the island.

As a result of a rapidly ageing population, the social security system of Sint Maarten is not financially sustainable. Sint Maarten currently has a relatively young population, but this will change dramatically. The number of inhabitants aged 65 and above will almost triple in the coming three decades. On the other hand, the working-age population will increase by just 8 percent in that same period. The social security system is mostly financed by the working-age population, whereas an important part of social security – most notably AOV-benefits – are paid out to retired citizens. As a consequence, social security expenditures in the coming decades will rise at a considerably faster pace than revenues from premiums. The finances of the social security system will deteriorate rapidly and social security funds will face shortages within years.

The economy of Sint Maarten is highly susceptible to external shocks, leading to large income and labor uncertainties for households. The economy is not diversified and mainly relies on tourism. As a result, macro-economic shocks are exceptionally large. GDP decreased by about 10 percent after Hurricane Irma in 2017, and by a further 15 percent after the start of the Covid-pandemic in 2020. After Hurricane Irma, unemployment increased

from 6 to 10 percent in just one year. The current social security system hardly provides insurance against such shocks. There is no effective insurance against the loss of income in the event of unemployment.

The social security system is not sufficiently effective in alleviating poverty. In particular, financial assistance does not suffice for many households and retirement income does not suffice for many elderly households. About one quarter of all households have an income below 80 percent of the minimum wage. In addition, a survey conducted by the SER shows that nearly 30 percent of the respondents considers themselves 'poor'. Many households have debt problems and are in financial need. Poverty often comes together with other problems, such as disabilities, limited education, addiction, and family problems. These problems may reinforce each other and cause a downward spiral.

The social security administration is not able to handle the social security of migrants adequately, which leads to non-take-up, non-compliance, and fraud. The share of migrants in Sint Maarten (70 percent) is exceptionally high compared to other islands in the Caribbean (usually between 10 and 40 percent). Job opportunities attract migrants from the region, in particular from the French part of the island. Flexibility in Sint Maarten's workforce is an advantage, as it helps to mitigate both downturns and a tight labor market, but the social protection of migrant workers is often poor or even absent.

The social security system is not sufficiently effective in helping and stimulating persons with low earnings capacity to find their way to the labor market. Many residents of Sint Maarten find it difficult to access the (formal) labor market. In particular, financial assistance recipients often face multiple problems, such as disabilities, physical and psychological complaints, limited education, addiction, poverty, debts, family problems and a poor attitude to work. These factors may reinforce each other and cause a downward spiral.

Social dialogue between employer associations, labor unions and the government does not take place on a structural basis. Employer associations and labor unions have insufficiently been involved in policymaking. The implementation of reforms in the labor market and the social security system requires involvement and support by social partners.

Possible improvements

A precondition for successful reforms is improved compliance through more effective enforcement. It is recommended to apply an integrated, coherent approach in strengthening enforcement in different policy areas and themes of the Country Package (social security, labor market, health care, fiscal policy). Aligning procedures, methodologies, risk analysis, intelligence/data, etc. in different areas of enforcement, may lead to significant improvements in effectiveness and efficiency of the social security system. SZV would be given more clout if it can file for bankruptcy as the sole creditor, and it should be enabled to trace companies that do not pay their premiums. If enforcement is not in place, then the effects of several policy options could even turn negative. In particular, if controls are not in place then more social security could induce workers to work less (moral hazard).

A first improvement of the social security system would be the introduction of an unemployment benefit scheme. Such a scheme provides insurance against the loss of income in case of unemployment and helps stabilizing the macro-economy. In addition, allowing unemployed workers some 'search time' to find a job contributes to a better match between supply and demand in the labor market. While income insurance, economic stability and labor market efficiency are important arguments in favor of an unemployment benefit scheme, it should not be made too generous in order to maintain incentives to accept paid work. The severance payment part of Cessantia can be abolished once the unemployment benefit scheme is in place. This way, the additional costs of an unemployment

scheme can be contained. In the longer run, the public sector could play a more active role in the activation of unemployed workers.

Second, financial assistance could be made more effective in combating poverty. The coherence of financial assistance with social care could be strengthened. It is also important to provide stronger incentives for financial assistance recipients to accept paid work, as this is often the most effective way out of poverty. The public sector could play a more active role in the activation of financial assistance recipients. Financial assistance for senior citizens with incomplete AOV should be formalized. This group in particular faces poverty risks and the current practice is legally incomplete and often not effective.

Third, incentives for prevention of sickness and disability should be strengthened by giving employers more financial responsibility. If an increased number of days of sickness and disability are at the employer's own risk, then the total costs of sickness and disability will eventually go down. Preventative investments by employers will have a positive financial return for employers themselves. In addition, the insurance of sickness and disability could be organized more efficiently by integrating ZV and OV into one disability scheme.

Fourth, participation in occupational pensions should be stimulated. Pension savings already receive favorable tax treatment, but the current take-up outside the public sector is low. In the longer run, more pension savings also help to combat poverty at old-age.

The financial sustainability of the social security system can be secured by indexing the AOV eligibility age to life expectancy. There is no other reasonable policy option that is as effective in containing future costs of the social security system. Raising the AOV eligibility age is also sufficient, as the effectiveness of this policy option is large enough to cover the additional expenses of an ageing population and reach a sustainable path of public expenditures. This policy will save AOV expenditures on the one hand, and increase tax and premium revenues on the other hand as workers will retire at a higher age. A slow and gradual increase in the AOV eligibility age by means of tying it to life expectancy has significant advantages. Workers and employers are given time to prepare themselves and get used to longer working lifetimes. Given the demographic and financial situation, Sint Maarten has the opportunity to implement a steady and gradual increase of the AOV age, if this policy is started within say five years. For instance, a first increase of the AOV eligibility age by 3 months could be done in 2028, then gradually increasing to 66 years in 2034 and 67 years in 2042. Finally, indexing the AOV eligibility age to life expectancy is equitable from an intergenerational perspective.

The integrated package of policy reforms imply a net improvement in public finances (government and SZV), and neutrality or a slight increase in employer expenses. Raising the AOV eligibility age is by far the most significant reform in financial terms. As a result of the total package of reforms, public finances (government and SZV) will structurally improve in the long term by a minimum of ANG 50 and a maximum of ANG 130 million per annum. The precise path towards these long term effects – and the extent to which savings can be realized in the medium and short term – is dependent on policy decisions to be made (e.g. starting point and/or possible one-off increases in the AOV eligibility age). Net employer expenses will remain neutral in case the unemployment scheme has a maximum duration of three months, and increase by at most ANG 16 million per annum in case the maximum duration of the unemployment scheme is 9 months. In this figure it is not taken into account that employers benefit from more stable consumer demand and a less volatile economy.

For budgetary purposes, it is recommended to take significant steps in increasing the AOV eligibility age before 2030. The resulting improvement in the public budget is needed in order to prevent the AOV to become financially

unsustainable and to finance the additional social security expenses and the lower tax revenues in case of more second-pillar pension savings. A decision within the short term to index the AOV eligibility age to life expectancy enables a gradual increase of the AOV eligibility age, while maintaining long-term financial sustainability. Anchoring the AOV eligibility age to life expectancy is a robust and sustainable policy, even in the case of a temporary deficit in the short term. The longer the decision is postponed, the more drastic the increase in the AOV eligibility age will be to ensure long term financial sustainability. This consideration concerns the intergenerational distribution of costs and benefits of AOV. A short term decision to index the AOV eligibility age will benefit younger generations, whereas postponement of this decision will benefit the older generations.

Of particular importance to the economy of Sint Maarten is the recommended unemployment benefit scheme. Such a scheme is an adequate tool to increase the resilience of households and the economy as a whole against external shocks, such as hurricanes and pandemics. With an unemployment scheme in place, there is a legal and financial infrastructure, and an implementation structure, to mitigate the socio-economic consequences of shocks with such a heavy impact. For example, during severe economic shocks with long-lasting effects, the parameters of the unemployment scheme – such as the duration/amount of benefits and/or the access requirements – can be adjusted in such a way that such effects can be mitigated effectively.

Feasibility and implementation

The proposed package of reforms has been discussed and tested with stakeholders and social partners in Sint Maarten. There is broad support for the entire package of reforms and for the specific policies being part of it. Stakeholders have qualified the package as 'balanced', 'logical', 'cohesive' and 'positive'. Stakeholders see significant value for Sint Maarten in an unemployment scheme; understand the benefits of strengthening incentives for employers to prevent sickness and disability; and understand the need to raise the AOV age, especially when this measure is announced on time and introduced gradually.

Despite broad support, there is concern about the political commitment and courage needed to decide on and implement this package of reforms. The involvement of employers, trade unions and the general public is pivotal to organize societal support and understanding of the reforms. Thorough and consistent communication prevents misconceptions about the reforms and the intended results.

A second concern is the potential lack of coherence with other areas of the country package, such as the labor market, health care (General Health Insurance), taxation, the public sector, and education. There is a broad perception that in the implementation of the Country Package, more attention should be paid by The Netherlands and Sint Maarten to the prioritization of policies and the prevention of inconsistencies between reforms in different domains.

There are also concerns about the required capacity, expertise and resources in Sint Maarten to successfully implement the reforms. In particular, stakeholders are concerned whether the SZV is currently in a position to successfully implement a new unemployment scheme.

Successful implementation of the reform package requires that compliance and enforcement in the labor market and social security system are brought up to a minimum level. In addition, social partners should actively support and be involved in the implementation process. If these conditions are not met, then some of the reforms are ineffective or may even backfire.

It is however recommended not to postpone a gradual increase in the AOV eligibility age, as this would entail financial distress and would require more rigorous and painful decisions in the future. Also note that the enforcement precondition is not needed for this specific policy.

It is possible to implement the reform package in a stepwise approach, ending by the end of 2025. With the implementation of this program, the civil service of Sint Maarten, in particular the Ministry of VSA, and the SZV will have a significant additional task for a longer period of time. A programmatic and project-based approach is an important condition for effective implementation. It is essential that there is a governance structure that makes it clear to all organizations and persons involved how responsibilities for implementation, support, steering, monitoring, reporting, commissioning, escalation and ultimate responsibility are organized and with whom they are held. All officials and organizations involved in the implementation of the reform program on social security work on behalf of the minister of VSA, who is mandated to coordinate the program. This requires a concrete, clear formulation of the mandate to be established by the Council of Ministers of Sint Maarten and to which the full cabinet commits.

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1 Introduction

This report presents the research into social security system of Sint Maarten as part of the country package (E4). It concerns the inventory of the current system (regulations, execution and financial state of affairs), the possible reforms aimed at a strengthened and modernized system, the financial impact of these reforms, and a reflection on the economic and social feasibility and the implementation of the reforms. The analyses and recommendations of the E.1 labor market assessment have been taken into account in this project as much as possible.

The research project on which this report is based, is supervised by a committee of experts from the Ministry of VSA of Sint Maarten, the Ministry of Social Affairs and Employment of The Netherlands, and the Temporary Work Organization.

This report is based on an assessment of relevant regulations (Landsverordeningen and Landsbesluiten), relevant reports (previous advice) and interviews with parties involved in the social security system in Sint Maarten. Interviews were held with representatives of ministries, employer and employee organizations, advisory councils and experts.

Chapter 2 describes the relevant context to the social security system of Sint Maarten. Chapter 3 describes the legal framework and the implementation. Chapter 4 presents the financial state of affairs of the various social security arrangements. Chapter 5 analyses bottlenecks and shortcomings in the functioning of the social security system. Chapter 6 presents recommendations to strengthen the social security system of Sint Maarten. The financial effects for the public budget and employers are presented in Chapter 7. The economic and social feasibility of the recommendations is discussed in Chapter 8, and the implementation is discussed in Chapter 9.

2 Context

2.1 Geographic dimension

The geographic dimension of Sint Maarten is important for social security policy. This concerns the location of Sint Maarten in the region and its attraction to migrants, the border traffic between the Dutch and the French side and - of an entirely different order - hurricanes which frequently occur in the region.

The first perspective is the geographical position of Sint Maarten in the region. Sint Maarten (also the French part) is attractive for residents of surrounding islands because of job opportunities. Moreover, the island may offer a possibility for transfer to Europe. Due to a lack of manpower and financial resources, immigration control is not optimal, which leads to non-compliance and abuse (by employers and employees from outside the island). Illegal presence and work are a widespread problem in Sint Maarten. In addition, the official route - applying for a work and residence permit - is often considered too cumbersome by employers. During the application process the immigrant is often already at work. For Sint Maarten, the high influx of immigrants is advantageous on the one hand, because it fulfils labor demand for which suitable candidates aren't available in the local labor market. On the other hand, it is accompanied with several social problems. Immigrants often transfer most of their income to relatives elsewhere (remittances) and consciously live in poverty. Immigrants often do not build up sufficient AOV and the expectation is that poverty among these groups will increase.

The second perspective is the geographical division of the island. In 1648, the Republic of the Seven United Provinces signed the Treaty of Concordia (the Treaty of Partition). With this, the division of the island into two parts was arranged: the southern part of the Netherlands (Sint Maarten) and the northern part of France (Saint Martin). Before that, the island was (partly) alternating between Spanish, French and Dutch territory. The French part is about one and a half times as large as the Dutch part. The population is about the same size. It is unclear how the border was established. In 1817 the treaty became final and in 1839 matters such as hunting, fishing, the exploitation of the salt pans and the extradition of criminals were regulated. In 2016, a maritime boundary treaty was signed and in 2022, negotiations started on the final boundary disputes (Oyster Pond) and coast guard activities. However, in terms of social security and labor market, nothing has ever been settled between the two countries, although there are informal consultations.

The cultural differences between the two parts are not big, except perhaps for the language. A large part of the population sees Sint Maarten and Saint Martin as one entity. This has to do with blood relations, growing up together (school), relationships, living, work, the final resting place and many other cross-links. Daily life takes place in both parts and there is great mobility across the border (for family visits, work, outings, sport, church, etc.). The geographical border is not a social border. Nor is it visible. Nevertheless, there are disputes and challenges, including in the area of the labor market and social security (see textbox).

The third perspective concerns natural disasters in the region. Sint Maarten has been hit several times by hurricanes, causing serious devastation, with major impact on society and the economy. The impact of hurricane Louis (September 6, 1995), Lenny (November 18, 1999) and Irma (September 6, 2017) are still clearly visible and noticeable. After each hurricane, it takes years before tourism - the main source of income - returns back to normal.

After each hurricane, unemployment rises sharply. Moreover, many workers - including specialists - leave the island, often permanently.

Indications of fraud with social security benefits in both countries

There are indications of fraud with social security in Dutch Sint Maarten and French Saint Martin. Residents of Dutch Sint Maarten - either working or not - would receive social security benefits (*revenu de solidarité active* (RSA)) in French Saint Martin. They would do so by registering an address in French Saint Martin. As such, residents that work or receive social security benefits in Dutch Sint Maarten, would also receive social security benefits in French Saint Martin. The attractiveness of the relatively favorable French social security regime as well as the lack of effective control and enforcement by the French authorities, would induce residents of Dutch Sint Maarten to such unlawful behavior.

Registration in both Dutch Sint Maarten and French Saint Martin to receive social security benefits in both countries has been suspected for some time; its extent came to light when the border was closed during the COVID-19 lockdown. In two months' time, social security payments collected in French Saint Martin decreased by approximately a million euros. After the border reopened, benefits were collected again in French Saint Martin.

There are also persistent signals of significant illegal labor migration from French Saint Martin to Dutch Sint Maarten. This labor migration is the consequence of the poor economic performance and high unemployment in Saint Martin. Examples are mentioned of significant numbers of workers who reside in French Saint Martin while working in the construction and hospitality industry in Dutch Sint Maarten without having the required permits, while control and enforcement are hardly present. Residents of Saint Martin working in Sint Maarten require a working permit. Part of the labor migration are Venezuelan refugees to Saint Martin having a French refugee status and working illegally in Sint Maarten.

There is hardly any factual information available on these matters, while the relevance for both the social security system and the labor market may be significant. Structural exchange of information and cooperation in enforcement would be first steps towards getting a view on the problem and managing potential adverse effects on the functioning of the social security systems and the labor markets of Dutch Sint Maarten and French Saint Martin.

2.2 Economic developments

Sint Maarten's relative proximity to the United States has helped it to develop a tourism industry (World Bank, 2020). Based on a domestic value-added share in the tourism sector of 70 percent, tourism accounted for about 45 percent of GDP in 2019. The sector has been able to develop partly because of the influx of migrants.

Immigration contributed to the population growth between 1960 and 1990 averaging 8.1 per cent per year (World Bank, 2020). With a GDP per capita of USD 30 thousand, Sint Maarten is more prosperous than most other countries in the region. However, this GDP per capita is surrounded by uncertainty as population size is uncertain. For example, the Civil Registry Department counted 61,750 inhabitants in 2019 while the Department of Statistics assumed 41,177 inhabitants that year. The level of GDP in Sint Maarten is also subject to debate (SHTA, 2021).

The economy of Sint Maarten is volatile. Firstly, the tourism sector is strongly seasonal. For example, the Department of Statistics (n.d.-h) reports 53 percent fewer stayover tourism arrivals in September 2019, in the middle of the

hurricane season, than in March of that year. Second, the economy is sensitive to international economic shocks, which is partly explained by Sint Maarten's high trade volumes. In Sint Maarten, trade as a percentage of GDP stood at 172 percent in 2018 (World Bank, n.d.-h), while the global average was 58 per cent. Sint Maarten – in terms of trade-to-GDP ratio – is the most open economy of the Caribbean region.

Sint Maarten has been hit by several hurricanes in recent decades (see 1.1). The enormous devastation caused by these hurricanes has had an impact on the economy. For example, the number of cruise passengers visiting the island decreased from 1.7 million in 2016 to 1.2 million in 2017 and the number of 'stayover tourism arrivals' decreased from 528 thousand in 2016 to 178 thousand in 2018 (see the table for sources). Sint Maarten's GDP fell for two years in a row by about six percent each time and the national debt increased from 40.7 percent of GDP in 2017 to 47.2 percent in 2018.

Table 2.1 Economic data and projections for Sint Maarten

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Real GDP growth	0.4%	0.5%	-5.8%	-6.6%	10.5%	-17.9%	8.0%	7.5%	5.0%	4.0%
Nominal GDP/capita (x ANG 1.000)	57.8	56.6	52.6	51.9	53.3	44.6	48.1	53.3	57.9	61.3
Central government debt (% of GDP)	36.3	44.5*	40.7	47.2	43.3	59.9	60.9	63.1	60.8	59.2
Current account (% of GDP)	1.7	-2.5	4.1	6.7	-13.3	-27.2	-16.5	-22.2	-19.7	-12.4
Trade (% of GDP)	188	182	165	172	-	-	-	-	-	-
Tourism receipts (% of exports)	75.1	74.8	67.1	58.4	64.9	46.2	-	-	-	-
Stayover tourism arrivals (x1000 pax)	505	528	402	178	320	107	249	-	-	-
Cruise arrivals (x1000 pax)	1902	1669	1238	1597	1632	436	233	-	-	-

Source: Department of Statistics (n.d.-adefgh), IMF (2019, 2020, 2021, 2022), World Bank (n.d.-bcfh)

* This percentage is taken from IMF (2020). However, IMF (2019) mentions a lower public debt (34.0% of GDP).

After the economy and tourism recovered in 2019, the Covid-19 crisis hit in 2020. That year, even fewer tourists arrived than in the crisis years 2017 and 2018 (see the table for sources). In 2022, the IMF estimated that GDP shrank by 18 per cent in 2020 and public debt increased by 17 percent of GDP to 59.9 percent. In 2021, the number of cruise passengers fell even further, while the number of stayover tourism arrivals recovered. The IMF estimates that GDP recovered by eight percent that year, but also that government debt rose to 60.9 percent of GDP.

2.3 Demographic developments

The Department of Statistics estimates the population of Sint Maarten at 42,577 as of 1 January 2021. The United Nations (UN) has published projections on the development of Sint Maarten's population under various scenarios.

In the 'medium' scenario, the population increases to about 52,000 in 2040 and 69,000 in 2100 (United Nations, 2019b). Sint Maarten currently has a relatively young population. This can be illustrated by the old-age dependency ratio, which expresses how many people over 65 live in a country per 100 inhabitants aged 15 to 64. This ratio in Sint Maarten is 9.5 in 2016 (10.2 in 2017) and is therefore lower than the ratio of 12.2 on average in other small island developing states (SIDS) (see the table for sources). In Curaçao (24 in 2016) and Aruba (18 in 2016) this ratio is even higher, indicating an older population (World Bank, n.d.-a).

Table 2.2 Population projections Sint Maarten

	2004	2008	2012	2016	2020	2040	2060	2080	2100
SINT MAARTEN									
Population	34,403	40,007	33,249	39,411	42,044	51,934	57,710	63,276	69,217
Old-age dependency ratio	3.8	4.4	6.8	9.5	-	46.0*	44.4*	53.8*	64.2*
Fertility rate	1.7	1.75	2.0 (2011)	-	-	1.8*	1.7*	1.7*	1.7*
Life expectancy at birth									
Male	71.1	72	69.7	74	-	81.0*	84.6*	87.4*	89.6*
Female	77.8	77.2	78.4	80.6	-	85.4*	88.8*	91.5*	93.6*
Natural increase (per 1000 inhabitants†)	9.9	9.3	7.0	7.6	4.5	-	-	-	-
Net migration (per 1000 inhabitants†)	43.8	13.3	25.4	21.0	8.2	-	-	-	-
SMALL ISLAND DEVELOPING STATES									
Population (x1000)	60,307	63,565	66,779	69,515	72,076	83,523	89,365	90,352	87,599
Old-age dependency ratio	10.4	10.8	11.3	12.2	13.7	22.7	28.7	34.7	39.7
*: Projections were last updated in 2011									
†: Inhabitants at the beginning of the year									

Source: Department of Statistics (2014, 2017c, n.d.-c) and CBS Netherlands Antilles (2006, 2007, 2009) (realizations), United Nations (2019ab) (medium scenarios), United States Census Bureau (n.d.), (projections)

No declining fertility rates have been observed in recent decades, but the 'natural increase' (births minus deaths) per 1,000 inhabitants shows a declining trend. Net migration per 1,000 inhabitants also appears to be declining over the longer term, although this figure is volatile. Together with the increase in life expectancy since 2004, these developments lead to an increase of the old-age dependency ratio, which was 3.8 in 2004.

The UN has not published any projections for the old-age dependency ratio in Sint Maarten. In the 'medium' scenario of the UN (2019a) projections on SIDS in general, the ratio rises from 13.7 in 2020 to 22.7 in 2040 and finally 39.7 in 2100. St Maarten is projected to have a higher population growth rate than other SIDS and currently has a

lower old-age dependency ratio, so the projections on SIDS do not literally apply to St Maarten. However, the UN does predict an increase in all scenarios until at least 2065.

The United States Census Bureau (USCB) (n.d.) has published projections on the old-age dependency ratio in Sint Maarten and predicts that this ratio will increase to 46.0 by 2040. The USCB figures were last updated in 2011 and predict slower population growth than the UN. Together with the UN projections on SIDS, the figures imply a significant increase in the old-age dependency ratio in Sint Maarten in the decades to come.

Table 2.3 Demographic characteristics of the countries in the Dutch Kingdom

Year 2016	Old-age dependency ratio	Life expectancy at birth (both sexes combined)
Sint Maarten	10	78.3
Curaçao	24	77.7
Aruba	18	75.9
Netherlands	28	81.6

Source: Department of Statistics (2017c), World Bank (n.d.-a; n.d.-g) (data)

Sint Maarten has a relatively young population, and this is reflected in the financial position of the SZV (see chapter 3). For example, the ratio of benefits to premium income of Sint Maarten (118 percent in 2020) is low compared to that of the SVBs of the Netherlands and Curaçao, although higher than that of Aruba. This means that the amounts of premium income and of benefit expenses are relatively close to each other. Moreover, the SZV had the highest solvency (equity-to-assets) of all social insurance banks in the Dutch kingdom, at 88 percent in 2020. These facts are summarized in the following table.

Table 2.4 Some characteristics of the Social Insurance Banks in the countries of the Dutch kingdom.

Country	Benefits/premium income (2020)	Solvency of social insurance bank (equity to total assets, 2020)
Sint Maarten	118%	88%
Curaçao	150%	27%
Aruba	103%	78%
Netherlands	215%	45%

Source: SZV (2021), SVB Curaçao (2021), SVB Aruba (2020a-e), SVB Netherlands (2021) (data)

2.4 Labor market

In 2017 and 2018, there were about 21 thousand employed persons (Department of Statistics, n.d.-b; 2013; 2017b; 2019)). The largest sector in terms of the number of people employed is 'wholesale and retail', followed by the 'hotels and restaurants' sector. The participation rate in Sint Maarten fluctuates between 70 and 75 percent. Before

the hurricanes, unemployment rates showed a downward trend¹. In the 2017 peak season, unemployment was more than five percentage points lower than in the 2011 peak season.

Like the economy of Sint Maarten, the labor market is seasonal (Table 2.5). Unemployment was 9.2 percent in 2013, a year when the Labor Force Survey (LFS) was conducted by CBS in the off-season. In 2017, the survey was conducted in the high season and unemployment was three percentage points lower. Moreover, in 2018, 20 percent of the unemployed indicated that they could not have a job because of the low season, when the LFS was indeed conducted in the low season. In the 2017 peak season, only 11 per cent of the unemployed gave this reason. The most cited reason for unemployment is a lack of employment in the desired sector.

Table 2.5 Labor market data Sint Maarten

	2011	2013	2017	2018	2021	2022
<i>Month of Labor Force Survey (high/low season)</i>	Apr (high)	Jun (low)	Feb (high)	Sep (low)	-	-
Employment						
Employed	17,108	19,137	20,954	20,760	-	-
- of which immigrants: Dutch Kingdom	2,060	-	-	-	-	-
- of which immigrants: Other	12,046	-	-	-	-	-
Participation rate (%)	73.8	73.8	69.4	71.1	-	-
Unemployment rate (%)	11.5	9.2	6.2	9.9	13.0	11.2
Permit requests	-	-	-	-	639	-
Labor conditions						
Minimum wage (ANG)	7.96	8.33	8.83	8.83	8.84	8.84
Temporary contracts (% of employed)	10.5	-	19.0	19.2	-	-
Part-time (% of employed working less than 40 hours a week)	-	-	19.4	19.0	-	-
Benefits at place of employment						
Employed with sick leave compensation	-	-	8,924	9,733	-	-
Employed with a pension plan	-	-	4,550	4,918	-	-
Employed w. training/promotion possibilities	-	-	4,552	4,477	-	-

Source: Department of Statistics (n.d.-b, 2013, 2017b, 2019), AB 2013 GT no. 351, SER (2022a), Ministry of VSA (unpublished data), IMF (2022) (data)

Most employed persons in Sint Maarten were born outside the Kingdom (see the table for sources). In 2021, despite the Covid-19 crisis, 639 employment permits were applied for. The presence of migrants can have a dampening

¹ This participation rate is based on the population of 15 years of age and over, while the participation rate published by STAT is based on the entire population.

effect on unemployment, as temporary immigrants can return to their home countries in more difficult economic times (World Bank, 2020).

The proportion of temporary employment contracts in Sint Maarten is higher than in, for example, Aruba and Curaçao (Hermans & Kösters, 2019). Part of those working in Sint Maarten work in the informal labor market. This may concern people who work for a company that is not registered. And it may concern people with employment contracts that do not meet the legal requirements. In 2005, 34 percent of those working in Sint Maarten worked informally in one of these two ways (Lake, 2006). This does not include those working informally alongside their formal jobs. Some of the informal work is done by residents without a work permit who work illegally.

The minimum hourly wage was established at ANG 8.83 in 2015 and has since been increased by one cent (see the table for sources). As a result, the minimum hourly wage has lagged behind the other Caribbean bodies of the Dutch Kingdom (see the E.1 report). Less than a quarter of those employed in 2017 and 2018 had a pension plan and a similar amount had training or promotion opportunities at their workplace (Department of Statistics, 2017b; 2019).

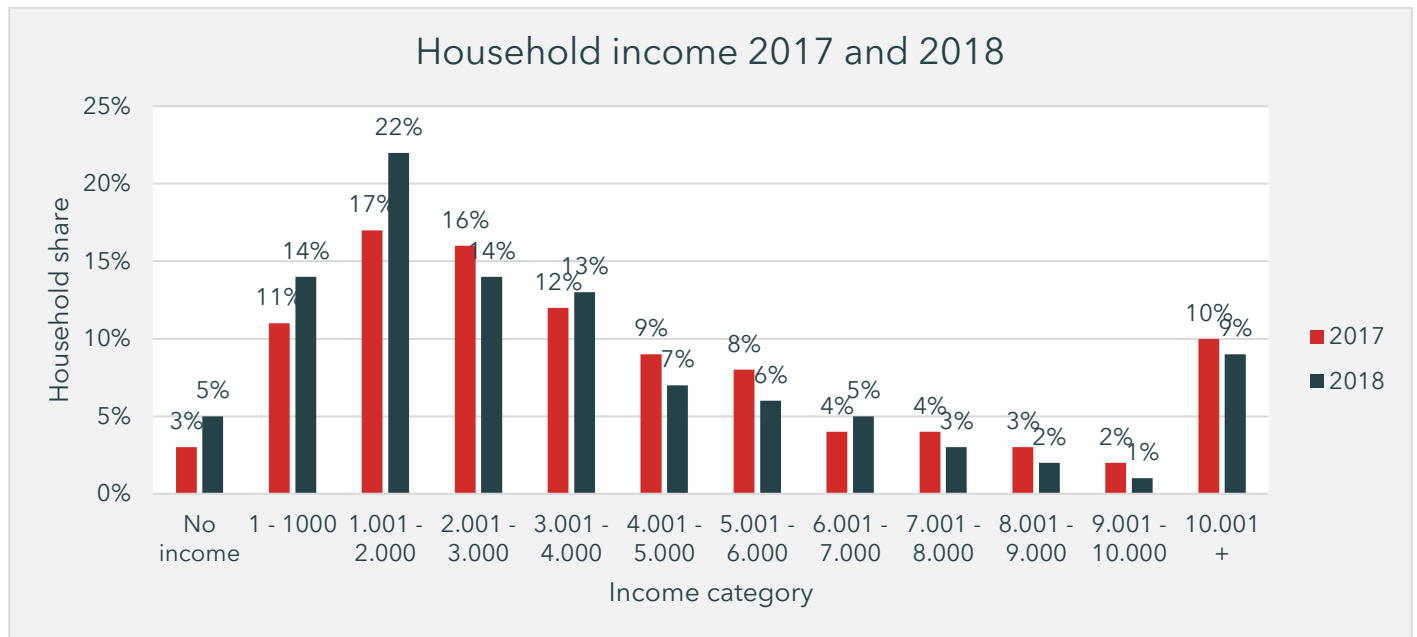
2.5 Income

The most recent study into the income of the inhabitants of Sint Maarten is the labor force survey (2019). This survey was conducted in 2018, after Hurricane Irma. It shows the income distribution for households and individuals. Figure 2.1 shows the income distribution of households before and after Hurricane Irma. The share of households earning less than ANG 2,000 per month has increased from 31 percent to 41 percent. About 5 percent of households indicate that they have no income.

Over 51 percent of the working-age population and at least 29 percent of the employed in Sint Maarten earn less than the amount that someone with full-time work earns at the minimum wage (see Figure 2.2). The minimum wage in Sint Maarten is ANG 8.83 per hour (ANG 8.84 since 2021). With a 40-hour work week, this equals about ANG 1,529 per month. About one in five inhabitants has no income. Slightly more than one third earn in any case more than the full-time minimum income.

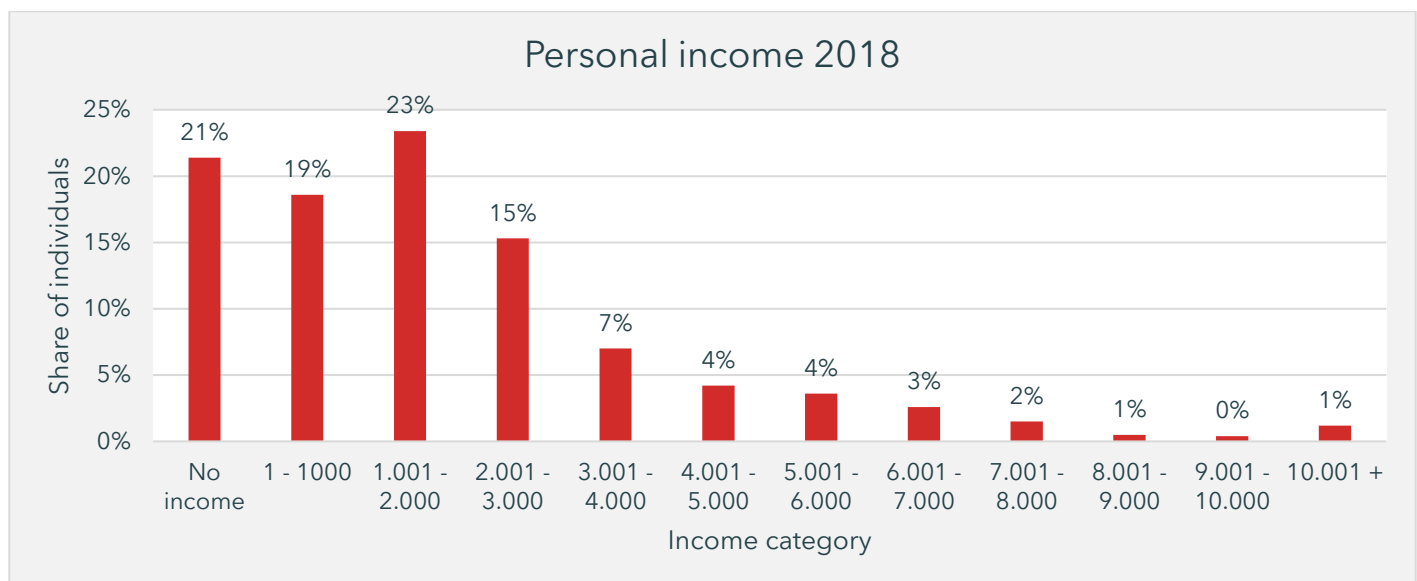
There is currently no unambiguous definition of the subsistence level in Sint Maarten. The SER (2022b) concludes in their letter of advice that more research needs to be done into the subsistence minimum in Sint Maarten. The most recent data on the household budget come from the Household Budget Survey (2017a) of the Department of Statistics.

Figure 2.1 More than half of households earn less than 3000 ANG per month



Source: Department of Statistics (2019)

Figure 2.2 21 percent does not have any income



Source: Department of Statistics (2019)

Table 2.6 shows that a household spends an average of ANG 6,860 per month in 2015. A large part of the expenditure goes on housing, namely 37 percent. In addition, an average of ANG 1,096 goes to transport costs, i.e. 16 percent of total expenditures.

The average household expenditure in 2015 exceeds the median household income in 2018. This is shown in Table 2.7. Half of the households by definition have a lower income than the median income and the other half have a higher income. Households that receive financial assistance have a lower income than most other households. It should be noted that two different studies are used for this comparison, so two different groups of people were asked for the questionnaire.

Table 2.6 Households spend most money on housing, water, electricity, gas & other fuels

	Monthly expenses in ANG	Share of total household expenditure
Food & non-alcoholic beverages, tobacco and narcotics	509	7%
Alcoholic beverages, tobacco and narcotics	26	0%
Clothing and footwear	329	5%
Housing, water, electricity, gas and other fuels	2,566	37%
Furnishings, household equipment and routine household maintenance	439	6%
Health	133	2%
Transport	1,096	16%
Communication	409	6%
Recreation and culture	325	5%
Education	145	2%
Restaurants and hotels	134	2%
Miscellaneous goods and services	749	11%
Total	6,860	100%

Source: Department of Statistics (2017a)

Table 2.7 Overview with different household levels

	ANG
Median personal income (2018)	1,250 - 1,500
Median household income (2018)	2,000 - 3,000
Average household expenditures (2015)	6,860
Financial aid (household with children 2022)	1,067
AOV	1,240
Minimum wage (40-hour workweek and 48-hour workweek)	1,531 - 1,837

Source: Department of Statistics (2017a), Department of Statistics (2019)

2.6 Implications for the social security system

The social security system is not independent of its context. External factors cannot be influenced, think of the geographical position, but the consequences can be taken into account. Adjustments to the social system should take the following aspects into account:

- Immigration constitutes a major challenge for the social security system. It is not only about paying premiums, but also about benefits, especially when temporarily present and working on the island.
- An aging population must be taken into account, which will increase the use of social insurances. The health insurance, AOV and social security are a challenge. The first falls outside the scope of this study.
- Cooperation with the French authorities may help combatting cross-border fraud and abuse in social security can be countered, taking into account the cultural reality (socially there is no border).
- Seasonality and external shocks are key characteristics of the economy of Sint Maarten and of key relevance for the design of reforms in the social security system.
- The proportion of temporary employment contracts is relatively high. This should be taken into account when thinking about a possible unemployment scheme.

3 The current system

3.1 Social arrangements

3.1.1 Financial assistance

The financial assistance scheme dates back to 1996 (AB 1996, no. 49). The precise measure of the financial assistance was laid down in the Implementation Decree on Financial Assistance (AB 1997, no. 5), i.e. the (absolute) amounts, standards and method of calculation were laid down. The content of the national ordinance has hardly changed since then. The currently valid regulation is the National Ordinance regulating the granting of financial assistance (AB 2015, no. 9). The national ordinance is currently being revised (see below).

The purpose of the - currently valid - regulation is to provide a legal basis for financial assistance to residents who are unable to provide for the necessary costs of living themselves (Explanatory Memorandum on Assistance, PB1996, no. 49). The financial assistance is a periodical and/or a one-off payment. The expenditure is borne entirely by the government of Sint Maarten.

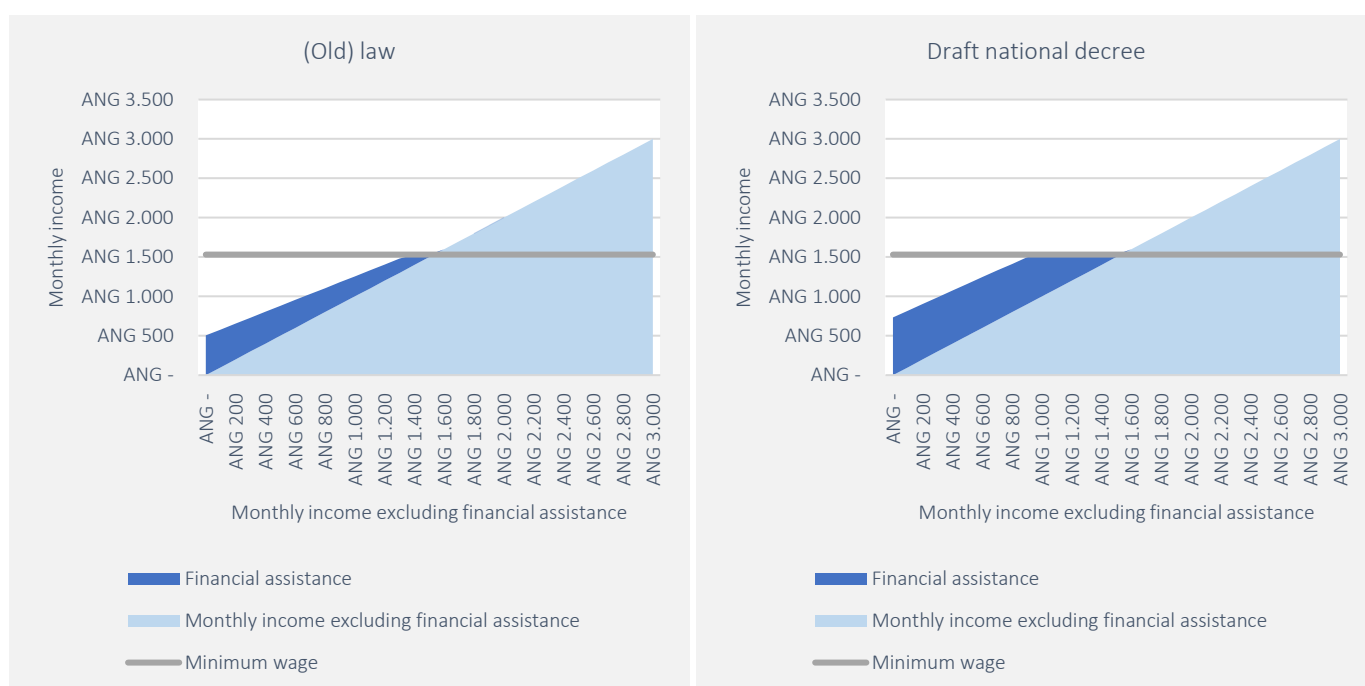
Persons who have Dutch nationality, who have been resident for at least three months prior to the application and who are unable to provide for the necessary costs of living, are entitled to a financial assistance benefit. In addition, persons who do not have Dutch nationality, who have been admitted to Sint Maarten for a fixed or indefinite period and who have been resident for at least five years prior to the application and for whom the guarantor cannot reasonably be expected to be able to provide financial assistance, are also entitled. And finally, persons who do not have Dutch nationality, who find themselves in a life-threatening situation due to a lack of income or assets.

The amount of the periodical benefit is calculated based on a standard norm (Dutch: *basisnorm*), which is, according to the law, a percentage of ANG 2,883.40. The aforementioned percentage is dependent on the recipient's family composition. The percentages are increased by 5 percent when there are children in the family, to a maximum of 15 percent. In practice, an amount of ANG 5,336 rather than ANG 2,883.40 is used, and the percentages by which the norm is multiplied are in practice reduced to 55 percent for childless singles (which is 70 percent according to the law), 55 percent for single parents minus additions for children (85 percent in the law), and 70 for families minus additions for children (85 percent in the law). These changes correspond to a draft national decree. This national decree also defines benefit heights for citizens of between 58 and 65 years old, AOV recipients, and handicapped citizens.

Recipients are allowed to have other income than financial assistance. The average monthly income of the past three months is deducted from the standard norm to form the 'carrying capacity' (Dutch: *draagkracht*). The financial assistance benefit is equal to 25 percent of this carrying capacity. Wealth (Dutch: *vermogen*) of over ANG 5,000 (ANG 7,500 in the draft decree) is deducted from the carrying capacity as well. In the draft national decree, only 60 percent of the income is deducted from the standard norm. Other deductions are not mentioned explicitly in the legal text, such as in-kind transfers (e.g. groceries) by others. The duration of the benefit is in principle indefinite.

The sum of the benefit and the income from other sources may not exceed the minimum wage. The minimum wage is currently ANG. 1,531 (SER, 2022a). Recipients with low incomes lose 25 cents of their financial assistance when their income from other sources increases by a guilder (15 cents according to the 60 percent income deduction in the draft national decree). However, when their total income (including financial assistance) has reached the minimum wage, recipients lose a full guilder of financial assistance for every one-guilder increase of their other income. The figure below illustrates how, for the 'old' standard norm, singles with incomes of ANG 1,360 are not incentivized to increase their incomes to ANG 1,531. In the calculation method of the draft decree, singles with incomes of ANG 940 are not incentivized to earn up to ANG 1,531.

Figure 3.1 From certain income levels, financial assistance recipients are not incentivized to increase their income to the minimum wage of a 40-hour working week



Source: Authors' calculations

3.1.2 Ziektekostenverzekering (ZV)

Health insurance for employees in the private sector is regulated in the National Ordinance Health Insurance (PB1966, no. 15). The Explanatory Memorandum dates from 1965-1966. The ordinance can be traced back to the 1936 Health Ordinance (P.B. 1946, no. 101). In case of amendments, there are various references to OV.

The Ziektekostenverzekering (ZV) covers benefits to (former) employees in case of incapacity for work and reimbursement of medical expenses (medical treatment and nursing) of employees and their family members. Loss of wages and medical expenses due pregnancy and childbirth are also covered; accidents too, if not compensated

by OV. Maternity leave lasts 6 to 12 weeks and the employee retains full pay in accordance with Article 7A:1614ca of the Civil Code.

Both employers and employees pay a premium. The employer pays the sick pay to the employee and can then claim it from the SZV. If the employer is unable or unwilling to pay, the SZV pays directly to the insured employee (Article 5.6). Employees only can claim sick pay; family members and former employees are not entitled to it (art. 3).

Temporary employment agencies are regarded as employer of temporary agency workers and therefore responsible for sick pay to these employees.

The target group for wage loss includes all employees, except:

- Self-employed, i.e. registered as employer with the SZV;
- Domestic and home workers;
- Employees in employment for less than 12 days;
- With a daily wage of more than ANG 217.36 for a 6-day working week or more than ANG 260.83 for a 5-day working week;
- Captains and seamen;
- Employees employed by a public body and who are entitled to another sickness (expense) scheme (such as civil servants).

The sick pay reimbursement amounts to a maximum of 80 percent of the employee's daily wage. If employment is temporary, the sick pay stops at the end of the contract. The maximum duration of the benefit is two years (for the same medical cause). Only in the case of a sick employee with a permanent contract is it allowed to request dismissal. The latter is regulated in the Civil Code.

Employer, employee and the country of Sint Maarten pay a part of the total premium (art. 8 paragraph 5) and the distribution amongst the three is determined by national decree every two years in such a way that the projected expenses of the health insurance fund can be covered.

The total premium currently is 12.5 percent; 8.3 percent being paid by the employer; 4.2 percent by the employee; while the country of Sint Maarten pays the premium of 4.2 percent for former employees (that covers medical costs only). The employer withholds the premium from the employee and remits it to the SZV. The country of Sint Maarten is invoiced by the SZV.

3.1.3 Ongevallenverzekering (OV)

The Ongevallenverzekering (OV) is regulated by the national ordinance on the 'right of the workmen and his surviving relatives to compensation for an accident sustained by the workman in his employment', or in short, the National Ordinance on Accident Insurance (OV): AB 2013 GT 801. The original regulation is the National Ordinance on Accident Insurance (Netherlands Antilles, PB 1966, no 14). The purpose of the regulation is to offer income security and reimbursement of medical expenses to employees who have become disabled as a result of an accident at work. When an accident leads to the employee's death, surviving relatives are entitled to a payment. The

employee is entitled to SZV reimbursement of the costs of medical treatment and nursing, as well as a monetary payment.

The monetary payment (accident money) commences from the day of reporting the accident to SZV. The maximum duration of the payment is until death. During the first 52 weeks, the accident money is 100 percent of the employee's daily wage. For the remainder of the period, it is 80 percent of the daily wage. No benefit is provided above a daily wage of ANG 217.36 (6-day working week) or ANG 260.83 (5-day working week).

In case of partial incapacity for work the percentage of incapacity is proportionally implemented in the calculation of the benefit. AOV or AWW benefits are deducted from OV benefits, as from two years after the notification of the accident (provided that the AWW is based on the same accident). The entitlements to the benefit lapse if the accident is not reported to the SZV or the own risk carrier within one year. The instalments of cash benefits that have not been claimed within two years after the first day on which they could be claimed, will no longer be paid.

The employer is obliged to pay a premium to the SZV. The premium is calculated on the employee's daily wage up to a certain maximum. The premium rate is fixed for a period of two years and should be sufficient to cover the expenses of the accident fund. The premium is laid down in national decrees. No premium is required above a daily wage of ANG 217.36 (6-day working week) or ANG 260.83 (5-day working week). The latter amounts are indexed on the basis of the price index of family consumption.

Employers are - according to the activities they perform - classified into danger classes. The premium rates vary from 0.5 percent in Class I to 5 percent in Class X (AB 2015, No. 11).

Employers have the possibility to be an 'own risk bearer', if approved by the Minister of VSA. For that matter, the employer should meet several conditions, including having its own medical service.

The implementation of the scheme is in the hands of the SZV.

3.1.4 Cessantia

Cessantia as severance pay has its origin in the Civil Code of the Netherlands Antilles art. 1615j (PB 1973 no. 9). The regulation itself came into force in December 1983 (P.B. 1983, No. 85). The last amendment of the current national ordinance on Sint Maarten was in 2015 (AB 2015 No. 9). Formally, the regulation is called: National Ordinance to establish new rules regarding an obligatory one-off payment to the employee in case of dismissal through no fault of his own.

Every employee in Sint Maarten is entitled to the Cessantia benefit from the employer, provided that the dismissal is not due to the employee's own fault. This means that the employee is entitled to Cessantia upon forced dismissal, upon expiration of a contract by operation of law (expiration of a fixed-term contract and upon reaching the agreed retirement date) and upon termination of employment by mutual consent. The position of employees with an employment contract without an agreed retirement date is unclear: the question is what rights these employees

have when they themselves decide to stop working after reaching the AOV eligibility age.² However, scholarly legal literature indicates that there is a right to Cessantia even in case of voluntary departure (Dekker, 2010).

It is a one-time payment from the employer, based on the last salary and according to a fixed formula, which is determined by the duration of employment. In case of bankruptcy, the Cessantia-fund - implemented by SZV - can take over the payment, at the request of the employee. For this risk, employers pay a premium per employee. Since 2017, the annual premium (employer contribution) per employee is ANG 40.

The accrual of rights starts at the beginning of the employment. The formula is as follows: one week's salary per year of service for the first to the tenth full year of service, one and a quarter times the weekly salary per year of service for the eleventh to the twentieth full year of service, twice the weekly salary per year of service for the following full years of service. When determining the Cessantia payment, possible (old age) pension benefits of the dismissed employee are taken into account, also according to a fixed formula. The benefit is transferable to 'surviving relatives' (heirs) in the event of death.

The employer itself reserves the benefit to the employee and, in addition, pays a premium per employee per year, intended for fund formation and implementation. In case of bankruptcy, this fund - implemented by SZV - takes over the payment from the employer to the employee.

3.1.5 Algemene Weduwen- en Wezenwet (AWW)

The AWW is regulated in a general widow and orphans insurance covering the entire population. This regulation was lastly changed on July 1, 2020. The aim is to provide relatives of an insured person with a basic income. An insured person is someone who has been resident and registered in Sint Maarten for at least a year. A widow is entitled to an AWW until her AOV eligibility age, if the spouse has not yet reached the AOV eligibility age. The AWW benefit stops if the widow remarries or dies. The amount of the benefit depends on the age of the widow. If the widow is younger than 45, she will receive ANG 572 per month. This monthly amount increases until the widow reaches the age of 60, then the benefit will be ANG 1,240 until her 65th birthday.

Someone is entitled to an orphan's pension if they have become motherless, fatherless or parentless under the age of 15. The AWW expires on a child's 15th birthday. If the child is between 15 and 25 years old, the child may be entitled to an orphan's pension in several cases. The first is when a child needs a lot of care. The second is when the child is studying or undergoing vocational training. The third is when the child is mentally or mentally handicapped and cannot do more than a third of the work of a peer due to this limitation. The orphan's pension for a child is between ANG 416 and ANG 498. The amount depends on the age of the child and whether the child has become motherless, fatherless or parentless.

The AWW premium is 1 percent of the income from work. Half a percent is borne by the employer and half a percent by the employee. If annual income is less than ANG 9,633.62, the insured does not pay a premium. If annual income

² Case law is unknown to us.

exceeds ANG 117,091.61, the insured does not pay premium on that excess. For a sole proprietorship, the premium depends on income.

3.1.6 Algemene Ouderdomswet (AOV)

The AOV is regulated as a general compulsory insurance covering the entire population against financial consequences of old age. The current regulation is valid from 1 July 2020. The explanatory memorandum dates from 1960 (P.B. 1960, no. 83). The aim of the scheme is to provide insurance against poverty from reaching retirement age. In 2020, the retirement age has been raised from 62 to 65 years in one step. At the same time, the AOV benefit has been increased by 11 percent. The SZV collects the AOV premium and pays the AOV benefit.

The AOV is a compulsory collective old-age pension based on the principle of solidarity. This means that everyone who has wage income or has a sole proprietorship pays a premium and everyone who has paid income tax or has been registered on the island can receive AOV. The AOV premium is 13 percent, of which the employer pays 7 percent and the employee 6 percent. The premium paid by a sole proprietorship is income related. If annual income is less than ANG 9,633.62, then no premium is charged. If annual income exceeds ANG 117,091.61 no premium is charged on that excess.

The AOV is granted to a person that is or was registered in Sint Maarten, or to someone who pays/paid tax as a worker in Sint Maarten (art. 5). The beneficiary can apply for AOV within two years after reaching retirement age and the benefit will lapse if the beneficiary dies. The old-age pension amounts to a maximum of ANG 1,240 per month. An insured who is married to someone younger than 65 can receive a monthly allowance of ANG 850, provided that the joint income does not exceed ANG 16,120 per year. The amount of the AOV depends on the number of years that the entitled person has been a resident and/or worked on the island. For each year that the beneficiary has not lived or worked on the island, a percentage is deducted from the AOV. People who lived or worked on the island for several years can receive AOV for the years that they officially lived on the island. There is uncertainty about the number of eligible persons for AOV benefits.

The AOV ends if the person dies or if the SZV decides to stop the benefit. If the insured dies, the next of kin are entitled to a lump sum payment. The next of kin can request these within six months.

Indexation of the AOV can take place annually as of the first of January based on the price index of household consumption of the preceding year.

3.1.7 Pensions (second and third pillar)

Additional to the basic state pension AOV (first-pillar pension), there are retirement plans linked to the employment of an individual (second-pillar pension). Employers and employees both contribute to the premium for the pension plan, which are collected in a pension fund and invested. As opposed to the “pay-as-you-go” system used to finance the first-pillar pension AOV, the second pillar is ‘capital-funded’. The premium paid by the employer and employee and the way of paying can vary between companies. The tax law ‘Regeling Pensioenen’ (AB 2013, GT no. 811) states that the employee contribution can be up to 50 percent of the total pension premium, and up to 15 percent of the

pension base (Art. 5.). The total elderly pension cannot exceed 70 percent of the pension salary (pensioengevend loon) at the start of the payment. The disability pension can be up to 80 percent of the pension salary (Art. 2.). The pensions are taxed with an 'Exempt Exempt Taxed'-system (EET) implying that pension contributions are exempted, investment income and capital gains of the pension fund are also exempted, and pension benefits are taxed as personal income taxation. Employees can deduct their premiums from their taxable income. Employers can deduct the premiums from their profit tax obligation. It is noticed that only those employed by an organization that arranges employment-based pensions are entitled to a second-pillar pension plan.

Within most pension schemes the participant has a senior's pension, a disability pension, a widow(er)'s pension, and an orphan's pension. Note that these types of insurance through the pension scheme are complementary to the public arrangements discussed in the previous sections. The senior's pension is based on the average salary of an entire career, the number of years in labor, and an accrual percentage. It is a life-long pension that an individual receives from the moment the individual reaches the pensionable age. Individuals that are "permanently incapacitated for work" can receive a disability pension. The eligibility for such a pension is conditional on a medical examination done by a medical committee. The amount of the disability pension is equal to the amount of senior's pension that one could have reached when being able to work fully until retirement. Again, the calculation of the level of disability pension is subject to the AOV every individual receives after retirement age. The widow(er)'s pension covers the pass on of deceased pension to the widow(er) after the death of a spouse. The widow(er) receives the pension directly after decease of the spouse and until (own) death. The marriage must have been concluded before the deceased retirement date and only if married. Those living together without being married and ex-spouses are not entitled to receive the widow(er)'s pension. In case the deceased has under-age children at time of death the children are entitled to the orphan's pension. Children are eligible to receive the orphan's pension up to the age of 18 or the age of 27 if they are still studying or are unable to provide for themselves due to illness or disability.

The third-pillar pension consists of additional private pension savings. Individuals can choose their contribution leading to a pension capital at pensionable age with which they can buy an annuity. There is also a tax-friendly treatment of third-pillar pension contributions. The amount deposited may be deducted from the income tax return up to a maximum of ANG 1,000 per year. When the agreed pensionable age is reached the insured receives an annuity, a monthly payment, for a certain number of years or until death. A lump sum is also possible, but this is not attractive for tax reasons.

3.1.8 Sint Maarten Stimulus and Relief Plan (SSR)

For completeness, a brief description is included of the Sint Maarten Stimulus Relief Plan (SSRP), a COVID-related benefit scheme that has been terminated. The SSRP involved three Covid-19 measures. The SZV was charged by the Government of Sint Maarten with the implementation. These three measures are important because lessons can be learned relevant for the development of an unemployment scheme.

- The Payroll Support Plan is meant for local businesses that have to deal with loss of income due to the Covid-19 pandemic (AB 2021, No. 15, No. 31, No. 41). It is intended to preserve jobs and create a buffer for the increasing economic impact. The government pays up to 80 percent of the wage bill of eligible businesses for a period of up to three months.

- In addition, the Government of Sint Maarten has introduced a program for employers to support employees who do not qualify for the Payroll Support Plan but who, as a result of the Lockdown, have a drop in turnover of more than 20 per cent in the month of April 2020. This additional program is called the Lockdown Payroll Support Plan (LPSP).
- In addition to the existing financial assistance, which will continue to be provided, a specific COVID-19 support program for the unemployed has been developed. In a scenario where payroll support is provided to further limit and reduce layoffs, ANG 1,150 will be provided to individuals who become unemployed as a result of COVID-19. It should be noted that this measure was carried out by the Sint Maarten Development Fund via a subsidy provided by the Government of Sint Maarten.

3.2 Implementation

3.2.1 Structure

The Ministry of VSA is responsible for all social insurances and provisions as well as for the SZV as an independent administrative body. The SZV implements - on behalf of the Minister of VSA - ZV, OV, Cessantia, AWW and AOV.

3.2.2 Financial assistance

To apply for financial assistance benefits, it is obligatory to register as a jobseeker with the Labor department of the Ministry of VSA. Afterwards, registration for the benefit application takes place at the Social Services department of the Ministry of VSA where the legitimacy of the benefit is checked: the applicant's statement, information from the tax authorities and - if necessary - a home visit. Together with the applicant, the registration officer looks at possibilities of mediation or other forms of labor market-oriented support. After registration, the benefit recipient who is found to be suitable for work is referred back to the Labor department in order to offer himself a place on the labor market.

3.2.3 ZV and OV

The implementation process of the SZV has changed since the COVID-19 pandemic. Before the pandemic, it was compulsory for sick employees to report sick at the SZV office. If it was a contagious disease or a serious illness, this could be done by telephone. SZV doctors would carry out a check and the request for ZV or OV would be granted or rejected. After the COVID-19 pandemic, only online reporting is possible; reporting by telephone is only allowed for special cases. The employee can be called for a medical check-up by one of the doctors of the SZV. Each insured employee has a master card, on which a disease number is created that is linked to a certain medical cause. The information is provided by the SZV to the employee, who then sends it to the employer. The employer needs this information to be able to declare (80% of) the wage costs to the SZV.

Access to ZV and OV is open to anyone with a working relationship, i.e. an employment contract that has not yet ended. The SZV does not check for residence or work permits, implying that sickness and accident payments are

also made to employees who do not have Dutch nationality, are on the island illegally and/or do not have a work permit. For non-residents it applies that the insurance ends at the moment the employment contract is terminated.

The process for OV is by and large identical to that for ZV.

3.2.4 Cessantia

Cessantia is paid out by the employer. SZV is responsible for the implementation of the Cessantia-fund (payment only in case of bankruptcy). SZV is responsible for the collection of premiums, for the management of the Cessantia guarantee fund, for the assessment of bankruptcy in case of requests by employees for benefits from the fund, and for the provision of benefits in case of default of employers and bankruptcy.

3.2.5 AWW

The SZV is responsible for the implementation of the AWW. Although the SZV has difficulty collecting premiums from all companies (see the next section), no shortage of funds is expected for the AWW.

3.2.6 AOV

The right to AOV must be shown with proof of registration or pay slips. In addition, the insured person must physically present a certificate of life (*attestation de vita*) to the SZV every quarter of the year. Insured persons who do not live in Sint Maarten anymore, and have accumulated AOV rights for several years, can first submit the *attestation de vita* online and are then obliged to send the proof by post.

Collecting AOV (and AWW) premiums is a challenge for the SZV. The SZV indicates that it currently collects approximately 60 percent of the collectable premiums. To companies in default, reminders are sent, and fines are imposed, however effective instruments are limited: the SZV can place a standing order with the bank, but not every bank cooperates with this. In addition, the SZV cannot file for bankruptcy of the non-compliant company itself, as this has to be done by at least three different creditors. The SZV is currently improving its systems, allowing debtor payments to be made more efficiently. This process improvement is aimed to increase the collectible premiums to 80 to 90 percent.

3.2.7 Pensions

Second-pillar pension plans were enjoyed by 36 percent of the working population of Sint Maarten in 2013 (SER, 2012). The Labor Force Surveys of 2017 and 2018 report estimates of 21.7 and 23.7 percent of the population, respectively (Department of Statistics, 2017b; 2019). In Sint Maarten, a second-pillar pension is offered to those working for the government, government institutions and state owned-enterprises via the *Algemeen Pensioenfonds Sint Maarten* (APS).

There are also some private companies that arrange a second pillar pension with insurers such as Nagico, ENNIA or the Guardian. It should be mentioned that only those employed by an organization that arranges employment-

based pensions are entitled to a second-pillar pension plan. The pensioner usually has to wait until he can claim a pension according to the policy conditions, often only at the age of 60, 62 or 65.

According to the SER (2013), the employee contributes (mostly) around 6 and 10 percent of the premiums. This contribution is (mostly) between 4 and 8 percent of the salary of the employee. The premium is paid over the pension base, which is calculated as the gross salary minus the maximum AOV. The pension premium can either be paid by the employer or the employee, or a combination of both, depending on the labor agreement. The employer-related pension schemes are mainly characterized as defined benefit. This means that the allowance received is based on a percentage of the individual's average salary. The insured will pay a certain percentage of the gross salary into the pension fund to finance the pension. This boils down to a guaranteed 70 percent of their last or average pay after working a complete lifetime for the same employer. Insurance companies only offer defined contribution pensions.

The third pension pillar is a pension scheme where the employee is responsible for his own pension accrual. Saving for retirement is made attractive by the tax law, as the amount deposited may be deducted from the income tax return. The third pillar is provided by ENNIA, Nagico and the Guardian. The insurers offer different savings plans that fit in the third pillar. They offer endowment plans, saving plans or a life insurance. For example, one insurer offers a benefit endowment, where an insured pays a monthly premium and gets a payment when he reaches a certain age (for example 60 or 65). The payment can be a onetime lumpsum or a monthly payment for a certain number of years. Lumpsum payments are taxed heavily, and high administration costs are charged. This makes it unattractive to get the money out earlier. An insurance company agent discusses all the possibilities at the start of the plan and makes a plan that fits the needs of the insured.

3.3 Summary

The table below summarizes the social security schemes, the respective premiums, the target groups and the amounts of the respective benefits.

Table 3.1 Actual premiums for employers and employees

Premiums social security	Employers	Employees	Target group	Standard amount (maximum accrual), discounts, deductions	Source and explanation																						
1. Bijstand	n.v.t.	n.v.t.	Everyone with a Dutch passport and people who have lived on the island for at least five years and cannot support themselves.	Basic standard ANG 5.336 <table><tr><td>Single person</td><td>734</td></tr><tr><td>Single-parent family with 1 child</td><td>800</td></tr><tr><td>Single-parent family with 2 children</td><td>867</td></tr><tr><td>Single-parent family with 3 or more children</td><td>934</td></tr><tr><td>Family</td><td>934</td></tr><tr><td>Family with 1 child</td><td>1001</td></tr><tr><td>Family with 2 children</td><td>1067</td></tr><tr><td>Family with 3 or more children</td><td>1034</td></tr><tr><td>Single or house-dweller aged 58 to 60</td><td>734</td></tr><tr><td>Person living in house between 58 and 60 years old</td><td>534</td></tr><tr><td>Single person aged 60 and over</td><td>400</td></tr></table>	Single person	734	Single-parent family with 1 child	800	Single-parent family with 2 children	867	Single-parent family with 3 or more children	934	Family	934	Family with 1 child	1001	Family with 2 children	1067	Family with 3 or more children	1034	Single or house-dweller aged 58 to 60	734	Person living in house between 58 and 60 years old	534	Single person aged 60 and over	400	Budget VSA
Single person	734																										
Single-parent family with 1 child	800																										
Single-parent family with 2 children	867																										
Single-parent family with 3 or more children	934																										
Family	934																										
Family with 1 child	1001																										
Family with 2 children	1067																										
Family with 3 or more children	1034																										
Single or house-dweller aged 58 to 60	734																										
Person living in house between 58 and 60 years old	534																										
Single person aged 60 and over	400																										
2. Ziekteverzekering (ZV) - ziektegeld*	0,5%	0,25%	All employees (with an employment contract).	Maximum amount goes from ANG 67,816.32 to ANG 120,000. Not yet known when. No premium to be paid above a daily wage of: <ul style="list-style-type: none">- 5 day working week: ANG 2017,37 (future NAG 461,54)- 6 day working week: ANG 260,83 (future ANG 384,73)	Estimation based on the ratio of expenditure on lost wages to medical expenses.																						
3. Ongevallenverzekering (OV) - ongevallengeld*	0,5%	0,25%	All employees (with an employment contract).	Maximum amount goes from ANG 67,816.32 to ANG .120,000. Not yet known when. No premium to be paid above a daily wage of: <ul style="list-style-type: none">- 5 day working week: ANG 2017,37 (future NAG 461,54)- 6 day working week: ANG 260,83 (future ANG 384,73)	Estimation based on the ratio of expenditure on lost wages to medical expenses.																						
4. Cessantia	ANG 40 per employee per year	-	All employees (with an employment contract).	ANG 40 per employee per year.																							
5. Algemene ouderdomsverzekering (AOV)	7,0%	6,0%	Anyone aged 65 and over, who has lived or still lives on the island.	ANG 1,240.- For every year that the beneficiary has not lived on the island or has paid income tax, between 2 and 2.2 percent of the full AOV will be withheld, depending on the year.	Annual Report SZV 2021																						
6. Algemene weduwen- en wezenverzekering (AWW)	0,5%	0,5%	Widows and orphans.	Per month: <u>Widow/ widower:</u> <ul style="list-style-type: none">- younger than 45 years: ANG 572- from 45 to 50 years: ANG 752- from 51 up to and including 59 years: ANG 940- 60 to 65 years: ANG 1,240. This amount also applies to a widow who is disabled or who has one or more children wholly dependent on her and entitled to an orphan's pension- Disabled person or a widow with one or more children: ANG 1,240	Annual Report SZV 2021																						

Premiums social security	Employers	Employees	Target group	Standard amount (maximum accrual), discounts, deductions	Source and explanation
Total	8,5% per month and ANG. 40 per employee per year	7,0% per month		<p>Children:</p> <p>One parent deceased:</p> <ul style="list-style-type: none"> - 0-9 years: ANG 416 - 10-14 years: ANG 545 - 15-24 years when it concerns a student or a handicapped person: ANG 498 <p>Orphan:</p> <ul style="list-style-type: none"> - 0-9 years: ANG 454 - 10-14 years: ANG 498 - 15-24 years for students or handicapped persons: ANG 571 	

4 Financial state of affairs

4.1 Introduction

This chapter presents the financial situation of the different social arrangements managed by the government and the SZV.

The SZV's income in 2020 consists of social premiums paid by employers, employees and the government, and of government contributions, fines and summoned amounts. The SZV also generates income from investments in assets. The table below shows that revenues from investments are ANG 38.4 million in 2020. A total of five different brokers and banks manage the SZV's assets and are responsible for different shares of the assets. Finally, other operational income amounts to ANG 5.9 million in 2020.

For all funds combined, administrative expenses vary between 10 and 15 percent of total expenditure between 2011 and 2020. These expenses consist of the costs of personnel, housing, general expenses and depreciation, as well as impairment and mutation provision 'duurtetoeslag' (hereafter: cost of living adjustment). The SZV is currently reviewing several measures to reduce its operational costs, such as the re-negotiation of existing contracts and revamping of business processes.

There are large differences between social arrangements managed by the SZV, as can be read in the table below. The AOV accounts for the highest premium income (ANG 90.5 million in 2020), followed by ZV and AVBZ. Premium income to these three funds amounts to approximately ANG 166 million in 2020. Premium income to the other funds (being AWW, OV, Cessantia and FZOG) is less than ANG 10 million per fund. Most of the funds experienced a drop in premium income in 2020, the year of the Covid-19 crisis, and 2018, the first year after hurricanes Irma and Maria.

Table 4.1 Financial information about the funds at the SZV (2020). Amounts are expressed in thousands of ANG

	ZV	OV	CESS	AOV	AWW	FZOG	AVBZ	Total
REVENUES								
Premium income:								
Premium Income	50 851	7 652	502	90 405	6 954	6 445	18 831	181 640
Government contribution	6 136	0	0	0	0	0	0	6 136
Fines and summoned amounts	163	25	0	127	10	0	0	325
Total premium income	57 150	7 677	502	90 532	6 964	6 445	18 831	188 101
Investment & Other income:								
Investment income	0	0	912	23 837	7 789	0	5 857	38 395
Other operating income	504	22	179	3948	672	13	576	5 916
Total Investment & Other income	504	22	1 091	27 785	8 462	13	6433	44 310
Total revenues	57 654	7 699	1 593	118 317	15 426	6 458	25 265	232 411
REVENUES								
Benefits:								
Medical expenses	79 550	11 971	0	0	0	10 813	18 815	121 149
Loss of wages	4 835	809	0	0	0	0	0	5 644
Pension expenses	0	0	0	82 321	5 142	0	0	87 463
Cessantia expenses	0	0	193	0	0	0	0	193
Total benefits	84 385	12 780	193	82 321	5 142	10 813	18 815	214 449
NET INSURANCE RESULTS	-26 731	-5 081	1 400	35 996	10 284	-4355	6 449	17 962
Administrative expenses:								
Personnel expenses	6 969	478	26	6 765	545	469	1 224	16 476
Housing expenses	1 217	83	5	1 181	95	82	214	2 877
General expenses	3 599	221	12	3 134	252	222	581	8 021
Depreciation expenses	1 059	73	4	1 028	83	71	186	2 504
Impairment	19	1	0	19	2	1	3	46
Mutation provision duurtetoelag	-1 003	-69	-4	-973	-78	-67	-176	-2 371
Total administrative expenses	11 860	787	44	11 154	899	778	2 032	27 553
OPERATIONALRESULT	-38 591	-5 868	1 357	24 842	9 385	-5 133	4 418	-9 591
Mutation legal reserves	0	0	0	0	0	0	0	0
NET RESULT	-38 591	-5 868	1 357	24 842	9 385	-5 133	4 418	-9 591

Source: SZV (2021)

4.2 Financial situation per fund

4.2.1 Financial assistance

The table below shows the financial assistance expenditure of Sint Maarten from 2011 onwards. Before the hurricane Irma, financial assistance expenditure amounted to approximately ANG 3 to 4 million annually. From 2018 onwards (the first year after the hurricane), expenditure increased by approximately one million ANG. During the pandemic, expenditure increased even further to over ANG 6.2 million in 2021. There are no signs that this amount will be lower in 2022, even when the first three months of 2021 and 2022 are compared to each other.

Financial assistance expenditure per capita still amounted to only ANG 116 in 2018. This is the lowest amount in the Dutch Kingdom, lower than Curaçao (ANG 291), Aruba (ANG 262) and the Netherlands (equivalent to ANG 712).³ Data on financial assistance in 2011 and 2012 are likely to be overestimates, as the pension benefits paid on behalf of the Ministry of General Affairs were previously booked as 'financial assistance' rather than 'personnel expenses'.

Table 4.2 Financial assistance expenditure (current prices) and recipients at the start of the year. Full social services expenditure is displayed in Table 4.11.

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Financial assistance (x 1000 ANG)	7906	6641	2931	3622	3724	3252	3798	4741	4676	5212	6207	1586*
Recipients (average per month)	-†	-	-	-	-	-	537	688	735	822	961	990*
*: Data in 2022 concern the first three months of the year												
†: There is no data on the number of recipients in 2011-2016 available (yet)												

Source: Sint Maarten (2014a, 2015, 2016, 2018, 2020a, 2020b), unpublished data by the government of Sint Maarten

³ Based on Sint Maarten (2020), Curaçao (2020), Algemene Rekenkamer Aruba (2020), Ministerie van Sociale Zaken en Werkgelegenheid (2019), and World Bank (n.d.-e, n.d.-d)

4.2.2 ZV

ZV has three main types of expenditures. Apart from medical and administrative expenses, it covers the loss of wages of the insured population in case of sickness. However, the lion's share of expenses consists of medical expenses. Premium income has not sufficed to cover medical expenses and losses of wages since 2014 and the ZV fund structurally runs significant annual deficits.

Table 4.3 Income and expenses of ZV. Amounts are expressed in millions of ANG. 'Other income' in 2011 and 2012 is left out due to different formats of the relevant annual reports.

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Premium income	48.8	39.4	59.7	54.8	61.0	65.3	66.6	66.5	71.8	57.2
Other income	-*	-*	0.4	1.2	-0.4	0.4	0.4	0.0	0.7	0.5
Medical expenses	38.4	42.8	51.8	56.6	58.6	74.9	88.6	91.5	88.3	79.6
Loss of wages	5.8	4.4	4.5	4.7	4.8	5.8	6.7	5.8	6.2	4.8
Administrative expenses	5.3	6.7	9.4	10.4	11.1	12.6	13.8	12.2	12.9	11.9
Net result	-0.8	-14.5	-7.6	-18.1	-13.9	-27.6	-42.2	-43.0	-35.0	-38.6

Source: SZV (2012-2021)

4.2.3 OV

The size of the OV fund is only a fraction of that of the ZV fund. Medical expenses are the main expenses for OV. As ZV and FZOG, OV runs net deficits.

Table 4.4 Income and expenses of OV. Amounts are expressed in millions of ANG. 'Other income' in 2011 and 2012 is left out due to different formats of the relevant annual reports.

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Premium income	9.1	6.4	7.1	7.8	6.5	7.8	7.7	8.1	9.1	7.7
Other income	-*	-*	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Medical expenses	7.2	6.9	8.5	9.1	7.0	8.5	11.8	12.6	12.4	12.0
Loss of wages	1.5	1.1	1.1	0.9	1.0	0.8	0.8	0.8	1.0	0.8
Administrative expenses	1.0	1.1	1.8	1.6	1.0	1.2	1.3	0.8	0.9	0.8
Net result	-0.6	-2.8	-4.3	-3.7	-2.6	-2.6	-6.1	-6.2	-5.2	-5.9

Source: SZV (2012-2021)

4.2.4 Cessantia

The Cessantia guarantee fund is the smallest fund in terms of expenditure. Expenses from this fund show a volatile development. For example, expenditure in 2013 was as high as ANG 1.9 million, primarily because of Cessantia payments to employees at the Simpsonbay Beach Resort. In certain other years, such as 2016 to 2018, there were no Cessantia expenses.

Table 4.5 Income and expenses of the Cessantia insurance. Amounts are expressed in millions of ANG. 'Other income' in 2011 and 2012 is left out due to different formats of the relevant annual reports.

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Premium income	0.3	0.5	0.6	0.6	0.7	0.8	0.7	0.6	0.6	0.5
Other income	–*	–*	0.7	0.4	–0.1	0.3	1.2	–0.4	1.2	1.1
Cessantia expenses	0.	0.0	1.9	0.2	0.5	0.0	0.0	0.0	0.1	0.2
Administrative expenses	–0.8	0.0	0.1	0.0	0.1	0.1	0.1	0.0	0.0	0.0
Net result	–0.6	0.5	–0.7	0.8	0.0	1.0	1.8	0.2	1.6	1.4

Source: SZV (2012-2021)

4.2.5 AOV

AOV expenditures are divided into administrative expenses and pension benefits, both of which have been rising steadily since 2011. The AOV usually has surpluses of tens of millions of guilders.

Table 4.6 Income and expenses of the AOV. Amounts are expressed in millions of ANG. 'Other income' in 2011 and 2012 is left out due to different formats of the relevant annual reports.

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Premium income	83.9	95.2	95.9	96.6	99.3	102.0	105.7	95.0	108.0	90.5
Other income	–*	–*	15.6	6.3	0.0	10.1	24.4	–7.4	33.6	27.8
Pension expenses	37.1	41.6	52.7	58.9	64.6	69.0	72.9	76.5	77.8	82.3
Administrative expenses	4.5	5.9	5.4	7.3	10.1	11.4	12.5	11.7	12.5	11.2
Net result	41.8	43.3	53.4	31.2	24.6	34.7	44.6	–0.6	51.3	24.8

Source: SZV (2012-2021)

4.2.6 AWW

AWW expenses concern pension benefits and administrative expenses. Expenses of this fund have increased over the past ten years. Pension expenses are usually around five million guilders.

Table 4.7 Income and expenses of the AWW. Amounts are expressed in millions of ANG. 'Other income' in 2011 and 2012 is left out due to different formats of the relevant annual reports.

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Premium income	6.4	6.9	7.4	7.4	7.6	8.2	8.1	7.3	8.3	7.0
Other income	_*	_*	5.8	1.9	0.1	4.2	8.5	-1.8	9.9	8.5
Pension expenses	3.3	3.7	4.4	4.5	4.6	5.4	4.9	4.6	4.7	5.1
Administrative expenses	0.4	0.5	0.4	0.5	0.8	0.9	1.0	0.9	1.0	0.9
Net result	2.7	2.7	8.4	4.0	2.3	6.2	10.6	-0.1	12.5	9.4

Source: SZV (2012-2021)

4.2.7 FZOG (not part of the research)

Medical expenses of the FZOG have been rising as well. Contrary to the funds discussed above (AOV, AWW and AVBZ), the FZOG has run a deficit over the past years.

Table 4.8 Income and expenses of the FZOG. Amounts are expressed in millions of ANG. 'Other income' in 2011 and 2012 is left out due to different formats of the relevant annual reports.

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Premium income	4.2	5.2	5.8	6.1	6.0	6.2	6.3	6.3	6.2	6.4
Other income	_*	_*	0.0	0.4	0.0	0.7	0.0	0.0	0.0	0.0
Medical expenses	5.6	5.1	7.0	5.7	8.4	8.3	11.2	12.4	14.5	10.8
Administrative expenses	6.6	8.3	0.6	1.1	1.0	0.8	0.8	1.6	0.9	0.8
Net result	-2.0	-0.7	-1.8	-0.2	-3.4	-2.1	-5.7	-7.7	-9.1	-5.1

Source: SZV (2012-2021)

4.2.8 AVBZ (not part of the research)

The AVBZ contains medical and administrative expenses. Medical expenses appear to be rising, but strongly fluctuating.

Table 4.9 Income and expenses of the AVBZ. Amounts are expressed in millions of ANG. 'Other income' in 2011 and 2012 is left out due to different formats of the relevant annual reports.

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Premium income	21.0	19.8	22.3	20.5	21.4	22.2	20.1	19.2	21.5	18.8
Other income	-*	-*	0.0	0.0	0.5	2.0	5.5	-2.0	7.5	6.4
Medical expenses	7.4	8.6	9.7	11.4	12.6	16.1	9.5	15.3	18.4	18.8
Administrative expenses	1.7	1.2	3.1	1.4	3.0	3.4	3.8	2.1	2.3	2.0
Net result	11.9	10.0	12.8	8.7	5.7	4.8	12.4	-0.2	8.3	4.4

Source: SZV (2012-2021)

4.3 Government contributions

The final payments to the SZV are settled in retrospect, though not annually. For that reason, there are years (such as 2013 and 2018) in which the payments for previous years are settled. These years show higher SZV contributions than other years. Recent SZV contributions concern the contribution to the ZV fund for former employees (Dutch: *gewezen werknemers*). In addition, social services expenditure includes 40 percent of the Overheidsziektekostenregeling (OZR) costs (Cft, 2021c).

Table 4.10 Annual government contributions per fund.

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
AOV	-	-	0,4	-	-	-	-	-	-	-
AVBZ	3,1	-	2,3	-	-	-	-	-	-	-
OV	2,4	-	-	-	-	-	-	-	-	-
ZV	12,7	-	16,6	6,0	6,2	6,3	8,2	7,9	6,9	6,1

Source: SZV (2012-2021)

Government contributions are also reported by the SZV, which shows governmental premium contributions to the AOV, AVBZ, OV and ZV. Since 2014, the government has only contributed to ZV. However, it also contributed to the AOV, OV and AVBZ funds in 2011 and 2013 whereas it did not make any contributions in 2012. The changing contributions in these years were partially a result of agreements between the SZV and the government. The numbers in the annual reports of Sint Maarten do not always correspond to those in the annual reports of the SZV. There are multiple potential explanations for this.⁴

The annual report of the SZV (2021) states that the government owes the SZV ANG 73.0 million. According to the Cft, payment arrears amounted to ANG 92 million in the third quarter of 2021 (Cft, 2021c).

⁴ These include the difference between cash versus accrual based accounting; between contributions that are booked as personnel versus social security expenses; and between revenue that is booked as government contribution versus premium income

The receivables consist of the following⁵:

- The claim on the government for the division of assets of de SVB after 10-10-10.
- The (partially) unpaid contribution of the government for services related to the SZV acting as a supervising physician for government personnel and pp-cardholders.
- The (partially) unpaid legal obligation of the government to contribute to the OZR funds. Pre-financing of (medical) expenses of civil servants (OZR); only the portion listed via the current accounts of the funds. OZR expenses have often exceeded the projections of the authorities, which resulted in retrospective charges by the SZV (Cft, 2020b). The complete OZR administration is a separate service and is not included in the annual report of the SZV.
- The (partially) unpaid premium for the services provided for the government for the former employees (gewezen werknemers) and the co-insurance of family members in ZV. The premium for the former employees is 4.2 percent of the last salary earned of the former employee. The premium for co-insured family members is 2.1 percent of the salary of all insured.

In August 2019, SZV signed a letter of intent with the government of Sint Maarten regarding repayment of these receivables. The annual report 2020 states that the discussions on this matter are ongoing.

The government also has payment arrears to other organizations, such as the APS. Payment arrears totaled 128 million guilders in 2021 (Cft, 2021c).

4.4 Government expenditures on social security

The government of Sint Maarten has social security expenses. Recent expenditures consist of financial assistance (see 3.2.1), government contribution to the SZV (3.3), PP cards (healthcare for residents with limited means) and other social services. The contributions to the SZV and expenses to PP cards have been the two major types of social services expenses since 2011.

Table 4.11 Social services expenditure (current prices, amounts x 1000 ANG). Note that the annual reports of 2013 and 2014 show different data regarding the year 2013.

	2011	2012	2013	2014	2015	2016	2017	2018
PP cards	10 565	11 086	10 725	12 123	12 329	21 913	13 100	13 846
Financial assistance <i>Excl. Annual report 2013</i>	7 906	6 641	2 931	3 622	3 724	3 252	3 798	4 741
Care for elderly	1 365	1 957	1 642	1800	721	8	-	-
Contribution to SZV	-	-	45 964	6 000	6 223	6 285	8 722	19 710
Contribution AVBZ fund	-	-	7 486	-	-	-	-	-
Medical expenses retirees	-	-	5 070	-	-	-	-	-
Other social services	399	832	742	1 053	588	451	960	1 223
<i>Amounts in the Annual report 2013</i>								
Financial assistance			7 659					
Cost of living adjustment & VUT retirees			4 918					

Source: Sint Maarten (2014a, 2014b, 2015, 2016, 2018, 2020a, 2020b)

⁵ Future versions of this document may either exclude this list or provide further elaboration.

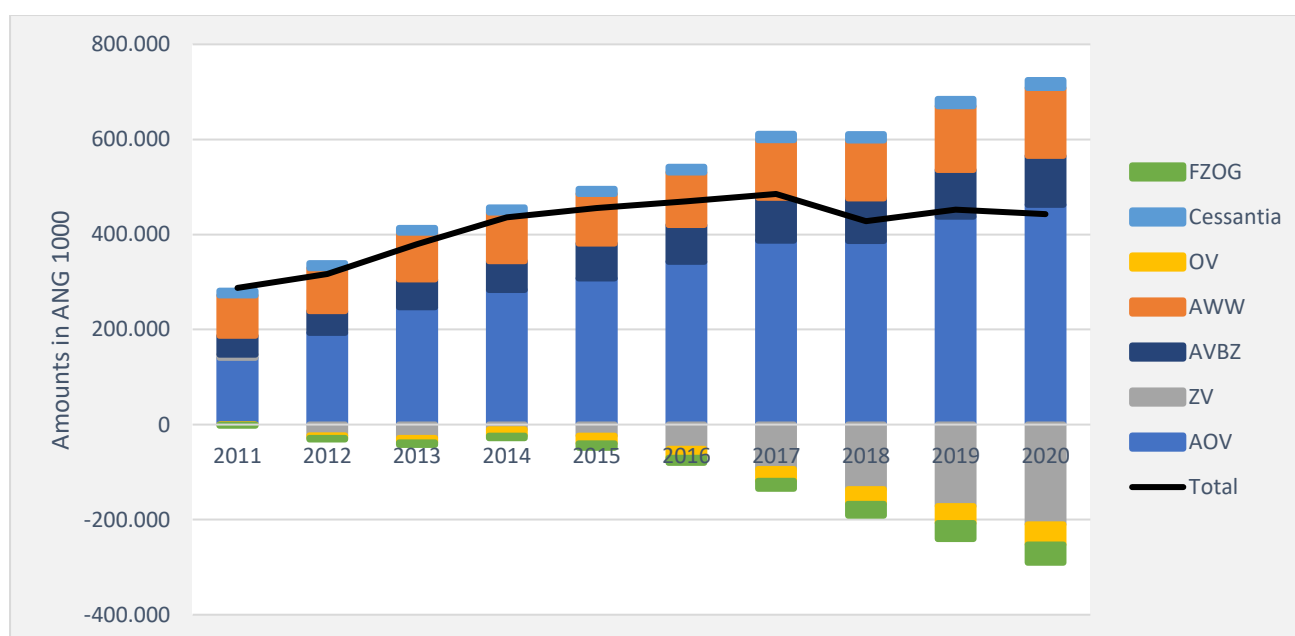
Government expenditures on social security totaled 28, 34, and 35 million guilders from 2019 till 2021 respectively (Cft, 2022). Moreover, the government paid out wage subsidies in 2020 and 2021. Wage subsidy expenses amounted to approximately ANG 82 million in 2020 (Cft, 2021b).

4.5 Reserves

4.5.1 Reserves of the different funds

The figure below presents the development of the reserves of different social security funds. The accumulated reserves of ZV, OV and FZOG funds have been negative for several years. The other funds, however, currently have sufficient reserves to compensate for those negative reserves. Still, the deficits of the FZOG, OV and ZV have resulted in a stagnation in the size of the reserves over the past five years. This is worrisome, as the World Bank projects that the AOV fund will start running deficits by 2031 and therefore present surpluses are required to afford for future deficits. As Sint Maarten is responsible for the solvency of the SZV as a whole, according to the Cft (2020a), the IMF (2021) projects that the SZV will require subsidies as large as 3 percent of GDP annually in 2030 and later.

Figure 4.1 Size of the reserves of the different funds. The sum of these reserves is displayed as a black line.



Source: SZV (2012-2021)

4.5.2 Projections AOV

The old-age dependency ratio will rise in the years to come. Aging forms a threat to the sustainability of the AOV. The World Bank (2020) has projected the moment when the operational balance of the AOV fund will turn negative and when its reserves will be extinguished, in several policy scenarios (see Table 4.12). In July 2020, the retirement age was increased to 65 (from 62) and the monthly AOV benefit was increased by ANG 124. In that policy scenario, the World Bank projects the operational balance to turn negative in 2031 and the reserves of the fund to be depleted by 2042. Before the changes from July 2020, this would have been in 2028 and 2040, respectively. The sustainability improvement is limited, because the effect of a higher AOV eligibility age is largely countered by the higher benefits. Note that the World Bank policy scenarios assume

a take-up rate of just 60%. If all entitled person would collect their AOV benefits, then the negative operational balance and depletion of the AOV fund would be projected to be around 2027 and 2034, respectively (see final row of Table 4.12).

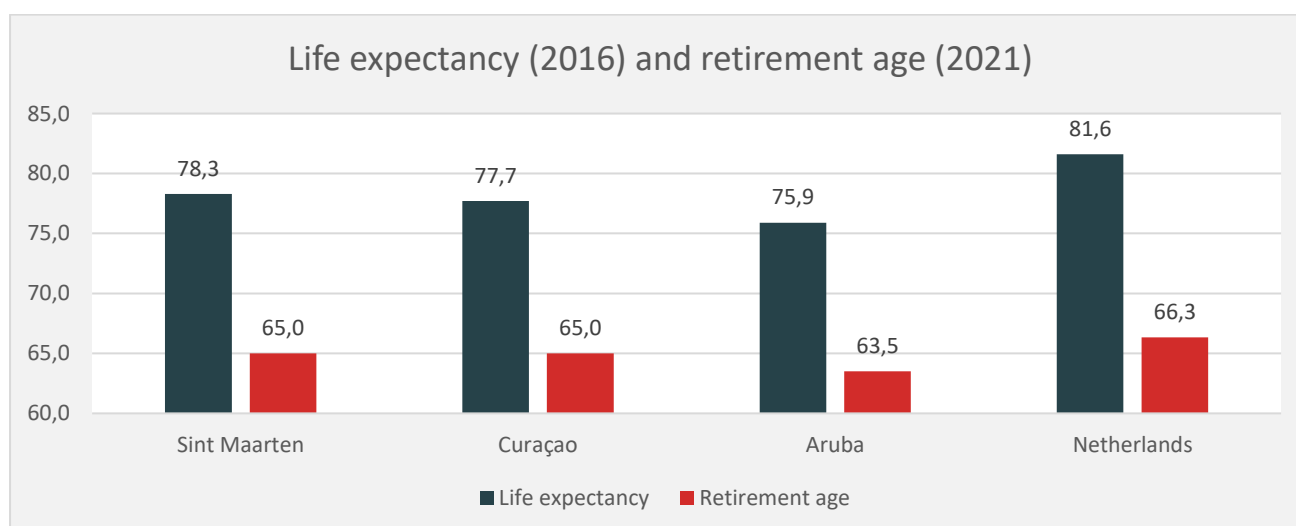
Table 4.12 Sustainability of the AOV fund in different policy scenarios. The current situation corresponds to the bottom rows.

Increase in yearly AOV benefit in 2021	Retirement age from 2021 onwards	Take-up rate	Deficits start in...	Reserves are used up in...
None	62	60%	2028	2040
	65	60%	2035	2048
124	62	60%	2026	2036
	65	60%	2031	2042
		100%	2026-2028	2033-2035

Source: World Bank (2020)

The recent joint increase of the retirement age and AOV level has improved the financial sustainability of the social security system. According to the World Bank projection, the AOV fund will run surpluses for two additional years. In fact, the improvement is somewhat larger, as the World Bank projections did not take into account the rise in premium income caused by the reform. After the July 2020 policy change, the difference between the statutory retirement age and life expectancy at birth in Sint Maarten is in line with other countries of the Dutch kingdom (Figure 4.2).

Figure 4.2 Comparison between the life expectancy at birth (2016) and the statutory retirement age (2021) in the four countries in the Dutch Kingdom.



Source: Publicatieblad 2013/24 (Curaçao), Staatsblad 2019/246, Afkondigingsblad van Aruba 2013/96, Afkondigingsblad van Sint Maarten 2020/44, World Bank (n.d.-g)

5 Analysis: bottlenecks and shortcomings in the functioning of the social security system

5.1 General problems

Enforcement

A fundamental problem of the current social security system is the lack of compliance, due to ineffective enforcement (control, risk analysis, detection and sanctioning). This causes several bottlenecks in the functioning of the social security system of Sint Maarten:

- Non-payment of taxes and premiums;
- Evasion of the minimum wage;
- Illegal employment and unlawful use of temporary contracts;
- Social benefits being regarded as an additional source of income, or as a wage subsidy; and
- Abuse and fraud with social security benefits on both sides of the island.

There is currently little coordination between French Saint Martin and Dutch Sint Maarten in the execution of social security. There are persistent signals of abuse of, and fraud with, social security arrangements in both countries. Social security recipients on one part of the island may perform paid work on the other part of the island. The risk of being caught is very small, because there are different administrations with no coordinated enforcement in place.

The inspectorates of the Ministry of VSA and of the SZV have limited capacities and are hardly able to extend their activities. Moreover, information exchange between different organizations is not optimal. For instance, the Ministry of VSA requires information about work, assets and income in order to check whether a person qualifies for Financial Assistance. This information is currently not provided by the SZV. Instead, VSA performs home visits, which are not always safe, effective, and efficient.

Labor migration

Labor migration is one of the key characteristics of the economy of Sint Maarten which complicates the design of an effective social security system. The share of migrants in Sint Maarten is exceptionally high when compared to other islands in the Caribbean. More than 70% of the inhabitants in Sint Maarten have their roots elsewhere, whereas other comparable islands typically have a share of migrants between 10 and 40 percent of the population (World Bank, 2020). International mobility of labor puts forward several challenges for the functioning of the social security system:

- The administration of the system becomes complex if social security rights depend on the number of years having lived and/or worked on the island, household status, etc. This is currently the case for AOV.
- Enforcement is even more problematic if persons move abroad and are difficult to contact.
- The openness of the island is an economic strength, but it can also lead to strategic behavior with respect to the welfare state. Generous benefits may attract immigrants from abroad. By hiring foreign workers, employers may have more opportunities to (illegally) evade taxes and premiums.

By contrast, outward labor migration serves as mitigating factor in case of economic downturns, shocks and disasters as foreign laborers return to their home countries.

Income and labor market uncertainty

The economy of Sint Maarten is highly vulnerable to external shocks, for instance caused by hurricanes, a global economic slowdown or a pandemic. The shock susceptibility is exacerbated by the sectoral composition of the economy and its strong dependence on tourism. Before hurricane Irma in 2017, tourism contributed to 56 percent of Sint Maarten's GDP. After the hurricane, GDP shrank by about 10 percent. The Covid-pandemic starting in 2020 led to a further decrease in GDP by about 15 percent (World Bank, 2020).

As a result, the risks in the economy are highly correlated, and shocks are more amplified than in more diversified economies. This, in combination with the high proportion of temporary labor contracts (19 percent in 2018), translates into high uncertainty of household income and labor market uncertainty. After Hurricane Irma in 2017, the unemployment rate increased from 6 to 10 percent in just one year. In a conducted survey, about one third of the employed respondents stated that Hurricane Irma had impacted on their employment situation, the most common impact being reduced hours or temporary company closure (World Bank, 2020).

The current social security system lacks particular features to deal with shocks effectively. The current system only insures idiosyncratic (i.e. uncorrelated) income and labor market risks and therefore does not effectively cope with social-economic consequences of larger economic fluctuations and shocks.

Social dialogue

Dialogue between employer associations, labor unions and the government does not take place on a structural basis. Consequently, employer associations and labor unions have insufficiently been involved in policymaking. Implementation of fundamental reforms in both the labor market and the social security system requires involvement and support by social partners.

Inclusivity

Inclusivity could be improved in particular concerning access to the labor market for groups with lower education and/or personal problems, and access to the social security system of migrants.

Many residents of Sint Maarten find it difficult to access the labor market. In particular, recipients of Financial Assistance often face multiple problems, such as disabilities, physical and psychological complaints, limited education, addiction, poverty, debts, family problems and a poor attitude to work. These factors may reinforce each other and cause a downward spiral. The current social security system is not effective in helping and stimulating these persons to find their way to the labor market.

Migrants can be considered 'outsiders' on the labor market, as they are not fully entitled to the social security arrangements of Sint Maarten. For instance, workers without a residence permit and without being registered in the population register are not entitled to ZV or OV benefits. This group is also not entitled to financial assistance, unless in case of life-threatening situations. The group of migrants risks poverty, because there is no effective safety net in case of unemployment or disability.

Finally, homeworkers are currently not covered by ZV or OV.

Financial sustainability of the social security system

The total of social security arrangements implemented by the SZV has a small deficit of ANG 9.5 million in 2020. There are however strong differences between the arrangements. ZV, of which over 90 percent can be ascribed to medical expenses, has a deficit of ANG 38.6 million in 2020; while the AOV has a surplus of ANG 24.8 million.

If ZV is excluded from the financial figures – the arrangement mainly covers medical expenses and for that matter does not qualify as a social security arrangement – the SZV runs a surplus of ANG 28 million in 2020 on social security arrangements. This surplus is almost fully attributable to the AOV that runs a surplus of ANG 25 million in 2020.

In light of financial sustainability, the picture is less favorable than it seems at first sight: the surplus on the AOV (ANG 25 million) is almost fully accountable to the returns that SZV realizes by investing AOV funds in assets (ANG 24 million in 2022). Excluding these results from investments, the balance of premium income, expenses on pension benefits and operational expenses results in a deficit of ANG 11 million on the AOV in 2022. In most pre-Covid years, the balance of premium income, expenses on pension benefits and operational expenses were positive.

The ageing population of Sint Maarten will put pressure on the financial sustainability of the AOV. In the future, AOV reserves may be needed to cover deficits if the balance of premium income and expenses on benefits deteriorates. This deterioration may be accelerated if there are fewer reserves to be invested in assets. As such, there is leverage between the increasing deficit in the balance of premium income and expenses on pension benefits on the one hand, and the income from investment in assets on the other hand.

The World Bank (2020) projects that the AOV fund will spend more than it generates by 2031 and that the fund will be depleted by 2042. This projection includes the recent increase in the AOV age and the increased benefit; a combination of measures that improved the sustainability of the fund.

Labor market incentives

The estimated participation rate in Sint Maarten equals 71% in 2018 (Table 2.5). About one-third of the population was estimated to have informal work in 2005. Part of the population may both perform formal and informal work at the same time.

Recipients of Financial Assistance have limited incentives to accept paid work in the formal labor market. In fact, at lower income levels a limited increase in the number of hours worked is fully nullified by lower Financial Assistance. The loss of benefits is only offset if one succeeds in finding a work with higher payments.

Recipients of Financial Assistance have little attachment to the labor market. They often have multiple disabilities and complex problems. Age, physical and psychological complaints, limited education, poverty, debts, addiction, family problems and a poor attitude to work are factors that may reinforce each other. Some financial assistance beneficiaries provide for an income via small and/or informal jobs (cooking and selling food, babysitting, etc.). There is no supply of sheltered or protected work for people with a work-limiting disability, i.e. work that requires a great deal of support and adaptation of the workplace.

The Stimulus and Relief Plan (SSRP) appeared to have generated a labor market disincentive. As a part of this plan, unemployed workers received 75 percent of the minimum wage. It seemed that benefit recipients were less willing to accept (formal) paid work. This experience suggests that social security arrangements should not be too generous.

Employer incentives to prevent sickness and disability are weak as the costs of sickness and disability are almost entirely born collectively. As a result, sickness and disability may be more prevalent.

Moreover, many employers tend to hire cheap labor from abroad, rather than investing in the local workforce.

5.2 Income and labor market risks

Poverty

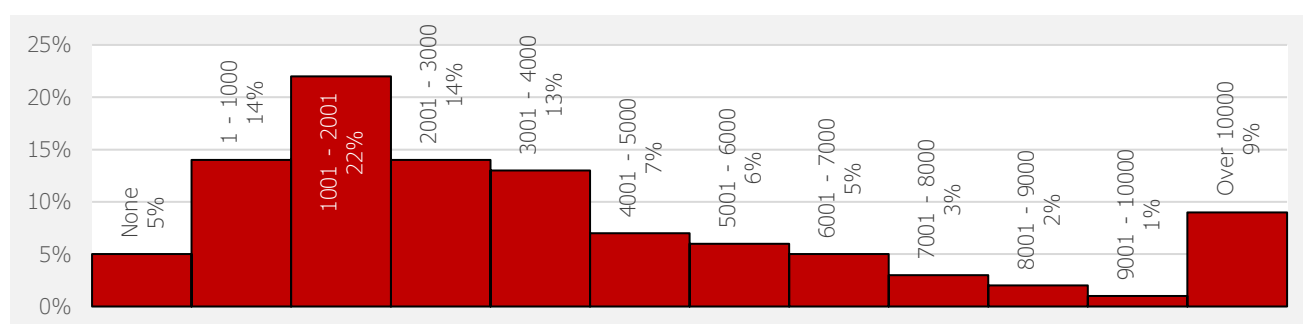
Despite the relatively high level of prosperity, Sint Maarten has substantial poverty resulting in severe social problems. In addition to the large number of undocumented migrants, the poverty problem is directly related to the outdated and poorly functioning social security system and the skewed income distribution.

The share of residents with a low income in Sint Maarten is large. At least 29 percent of workers earn less than the minimum wage, and more than 51 percent of the working-age population has an income below the minimum wage. The minimum hourly wage is equal to ANG 8.84 and has not been indexed since 2016, except for a 1 cent increase in 2020. This equals a monthly income of ANG 1,516. In a well-being survey in 2013, 28.5 percent of respondents considered themselves poor (SER, 2015).

At the household level, about one quarter lives below the poverty line. The SER has used an indicative poverty line of 80 percent of the minimum wage, which would currently result in a household poverty line of ANG 1,213. In 2018, 5 percent of households had no income, and 14 percent of households had an income of a thousand guilders or less (see Figure 5.1).

Many households have debt problems and/or are in financial need. In particular, many are still suffering from the consequences of natural disasters and external shocks, like hurricanes Irma and Maria and the COVID-19 pandemic.

Figure 5.1 Household income distribution in 2018 (ANG).



Source: Labour Force Survey (2018)

The social security system is not sufficiently effective in alleviating poverty. In particular, Financial Assistance does not suffice for many households and retirement income does not suffice for many elderly households. For some years now, a revision of the National Ordinance on Assistance has been in progress. For understandable reasons (hurricanes and COVID) finalization has not had priority. The current state of affairs is that a draft text of a renewed national ordinance on financial assistance is largely ready, but political decision-making will still take some time. The revision concerns updating, delineating, clarifying, and synchronizing with other regulations. The plan offers a useful starting point for strengthening the financial assistance. After all, it was preceded by a lengthy discussion on the island. Proposed changes are the development of social care policy, the development of activation policy, a different method of calculating the amount of the financial assistance benefit, higher entry requirements for non-Dutch nationals and protected employment.

Unemployment

In Sint Maarten, there is no effective insurance against the loss of income in the event of unemployment through an unemployment benefit scheme. There is some effect through Financial assistance and Cessantia, but in sum it is far from being sufficient. Financial assistance, which one has to fall back on in case of unemployment, is insufficient to live on the minimum subsistence level (see figures above). For low-income workers, Financial assistance still provides partial insurance. However, the sum of financial assistance and other income may never exceed the minimum wage, and the scheme is means-tested. As such, the functioning of Financial Assistance as an unemployment insurance scheme only has some relevance for the poorest households. Moreover, Cessantia is not quite effective in this respect. It provides a limited one-off compensation in case of involuntary dismissal or end of a temporary contract.⁶ Apart from the limited amount, many employees do not profit from Cessantia. In general (the operation of) Cessantia is unknown among employers and workers.

An unemployment benefit scheme smooths consumption over time in the event of fluctuations in the economy and (un)employment. This prevents acute social problems in the event of unemployment, resulting in high social costs. At a macroeconomic level, an unemployment benefit scheme serves as an automatic stabilizer for the economy. By limiting the loss of income during economic crises, aggregate demand remains on track, and a self-reinforcing process of economic downturn and further rising unemployment is slowed down. The benefits of consumption smoothing and the stabilizing effect on the economy are of particular importance to Sint Maarten as the economy has a highly volatile character due to limited diversification. These benefits of an unemployment benefit scheme are greater if foreign employees are also covered by the unemployment benefit scheme.

In addition, an unemployment benefit scheme helps the unemployed to make a more well-considered choice for work during unemployment. Acute financial distress due to unemployment is prevented from forcing sub-optimal choices to be made, such as choosing for a job that does not fit well or for informal work out of necessity. An adequate unemployment benefit scheme contributes to a better match between supply and demand in the labor market.

To reap the economic benefits, perverse incentives and moral hazard must be avoided. An unemployment benefit scheme that is too generous does not provide sufficient incentives to look for work, provokes moral hazard on the part of employees and employers and has high costs, which will eventually have corresponding consequences for the wedge and/or for public finances. It is essential to design an unemployment benefit scheme with a balance between adequate insurance against loss of income and the associated favorable macroeconomic on the one hand, and sufficient incentives on the other.

In sum, the lack of an unemployment benefit scheme in Sint Maarten

- causes severe financial problems for households, and even poverty;
- distorts the matching of supply and demand on the labor market, which leads to productivity losses and informal work; and
- fails to stabilize the economy as a whole.

The experiences gained from the COVID-related Sint Maarten Stimulus and Relief Plan (SSRP) are important for the development of a possible unemployment scheme. First of all, SSRP has shown that there is a great need for an unemployment benefit scheme. Second, experience has shown that unemployment benefits can be the cause of moral hazard and disincentivize recipients to accept paid work.

⁶ The one-off payment is also given after reaching the retirement age or terminating the contract by mutual consent.

Sickness and disability

Aside from medical expenses, ZV insures wage losses due to sickness (see chapter 3). OV also covers both medical expenses and wage losses, but in this case these must be specifically related to an accident at work. Moreover, the maximum duration of ZV is two years, whereas OV has no maximum duration.

After the introduction of the new General Health Insurance (GHI) scheme in 2024,⁷ ZV and OV will be separate schemes. These schemes will both insure earnings losses but will be administered separately with separate premiums.

ZV and OV insure similar income risks, and the distinction between those risks is often difficult to make. This could lead to social security shopping, in this case: substitution from ZV to OV. A major sticking point is that certain groups of workers may be excluded: those with chronic illnesses and certain occupational diseases. Added to this, workers who work less than five days a week are not entitled to benefits. Another sticking point is that it is unclear to what extent employers must continue to pay wages during the first three sickness days (Carensdagen). This is unclear in legislation and subsequently among employers and employees. According to stakeholders, wages are often not paid during the first days of illness.

About 6 percent of the current ZV and OV expenses are used for the insurance of earnings losses. As the current combined premium for ZV and OV equals 12.5 percent, the new premium after the introduction of the GHI should be 0.75 percent (=6 percent * 12,5 percent).

Table 5.1 Estimated distribution of collected premiums for medical costs and loss of earnings ZV and OV

ANG (x 1.000)		ZV		OV		ZV + OV
medical expenses	79,550	94%	11,971	94%	91,522	94%
loss of earnings	4,835	6%	809	6%	5,644	6%

Source: SZV (2021)

The incentive for employers to prevent sickness is weak. Employers can claim the largest part of the salary from the SZV. As a result, the return on employer investments in health and safety are low. Employers just recover 20 percent of wages in case of preventing sickness and disability, as the other 80 percent is covered by the SZV. This induces underinvestment in prevention.

Employers might stimulate sick pay among workers who are not needed for production when demand is low. This form of moral hazard leads to hidden unemployment in the ZV and OV schemes.

Medical examinations by SZV after the first days of sickness are not always strict. During the first two days of sickness, employees can visit a general practitioner and obtain a declaration about the (expected) duration

⁷ The General Health Insurance (GHI) that is being developed In Sint Maarten entails the integration of the medical expenses part of the Sickness Fund (ZV), the medical expenses part of the Accident fund (OV), the General Insurance for Exceptional Medical Expenses (AVBZ), the Medical Expenses Fund for Government Retirees (FZOG), and the Government Health Insurance (OZR). These funds and the PP cards will become part of a General Health Insurance and will also be covered under measure F.3 of the country package (increasing the effectiveness and efficiency of long-term care). The legislative text is expected to be ready by the end of 2022, the finalization of legislative process is expected to take place by the end of 2023, so that implementation could start by 1 January 2024.

of sickness. The handling is often by phone and the declaration is sometimes given easily. This leads to higher medical costs and higher expenditures on sick pay and accident benefits.

In order to increase the support base for ZV and OV, efforts are being made to increase the salary threshold (to ANG 120,000), so that more employees are covered by the scheme.

The current division into hazard classes in OV fails: there are no or few companies that are classified in the highest hazard class. SZV itself is thinking about a modified premium system. The lesson that can be drawn from experiences of other (British) islands is that when calculating the benefit, the period that someone is insured in a certain class must be taken into account.

Income after retirement

For many senior citizens, pension income is insufficient to make ends meet. We identify three issues:

- a) The level of full AOV benefits (about 80 percent of the minimum wage) might not be sufficient to live off;
- b) Senior citizens with incomplete AOV are often at risk of poverty;
- c) Retiring senior citizens often face a large drop in income and are not able to keep up their household consumption.

Elderly with incomplete AOV benefits are often at the risk of poverty. There is a large group of elderly who have not lived or worked in Sint Maarten all their lives and who have not built up an AOV elsewhere in these years. An estimated 75 percent of the elderly have an incomplete AOV, because they have not been registered on the island for a full period or have worked for a rogue employer. The latter applies to a large part of the AOV claimants who have worked for employment agencies, that often do not pay contributions. It happens that employees want to pay a premium, but that this is not facilitated by the employer. Fear of losing the job and intimidation play a role.

Many elderly are still working after their retirement out of financial need. There is no regulation in Sint Maarten that stipulates that employment contracts end automatically when the retirement age is reached, unless otherwise agreed. Employers – especially in small and medium-sized businesses – often do not have the financial means to dismiss someone at that time. This often leads older workers to postpone their retirement, as the AOV is considered insufficient to live off. When the labor contract of AOV recipients is terminated, they are currently entitled to a one-off Cessantia compensation, not to mention a severance pay under the Civil Code.

There is currently no explicit legal basis for the provision of Financial Assistance to pensioners with partial AOV benefits. However, some of them do receive complementary Financial Assistance for humanitarian reasons, as they would otherwise be living in poverty. For persons entitled to AOV there is a possibility to receive an additional Financial Assistance if total pension income is below ANG 1,240 monthly.

Few build up a (private) pension in addition to AOV. In 2018, just 24 percent of the employed persons participated in a second-pillar pension plan (Labor force survey, 2019). The drop in income after retirement is often high for middle class workers. Most employers in Sint Maarten do not invest in their employees' pension plans. They have other priorities, and do not want to commit to a long-term pension plan for their employees. Many are still financially recovering from the hurricanes Irma and Maria and from Covid-19. Many employees think favorably about a second pillar pension plan, but many of them are struggling financially and have little means to set aside a pension premium. Many temporary workers in the highly seasonal tourism industry have short-term contracts without a pension plan.

Additional private pension plans, the third pillar, are not very common because many people do not have the financial means. According to insurers, people start to think about pensions when it is too late. People have limited knowledge about pensions and are not in a position to negotiate a pension plan with their employer. Some insurers actively visit employers and labor unions to raise awareness on income after retirement. Insurers are flexible in their acceptance of new participants in their pension plans.

Switching of insurer in Sint Maarten and taking your accrued pension is possible. However, according to labor unions and other respondents, this can be costly. Regulation is lacking in this respect. The switching cost can be about ANG 250 or 1 percent of the accrued pension. In some cases it is possible to receive the accrued pension wealth in one go, provided the insurer is willing to cooperate. In practice, this rarely happens because when this amount is paid, the pensioner is subject to a special high tax rate, which the insurance company is obliged to withhold.

It is common to leave the pension in Sint Maarten after emigration. The pension payment is made in Sint Maarten. The insurer deducts income taxes and social contributions and transfers the remainder as pension to the country of residence of the policyholder/beneficiary or to a Sint Maarten bank account that the retiree has in Sint Maarten. Transferring accrued pension wealth with you across the border is almost impossible. There is no law that ensures the right of transfer of pension internationally. Insurers can offer it, but it can be costly when Sint Maarten does not have a valid treaty for the prevention of double taxation on income. Insurers are reluctant in transferring funds to pension funds in the Netherlands and vice versa.

6 Reforms

The analysis of bottlenecks and shortcomings in the functioning of the social security system (section 5.1), leads to the following preliminary recommendations.

A policy package is recommended that focuses on two main goals:

1. A more effective social security system, in terms of
 - poverty reduction and poverty prevention;
 - work must be rewarding: entitlements should not discourage labor participation;
 - employees should have basic insurance against unemployment, sickness, and disability;
 - most people are allowed and capable of participation in the labor market, promoting an inclusive society.
- A financially sustainable social security system.

An important condition for success is that the implementation of new policies and their enforcement should not be too costly and/or complicated, that enforcement is in place, and that social dialogue leads to support from all stakeholders – in particular social partners – to implement and execute the policies. This will be discussed in section 6.1.

Section 6.2 discusses possible improvements of the social security system in Sint Maarten. When devising a more effective social security system, efficiency considerations also play an important role. In particular, the incentives to accept paid work deserve attention. Financial assistance and worker insurance should therefore not be too generous.

Section 6.3 discusses a higher AOV eligibility age, which is identified as the crucial measure to warrant to long-term financial sustainability of the social security system.

6.1 Preconditions

Enforcement

Lack of compliance due to ineffective enforcement is a problem in several policy areas in Sint Maarten: taxes, healthcare, immigration, labor and social security. It is strongly recommended to apply an integrated, coherent approach to enforcement functions in those policy areas and incorporate this in the implementation of the Country Package. Aligning procedures, methodologies, risk analysis, intelligence/data, etc. in different areas of enforcement, may lead to significant improvements in effectiveness and efficiency. Strengthening the enforcement function should be started with from the outset of the implementation process and executed as part of theme B (cost and effectiveness of the public sector) of the country package. In addition, VSA and SZV Inspectorates require expansion and strengthening.

A precondition for reforms is improved enforcement. There are options to give the SZV more clout. It should be made possible for the SZV to file for bankruptcy as the sole creditor. With this adjustment, employers are more inclined to pay the premiums. And finally, it is important to trace companies that are out of the picture, by means of risk analyses. The continuity of the AOV benefits from broader support among the companies. In fact, if enforcement is not in place, then the effects of several policy options could even turn negative.

Implementation

The implementation of social security arrangements requires specific investments in e.g. knowledge, ICT, and assets. As there are fixed costs involved, the average costs of social security implementation will typically be lower in a larger population. With about 50 thousand inhabitants, Sint Maarten has a disadvantage here compared to more populous countries. Especially, more intricate social security arrangements, requiring ICT-investments and specific investments in e.g. judicial knowledge, could prove relatively expensive. In case the implementation costs are too high compared to the benefits to society, the social security arrangements should be simplified. The efficiency that is lost by a suboptimal social security arrangement would in that case be compensated by the efficiency gain of a simpler implementation.

It can also be investigated whether external organizations could execute some of the arrangements. For instance, a combined implementation with other islands within the Kingdom of the Netherlands could increase efficiency. Or perhaps the Dutch SVB could play a role.

Finally, public organizations in Sint Maarten would tremendously benefit from more adequate data. With the knowledge acquired from data, the implementation could become more efficient (less wasteful) and more effective (better targeted towards those in need). See chapter 9 for a more extensive discussion on the implementation.

Social dialogue

The involvement of social partners in the legislative process leads to better understanding between government, employers and employees, to more effective processes, to identification of bottlenecks and the provision of effective solutions, to more support for solutions and ultimately to better compliance (contribution payment). The social dialogue (bipartite and tripartite) is an essential precondition for effective reform of the social security system (as well as the labor market). It is advisable to have dialogues structurally and regularly and to approach the issue of the labor market and social security in an integral manner. It is essential that social partners find common ground among themselves (bipartite consultation), to jointly come up with proposals to the government. This requires the development of knowledge among employers' and employees' organizations which can be promoted by contacts with sister organizations in the Netherlands. The SER should be strengthened, with a heavier emphasis on parity agreement. As an alternative, a joint foundation of social partners could be considered. This way, the balance of power shifts more towards the social partners, but on balance the government's power increases.

6.2 A more effective social security system

6.2.1 Financial assistance

Social care

There is need for better social care. This not only concerns help in the area of family problems and debts, but specifically help for people who are suffering from the consequences of natural disasters and external shocks, like hurricanes Irma and Maria and the COVID-19 pandemic. It involves complex service provision for which professionals are required (social workers).

The vision of social care is described in detail in an internal report of the Ministry of VSA. Social care should be coherent with financial assistance. The policy should be fully tailored to the local context in Sint Maarten, but it can do no harm to look at (and possibly cooperate with) Aruba, where such a national ordinance is in operation and there are experiences with its implementation that can provide useful lessons.

Modifying calculation method of benefit amount

The method of calculation needs to be changed, in any event for reasons of clarity and a number of practical benefits. By using the minimum wage as the standard amount, instead of the SZV-related standard amount, downward correction is no longer necessary. The department's internal proposal is not to set-off 100 percent of any income against the benefit, but 60 percent. The benefits are therefore higher, and it is then more rewarding to work next to the financial assistance. As a result of such a change, social security expenditures will increase, and at the same time financial assistance recipients will be incentivized to participate in the labor market more often. The full replacement rate and wage set-off can be optimized, such that the social benefits resulting from more participation outweigh the additional costs of higher benefits.

Enforcement: social investigators

Reduced use of financial assistance can be realized by strengthening enforcement, improving external communication (different languages), activation and budgeting. This approach is referred to as volume policy aimed at controlling and reducing the volume of benefits by limiting the inflow and promoting the outflow. At the front end, this requires a stricter control and direct help in looking for work. Furthermore, outflow is promoted by means of reintegration and by continuing to check for legitimacy.

In order to check assets and income, information about work and income is needed. A system that also uses information from the SZV could help in the long run. At the moment, this concerns additional social investigators for home visits. The conditions for home visits are not always safe and the social connections of the population and the official must be taken into account.

Protected or sheltered employment

Based on the experience in OECD countries, sheltered employment programs have often proved to be costly and ineffective. However, it is still worthwhile to investigate whether a successful program can be developed in Sint Maarten. A successful experience with sheltered employment could be an anchor for further initiatives within the social security system. First, a business plan needs to be drawn up. The aim is to develop small-scale, evidence-based, and self-sustainable sheltered projects under the supervision of the Department of Social Affairs and Labor, especially for the mentally and physically disabled. These projects should be evaluated, and only be pursued if they indeed prove to be effective and efficient. Technical support is needed to move from idea to implementation. The idea is already there in Sint Maarten, also for the type of business activities. It is recommended to seek cooperation with contacts with PANTAR in Amsterdam, the largest (and successful) organization in the field of sheltered employment in the Netherlands, including business activities. There are possibilities to involve the municipality of Amsterdam as well, which offers support to the islands and Suriname in this field. One can also look at the successful social work company on Texel, which has a comparable scale to Sint Maarten. It is recommended to start this in the short term, so already before E4 is completed.

Residence permit holders and financial assistance

Currently, the National Ordinance of Admission and Expulsion is being redeveloped. This likely has consequences for the financial assistance of migrants. The new developments should be taken into account. This could imply that the scope of the financial assistance will be reduced. However, this might increase poverty. Scope limitation should therefore be done with care.

6.2.2 Sickness and disability insurance (*ZV and OV*)

Sint Maarten is working on unbundling the benefit part (sickness benefit and accident benefit) on the one hand and medical costs on the other. The cost part will be incorporated in a general health insurance, whereby the AVBZ and some other schemes will be included. To strengthen the social security system, the recommendation is to merge ZV and OV into one disability scheme, at least for the benefit part. This idea is not new. In Aruba, the SVB has already worked this out (but has not yet implemented it).⁸ The merger offers opportunities to arrive at an unequivocal scheme for illness and disability in the context of work. Also, shopping between the schemes can then be prevented.

An important question is to what extent society should be financially responsible for sickness and disability of employees. The recommendation is to shift the risk of illness and disability of employees more to the employer. This means that (part of) the salary must be paid by the employer during a certain period. Companies with a relatively high level of absenteeism therefore bear a heavier burden. This shift in risk creates a stronger incentive for employers to invest in the prevention of illness and disability of their employees. The employer's premium can then be reduced. Experience in the Netherlands has shown that this approach leads to long-term savings for society as a whole, even though the employer's premium decreases.⁹

In case of long-term sickness, the employer is obliged to continue to pay wages, possibly on a staggered basis (e.g. first 100 percent, then 80 percent, and finally 0 percent). The period of continued payment of wages may be extended if the employer has not made demonstrable efforts to return the employee to work. The employer can take out insurance to cover his own employees against illness. At the end of the period of continued payment of wages, the government takes over the costs in the form of an incapacity benefit.

The declaration system should be replaced by a direct payment of the benefit by the SZV to the sick employee. This reduces the administrative burden and implementation costs. Moreover, it is certain that the employee receives his money.

On balance, these changes could lead to structural savings. Investments in sustainable employability of employees (prevention) may increase over time. A combination of these types of reforms is expected to reduce the inflow into illness and disability.

However, the extended mandatory payment of wages for employers may have negative effects in terms of hiring or wages. Employers might become reluctant to hire employees with poor health (or discriminate groups with expected poorer health than average). They may also pass on the higher costs of sickness payments to the employees by lowering their wages. Additional enforcement is therefore a necessary condition. It should also be taken into account that small businesses can be disadvantaged if they cannot (privately) insure themselves. Moreover, the quality of medical examinations also influences the benefit

⁸ Faas, J., Veneman, H.A.M. en Henriquez-Every, B. (2009).

⁹ A similar change occurred in the Netherlands, when the privatization of the Sickness Benefits Act was introduced in the mid-1990s. The Explanatory Memorandum to the Sickness Benefits Extension Act (Wulbz) describes the reasons for this in detail: (a) to arrive at a more accurate allocation of costs to all parties involved in social insurance, (b) to better control the volume and costs of social security, (c) with the expectation that the volume of work disability will increase even more due to the ageing of the population, (d) if companies and sectors have to pay for the failure of other companies, this is a threat to the acceptance of social insurance. Evasion and decreasing investment in good working conditions would then be the result. (e) A new balance must be created between solidarity on the one hand and personal initiative on the other (Memorandum of Reply, Session year 1995-1996, parliamentary paper 24 439, no. 3).

volume. The social and financial feasibility of this line of thinking should therefore be properly investigated. What is important is a greater incentive for employers to invest in the prevention of absenteeism and occupational disability.

There is a remaining group of people who are not insured for sickness and accident benefits: home workers, domestic staff, the self-employed, and informal workers. Insuring these groups is an option for health costs, but is not recommended for sickness or accident benefits. The risk of fraud is too great (working next to the benefit), because these cases the employer (the self-employed) checks himself.

6.2.3 Cessantia

The idea is to abolish Cessantia. Cessantia should be transformed into an unemployment insurance (see 6.2.4). The severance payment should be regulated entirely in the Civil Code. Insuring employees for bankruptcy of an employer is included in a new unemployment scheme. It is recommended to use the remaining Cessantia funds as starting capital for an unemployment fund. The line of thought is in line with the advice of the SER (2014). The unclarity about Cessantia entitlements (see section 3.1.4) will in principle be solved under the new unemployment scheme and severance payments according to the Civil Code.

6.2.4 Unemployment insurance

An unemployment benefit scheme is the missing link in Sint Maarten's social security system. There is social support to introduce an unemployment scheme (SER, 2014). Potential concerns about an unemployment benefit scheme inducing moral hazard or attracting workers from abroad can be addressed. The risk of moral hazard can be reduced by setting the replacement rate not too high, and by keeping the entitlement period limited to e.g. 3, 6 or 9 months. In most cases, this search period suffices to find a new job. Attraction of workers from abroad can be prevented by defining entitlement conditions based on residence permit and/or work permit. An austere scheme is recommended for which the following characteristics serve as a basic variant:

- a. The employer pays a premium for all employees on its own payroll.
- b. The employee pays no premium.
- c. Every employee for whom a premium is being paid is entitled to unemployment benefits.
- d. An employee is entitled to a benefit when the employment contract ends, but not if this is the employee's own request. An employee is also entitled to a benefit when a temporary employment contract ends.
- e. An employee who has been dismissed due to improper behavior is not entitled to a benefit.
- f. Benefit entitlement is based on employment history (reference requirement).¹⁰
- g. The basic variant proposed includes a minimum period of employment of 9 months, 70 percent of last earned wages, and a maximum duration.
- h. Specific requirements should be set for immigrants in order to prevent abuse, for example a minimum period of work history on the island. If this is not done, then the unemployment scheme could attract immigrants which want to specifically benefit from it.

¹⁰ In the Netherlands, two reference requirements apply: the years requirement and the weeks requirement. The weeks requirement means that someone must have worked for at least 26 weeks in 36 weeks. He or she is then entitled to benefit for 3 months. The years requirement means that someone must have worked for at least 4 years in 5 years prior to becoming unemployed. In that case, the duration of the benefit will be at least 4 months and at most 24 months. The calculation of the exact benefit is then quite complex. Sint Maarten has to make its own choices when it comes to the details, in which respect we are in line with the wish in Sint Maarten to "keep it as simple and clear as possible".

- i. The premium for employees with a temporary contract is higher than for employees with a permanent contract. There is no premium differentiation by sector.
- j. The implementation will be in the hands of the SZV.
- k. Registration at the public employment office is mandatory for the benefit applicant. From the moment of application for benefits, the person entitled to benefits must show active search behavior.
- l. The unemployment benefit scheme is accompanied by activation by the public employment office (see E.1).
- m. A necessary precondition is enforcement, which includes the legality check at intake and during the benefit period, risk analyses (premium evasion by employers), detection and sanctioning.

The maximum duration of the unemployment insurance scheme should not be too high, in order to prevent moral hazard. Long-term unemployment typically also leads to accelerated depreciation of human capital, so should be prevented. A limited maximum duration stimulates unemployed workers to timely accept paid work.¹¹

In case of a large shock, the maximum duration can be extended on an ad hoc basis. This is common practice in many states in the U.S.¹²

Note that the unemployment insurance scheme will only insure workers in the formal economy. The informal sector will be out of reach. We therefore stress again that enforcement and compliance are crucial preconditions, in this case for effective worker insurance against unemployment.

A possibility in the longer run: A non-commercial employment agency

In addition to direct incentives for unemployed workers to find and accept a suitable job, and incentives for employers to hire unemployed workers, it could be an option to establish a non-commercial employment agency to increase the chances of employment for benefit recipients. The aim of the non-commercial employment agency is to promote the sustainable integration into the labor process of jobseekers with or without social security benefits.

Such a non-commercial employment agency could stimulate employers to hire more unemployed workers, as they face less risk with the temporary employment formula. The non-commercial employment agency could establish job matches for less advanced work, that can be done by jobseekers with some distance to the labor market (e.g. many financial assistance recipients). It does not concern regular vacancies, with which the target group is not familiar. Once the temporary workers have some work experience, the chances of getting the next temporary job might become greater, et cetera (stepping stone function).

The legal form could be a foundation with a tripartite management (social partners and government). The non-commercial employment agency focuses on commercially less attractive cases. This non-commercial employment agency operates in the staffing market until private employment agencies can take over the function of the non-commercial employment agency. A period of at least ten years should be considered. Within the public Job Centre Sint Maarten, mediation and temporary employment can be combined - just like in the Netherlands - which may increase the effectiveness of the placement of people from the target group.

As Aruba and Curaçao are investigating the feasibility, it is recommended to monitor their results. If positive, their example can be followed, or it might also be a possibility to team up with the other countries within the Kingdom and set up a shared agency.

¹¹ For instance, see Card and Levine (2000).

¹² For instance, see Farber and Valetta (2015).

6.2.5 AWW

The implementation of the AWW does not face many problems. However, the current form with a potential long duration for widows (widowers) seems to be out of date. It is in fact still based on the breadwinner model, where the head of the household earns the household's income, and the (usually female) partner does not perform (substantial) paid work. Luckily, many widows (widowers) are nowadays able to earn their own living. Especially, within some years after their husband's passing away, they will be able to do so. It can therefore be considered to introduce a maximum duration of the AWW. Currently, the AWW ends at the AOV age. So if a person loses his or her husband at age 30, then he or she will receive AWW for 35 years. This could e.g. be reduced to 5 years. An alternative option is to abolish AWW altogether and rely on AOV and financial assistance for insuring the income of widows (widowers).

A second potential point of improvement is enforcement. At present it might be easy to forge and receive AWW while not being formally entitled to it. The group receiving an orphan's pension and still attending school should submit a written school statement to the SZV.

6.2.6 AOV

In view of poverty among the elderly, it is desirable to provide elderly in need with a higher income. A first possibility would be to increase AOV benefits. This policy is however relatively expensive and inefficient, because it is not specifically targeted at the poorest households.¹³

Two more attractive policy options would therefore be:

- Formalize supplementary financial assistance for AOV-beneficiaries with partial benefits
- Individualize AOV benefits, so that poor households receive higher benefits¹⁴

We believe that the first policy option is attractive, because it is relatively targeted at the people in need, and there is little deadweight loss. The simplest solution here is to formalize the current practice of supplementary financial assistance. At present, there is no legal framework for financial assistance to pensioners with partial AOV benefits (section 4.2). But in practice they often do receive financial assistance, as these people would otherwise be living in poverty.

An alternative option would be to provide individual supplements to the AOV, administered by the SZV. But this would require substantial additional effort of this organization and appears less efficient than the solution based on financial assistance. SZV is presently not equipped to administrate means-tested benefits. Effective and efficient information exchange between SZV and the Tax Office could also be problematic.

6.2.7 Occupational pensions (second-pillar pensions)

We recommend that government and social partners pay more attention to pension saving, and stimulate employers and workers to make use of the opportunities to save for their old-age pensions. Communication, transparency, and positive framing of the benefits of pension savings may help to achieve this. More flexibility

¹³ A gradual increase of AOV benefits can be achieved through indexation to a mixture of wage growth and inflation. At present, AOV benefits are indexed to inflation (the price index of household consumption for the month of August relative to that one year before). Over a longer time period, inflation is usually lower than wage growth.

¹⁴ Buck Consultants (2016) propose to grant pensioners a half extra year for every employment year with a maximum of 20 working years. Secondly, is an increase in the retirement income to a minimum of the net minimum wage for persons with a full basic AOV and a minimum of 20 working years in Sint Maarten.

in the pension schemes (e.g. in the pay-out phase or different risk profiles) could also make them more attractive. Buck Consultants (2016) assesses that the current regulation for existing pension plans is feasible. Hence the current pension funds and insurers can offer pension plans. Alternatives are a (new) national pension fund or industry wide funds. They regard it useful to regulate by law the maximum costs of pension products, for example with 8 percent. More research should be done before an occupational pension plan can be developed.

Aruba implemented a mandatory basic pension plan where at least six percent of a person's income is contributed to the pension, where employers contribute at least half. Employer and employee are allowed to contribute more, but all employees from the same company have the same contribution ration. Also, employees of the same company are obliged to have a pension agreement with the same pension provider. Pension providers are registered pension funds and insurance companies. There are some lessons that can be learned from Aruba's mandatory pension scheme. First of all, within the six percent premium one could buy different pension options, such as partner pension, orphan pension and death/disability insurance. The pensions of the people who buy these options within the six percent are substantially lower than the pensions of people who did not do this. As these options are allowed in the basic mandatory pension scheme, the pension product becomes untransparent (SER, 2013).

The SER (2013) describes the following five lessons:

- A mandatory complicated non-transparent pension product combined with low market competition between pension providers must be avoided.
- Leave existing (and mostly better) pension agreements alone as much as possible.
- Keep in line with international standards (to minimize the administrative burden)
- 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
- Optimize the options for employees and employers to choose the best pension agreement and diminish barriers to switch between pension providers.

A mandatory basic pension plan can be considered as a beneficial option for the future, in case other efforts to stimulate pension savings do not suffice. As it is quite complicated to devise an effective and efficient system, this is not recommended as an option in the short term. Another future option are micro-pensions (see textbox).

A policy option in the longer run: Micro-pensions

The concept of micro-pensions was successful in Ghana, Kenya and India. Micro-pensions guarantee a future income upon reaching the retirement age. It is a scheme whereby self-employed persons and people who work for an organization with fewer than three employees can make a financial contribution towards their future pension. The advantage of a micro-pension is that it offers an option for self-employed persons and people who work in a small organization. In addition, it is possible that the insured person can pay premiums irregularly. This can be, for example, per week, month on year and any amount. Micro-pensions are very similar to the endowment plans that insurers offer. The insurers offer various products, in which a monthly amount is deposited and invested by the insurer. The accrued capital is then released when the insured reaches a certain age. The difference between the insurers in Sint Maarten and the micro pension as formulated in Ghana is that you can make irregular contributions to the micro pension. This can be, for example, per week, month on year and any amount. It remains to be seen who is willing and able to implement the micro-pension. It is important that this is an organization that is well regulated and, above all, trusted by every resident of Sint Maarten. From the talks with the trade unions, it appears that a large part of the people of Sint Maarten currently have little confidence in the government and/or in some insurers. Trust in the administrator is an important condition for the success of the micro-pension. In Ghana the micro-pensions are managed by People's Pension Trust. Its established for implementing and managing the micro-pension fund. The project attracted USD 554.000 from the Dutch pension sector, the Ministry of Foreign Affairs, Cordaid, Lundin Foundation and Enviu as start-up investments and working capital. The People's Pension Trust is dependent on investments of companies and donation of charities (ACCRA, 2009).

We recommend to ease the 60/40 rule for banks, pension funds and insurers. The investment rule mandates the investment of capital of the banks, insurers and pension funds to be allocated in Curacao and Sint Maarten for 60 percent. The remaining 40 percent can be invested internationally. Now, local investment opportunities are scarce and local investors are struggling to find opportunities with a decent rate of return (SER, 2013). The financial institutions can get an higher return when they are allowed to invest outside of the monetary union. Buck consultants (2016) also stress the importance to loosen the 60/40 rule.

6.3 Financial sustainability: raising the AOV eligibility age

There is just one policy option which is both necessary and sufficient to achieve a financially sustainable social security system in Sint Maarten: raising the AOV eligibility age. It is necessary, because there is no other reasonable policy option which could be as effective in containing the future costs of the social security system. And it is sufficient, because the effectiveness of this policy option is large enough to reach a sustainable path of public expenditures.

A slow and gradual increase in the AOV eligibility age has several important advantages. This way, workers and employers are not overwhelmed and are given time to prepare themselves for the new situation. Such preparation may consist of more attention for health, productivity, human capital, and perhaps also household savings. A large increase in the AOV eligibility age is not necessary in the short run, as the AOV fund will not run into deficit in the coming years. So there is no need to take drastic steps on short notice. On the other hand, postponing a raise in the AOV eligibility age would have the disadvantage that at after a decade time, more drastic steps should be taken. So if no action is taken in the short run, then workers and employers will have to deal with more shock-wise increases at a later point in time. They will likely be less prepared to deal with the new situation at that point.

Indexing the AOV eligibility age to life expectancy is the most robust policy option, as it limits the increasing AOV expenditures on the one hand and increases tax and premium revenues on the other hand (of workers who retire at a later age). A further advantage is that the financial sustainability of AOV can be anchored in the law, and does not depend on political will and short-term considerations. Linkage to life expectancy can also be considered 'fair' in a way, because the AOV eligibility will only go up if life expectancy goes up. If the latter does not happen, then there is less financial need to increase the AOV eligibility age, and the automatic indexation will imply no increase at that point. Several countries have already introduced such an indexation. A further advantage over discretionary increases in the AOV eligibility age is that people know well in advance what to expect at old-age and have many years to prepare themselves financially and mentally for it. Another advantage is that automatic linkage is 'fair' in a way, because it implies that the eligibility age will only be raised if life expectancy increases. Should life expectancy not increase at some points, then there is also no reason to increase the AOV eligibility age.

Note that there are different choices possible concerning the parameters of such an indexation. For instance, one could increase the AOV eligibility age with seven months for every increase in life expectancy by one year. This way, the share of adult life in retirement is kept more or less constant. For this reason, countries such as Finland, Portugal, and the Netherlands have adopted this type of linkage between AOV eligibility age and life expectancy (OECD, 2021). Other countries, such as Denmark, Greece, and Italy have installed a one-on-one linkage between the AOV eligibility age and life expectancy, implying that the share of adult life spent working will increase for their future generations (OECD, 2021).

An advantage of raising the AOV eligibility age over the policies described in section 6.2 is that enforcement and implementation are relatively easy.

An example of a step-wise increase in the AOV eligibility age is given in Table 6.1. If announced in 2023, society will have five years to prepare for the first step of later retirement by 3 months in 2028. In this scheme, the AOV eligibility age of 66 is reached in 2034, which is eleven years after the original announcement. The AOV eligibility age of 67 will be reached nineteen years after the original announcement, and from 2044 on the AOV eligibility age will be automatically linked to life expectancy.

Table 6.1 Example of a step-wise increase of the AOV eligibility age

Date	AOV eligibility age
Before 2028	65
1/1/2028	65 + 3 months
1/1/2030	65 + 6 months
1/1/2032	65 + 9 months
1/1/2034	66
1/1/2036	66 + 3 months
1/1/2038	66 + 6 months
1/1/2040	66 + 9 months
1/1/2042	67
From 2044 ahead	Indexation of AOV age to life expectancy

The main effect of raising the AOV eligibility age is (obviously) that people retire at a later age. In the short run this may hamper labor mobility, because old workers keep their positions and – at a given employer – do not make place for younger workers. However, there is ample world-wide evidence that the labor market will settle at a new equilibrium, where there is place for both older and younger workers (Gruber et al., 2009). A part of the solution can be that older workers switch to typical older worker-jobs (bus and taxi driver; concierge; practical teacher; etc.). But there are many different ways in which the additional supply of labor can be absorbed, in new firms or through new production processes (more age-related specialization; see Skirrbekk, 2004). A recent U.S. paper describes ‘the rise in age-friendly jobs’ (Acemoglu et al., 2022).

7 Financial effects

This chapter presents the financial effects of different choices that can be made with regard to the recommended policy options. The effects for the public sector (government and SZV) as well as for employers are determined. The structural amounts take into account demographic changes and productivity growth. The structural effects of most policy options would be achieved within a limited number of years; the most notable exceptions are a higher AOV eligibility age and a higher tax-deductibility of second-pillar pensions, which would usually be implemented over a longer time horizon.

In most cases, no adequate (micro-) data were available to determine the budgetary effects. Therefore, estimates have been produced based on the limited data¹⁵, insights from relevant academic literature, rules of thumb and assumptions as described in Annex 1. As a result, the calculated effects provide a reliable impression of the order of magnitude of the financial consequences that can be expected from the several policy options. The results are however surrounded by uncertainties and an additional analysis based on actual micro data may provide further insights, improve robustness and reduce uncertainty.

For consistency, this chapter presents financial effects for the year 2050, deflated to 2022 ANG. This way, the amounts can be compared and can also be added up. The financial effects for 2050 are typically inflated by two factors: demographic developments and productivity growth. Demographic changes inflate the budgetary amounts by 8 percent if the policy option concerns the working-age population. When senior citizens are concerned – most notably in policy options concerning the AOV – then the budgetary amounts inflate by 190 percent (see text box). This stresses both the need and the effectiveness of policy options aimed at the AOV. In addition, it has been assumed that productivity growth is on average 1 percent per year. As productivity growth will typically lead to labor income growth, this implies that all wage-indexed expenditures – most notably policy options related to ZV/OV, unemployment insurance and second-pillar pensions – will increase by 30 percent over the period 2022-2050.

Demographic assumptions

The age pyramids for 2021 and 2022 are derived from the age pyramids of 2016 and 2017 (source: Department of Statistics, Sint Maarten), respectively, by shifting each five-year age cohort five years ahead. In doing so, we take into account the mortality rates based on life expectancies in the 2017 Statistical Yearbook, and migration and birth rates from the Department of Statistics' publication 'Population Estimates and Vital Statistics 2021'. The demographic projections for 2050 are based on the age pyramids of 2021 and 2022, population projections from the UN, and the projection of the World Bank (2020) that 39 percent of the population of Sint Maarten will be over the age of 60 by 2050. In 2050, the population between the ages of 15 and 65 will be around 33 thousand. This is an increase of 8 percent compared to 2022. The 65-plus population will amount to nearly 13 thousand. This is an increase of 190 percent compared to the 2022 level. In its projection, the World Bank assumes that net migration into Sint Maarten will gradually decrease in the coming decades.

When calculating the financial effects of the different policy options, it is assumed that compliance is not changed compared to the current situation. So, if for instance the current compliance of premium payments equals 70%, then it is (implicitly) assumed in the policy option 'Unemployment Insurance' that 70% of employer premiums will be paid, and 30% will not be paid. Note that the exact compliance rate is not known at this moment.

¹⁵ E.g. the World Bank, Buck Consultants, Centrale Bank van Sint Maarten and Curacao, OECD, Algemeen Pensioenfonds Sint Maarten (APS), Eurostat, CPB, Eurostat, SZV, different policy documents from Sint Maarten, and the earlier report on Social Security on Aruba.

A package of reforms is feasible that implies a net improvement in public finances (Table 7.1). Concerning the public finances, the additional expenditures related to an unemployment insurance scheme and the additional savings related to increasing the AOV eligibility age are the most significant policy decisions to be made.

The main effects for the public finances are expenditure savings (AOV, ZV, and financial assistance), additional expenditures (a new unemployment insurance scheme and financial assistance), and lower tax revenues (tax-facilitated pension savings).

The total package would structurally improve the government budget by a minimum of about ANG 50 million and a maximum of about ANG 130 million, depending on the policy variants chosen. This improvement is mainly driven by expenditure savings as a result of a higher AOV eligibility age. To a lesser extent, increased tax and premium revenues improve the government budget.

The financial effects for employers are overall limited, although there can be changes for individual employers. In particular, employers with many sick and disabled workers will face higher expenditures, whereas employers with relatively few sick and disabled workers will face lower expenditures than under the current ZV and OV regulations (policy option 3). The average employer is better off with this policy option, because the financial incentive prevents sickness and disability and leads to lower use of ZV and OV.

The combined effect of sickness pay extension, the introduction of unemployment insurance, and the abolition of Cessantia is either neutral for employers, or would lead to a yearly increase in employer expenses of about ANG 20 million with a more generous unemployment scheme with a maximum duration of 9 months. A higher AOV age leads to more premium revenues because the number of employees increases. The employer expenses per employee remain unchanged. Higher pension premiums lead to more employer expenses, but these are usually negotiated as a package deal with other working conditions. In the longer run, higher expenses in the form of higher pension premiums are therefore at least partially canceled out.

In a number of cases, expenditure changes have been converted into so-called premium equivalents. The premium equivalent signals the potential change in the social security or pension premium that offsets the change in social security or pension expenditures in case of budget neutrality, after taking into account the employee premium.

For budgetary purposes, it is recommended to decide within the short term to index the AOV eligibility age to life expectancy or to take significant steps in increasing the AOV eligibility age before 2030. The resulting improvement in the public budget is needed in order to maintain long term financial sustainability and to finance the additional social security expenses and lower tax revenues in case of more second-pillar pension savings.¹⁶ A decision within the short term to index the AOV eligibility age to life expectancy enables a gradual increase, while maintaining long term financial sustainability – even if there might be short or medium term temporary deficits. The longer the decision is postponed, the more drastic the increase in the AOV eligibility age will be to ensure long term financial sustainability. This consideration concerns the intergenerational distribution of costs and benefits of AOV. A short term decision to index the AOV eligibility age will benefit younger generations, whereas postponement of this decision will benefit the older

¹⁶ Note that the short-run effect on tax revenues exceeds the long-run effect. In the short and medium term, employers and workers can subtract their paid pension premiums from the income tax, whereas many retirees are not yet paying their taxes on received pension income.

generations. In Table 7.2 it is assumed that about one quarter of the full financial effect of raising the AOV eligibility age would be reached in 2030. This already leads to significant public budgetary improvements of ANG 25 and 35 million, respectively.

The financial effects for every policy option, and their subvariants, are subsequently explained in the following sections.

Table 7.1 Structural annual financial effects (million ANG)

	Public budget		Employer expenses		
	Expenditures	Revenues (taxes and premiums)	Direct costs	Premiums	Implied average premium change (%-points of wages)
1. Financial assistance: Adjustment of benefits	+1	-	-	-	-
2. Financial Assistance: Enforcement	-0.4	-	-	-	-
3. Sickness and disability insurance: Financial incentives for employers					
3a. sickness period = 6 weeks	-6	-6	+5	-6	-0.6
3b. sickness period = 26 weeks	-11	-11	+9	-11	-1.1
4. Sickness and disability insurance: Organizational improvement	-	-	-	-	-
5. Unemployment Insurance					
5a. UI maximum duration = 3 months	+13	+18	-10	+13	+0.5
5b. UI maximum duration = 6 months	+21	+29	-10	+22	+1.8
5c. UI maximum duration = 9 months	+25	+35	-10	+27	+2.4
6. Financial Assistance for elderly with incomplete AOV					
6a. Take-up = 12%	+3	-	-	-	-
6b. Take-up = 20%	+8				
6c. Take-up = 25%	+11	-	-	-	-
7. Stimulating second-pillar pensions					
7a. Premium = 12%; take-up = 50%	-	-2	-	+11	+2
7b. Premium = 22%; take-up = 75%	-	-9	-	+39	+14
8. Higher AOV eligibility age					
8a. AOV age = 67	-45	+15	-	+5	-
8b. AOV age = 70	-110	+30	-	+10	-

Source: Own calculations.

Note: the amounts are calculated for the year 2050, taking into account demographic change and productivity growth, and deflated to 2022.

Table 7.2 Medium-term annual financial effects of a higher AOV eligibility age (million ANG)

	Public budget		Employer expenses		
	Expenditures	Revenues (taxes and premiums)	Direct costs	Premiums	Implied average premium change (%-points of wages)
8. Higher AOV eligibility age					
8a. AOV age = 67	-11	+4	-	+1	-
8b. AOV age = 70	-28	+7	-	+2	-

Source: Own calculations.

Note: the amounts are calculated for the year 2030, taking into account demographic change and productivity growth, and deflated to 2022.

7.2 Financial assistance: adjustment of benefits

Financial assistance benefits will be increased and at the same time the financial incentive to accept paid work will be strengthened. It becomes more rewarding to accept part-time paid work for benefit recipients. Compared to the current regulation, labor income will be subtracted at a lower rate from one's benefits. The so-called marginal effective tax rate is therefore importantly lowered as a result of this policy option, and this makes part-time work in addition to one's benefits more rewarding.

There are two main effects on the government budget:

- Higher expenditures on financial assistance;
- Increased tax revenues as more financial assistance recipients accept paid work.

The second effect is relatively small in size, because workers with earnings below the minimum wage pay no taxes. Moreover, the marginal effective tax rate for the low incomes (currently at 15 percent) goes up, so that it can decrease for the somewhat higher incomes (currently at 100 percent). Those with earnings above the minimum wage will start paying taxes as a result of the proposed reforms. The amount is however small at the macro level.

The budgetary consequences are therefore mainly driven by expenditures. The primary effect is higher expenditures as a direct result of (on average) higher financial assistance benefits. A second, smaller, effect is that expenditures go down because a group of financial assistance recipients succeeds in finding paid work.

Assuming that at least half of financial assistance benefit recipients does not perform part-time paid work, the government budget improves by ANG 1 million annually (Table 7.3). After its implementation, this policy option takes effect quickly.

The structural impact in 2050 is comparable to the short term impact (after immediate implementation). The reason is that this reform only affects the working-age population (and not retirees). Hence, demography does not substantially affect the budgetary impact.

Table 7.3 Changes in financial assistance expenditures and tax revenues (deflated to 2022 million ANG)

	2022		2050	
	level	change	level	change
Expenditures (financial assistance)	7.5	+1	11.4	+1
Payroll tax revenues	139	-	195	-

Note: figures are indicative. The percentage change concerns the relative change in financial assistance expenditures

7.3 Financial assistance: Enforcement

Stricter screening of applicants for financial assistance, more strict controls of financial assistance recipients, and more job-finding assistance imply:

- higher expenditures on civil servants who carry out these tasks;
- lower expenditures on financial assistance as some claimants will not receive benefits (anymore);
- lower expenditures on financial assistance as more recipients will find a job;
- higher tax revenues as employment goes up.

The sum of these effects is shown below (Table 7.4). Expenditures go down by ANG 0.4 million, equal to 4 percent of total financial assistance expenditures. The additional tax revenues are small, because low-wage workers in Sint Maarten typically pay few taxes. Like with the previous measure, the long-term effects are comparable to the short-term effects, because the effect of demography on this policy option is limited.

Table 7.4 Changes in financial assistance expenditures and tax revenues (deflated to 2022 million ANG)

	2022	2050
Expenditures (government)	-0.4	-0.4
Tax revenues	-	-

Note: figures are indicative.

7.4 Sickness and disability insurance: Financial incentives for employers

At present, an employer pays the employees' wages during the first three days of sickness and during the first day of disability due to an accident. If an employee is sick or disabled beyond this period, then the employer payments are reimbursed by SZV. As a result, employers do not experience an effective incentive to prevent sickness and disability of their employees.

Extending the period of employer payments and abolishing the reimbursement by SZV stimulates employers to prevent sickness and disability. The extension obviously leads to higher employer costs for those employers with sick employees. On the other hand, the extension of sickness and disability payments incentivizes employers to invest in prevention, and this will lead to both lower employer costs (sickness and

disability payments) and lower public expenditures (ZV and OV). At the macro level, the employer costs become lower, because the lower ZV and OV premiums more than compensate for the increased sickness payments. Note that the increased risk of employee sickness and disability that employers face can usually be insured in the private insurance market.

Employers pay for the extended sickness period. The related amount is however 20 percent lower than their current premium contributions, as strengthened incentives for employers lead to more prevention and less sickness. Total employers' expenses will thus go down as a result of this policy option. The lower (average) employers' expenses will increase labor demand and reduce (hidden) unemployment. As a result, the amount of taxes collected will structurally increase by up to ANG 0.1 million (Table 7.5).

The budgetary effects are calculated both for 2022 and 2050. The difference in effects is the result of demographic change and productivity increases. Productivity increases both lead to higher insured wages and to higher premium revenues. The impact of demography and productivity is however limited in size, because the (composition of) the working-age population will not have much impact.

SZV expenditures will decrease by ANG 4 to 6 million annually in case the sickness period is extended to 6 weeks, and by ANG 8 to 11 million in case the sickness period is extended to 26 weeks.

Table 7.5 Sickness and disability expenditures and premium revenues (deflated to 2022 million ANG)

	2022			2050		
Sickness period	Current level	6 weeks (change)	26 weeks (change)	Current level	6 weeks (change)	26 weeks (change)
Expenditures (SZV)	11.8	-4.3	-7.7	16.6	-6.1	-10.8
Direct employer costs	-	+3.4	+6.1	-	+4.8	+8.6
Premium revenues	100.1	-4.3	-7.7	140.5	-6.1	-10.8
Payroll tax	138.9	+0.0	+0.1	195.1	+0.1	+0.1
Implied premium per employee (%)	1.48% (ZV); 0.20% (OV)	0.91% (ZV); 0.15% (OV)	0.49% (ZV); 0.09% (OV)	1.48% (ZV); 0.20% (OV)	0.91% (ZV); 0.15% (OV)	0.49% (ZV); 0.09% (OV)
Of which: for employer	0.98% (ZV); 0.20% (OV)	0.42% (ZV); 0.15% (OV)	0% (ZV); 0.09% (OV)	0.98% (ZV); 0.20% (OV)	0.42% (ZV); 0.15% (OV)	0% (ZV); 0.09% (OV)

Source: Own calculations.

Note: Figures are indicative. The current direct employer costs are unknown. These costs are related to the first three days of sickness and the first day of disability.

Consequently, lower premiums will be levied. Structurally, premium revenues will precisely equal expenditures. Therefore, the total amount of premiums collected will go down by the same amounts. The implied premium equivalents of the financial effects of an extension of the sickness period are shown below (Table 7.5). The employer premiums will be considerably lower as a result of this policy option. In the option with an extension to 26 weeks, the ZV employer premium even becomes zero and the OV premium just 0.09 percent. In this policy scenario, employer expenses will almost entirely shift from general premium payments towards sickness pay for individual workers. In this policy scenario, the remaining part of sickness and disability insurance can almost entirely be financed by the current level of employee premiums. The premium equivalents in 2050 are equal to those calculated for 2022, because sick and accident pay on the one hand and the premium base on the other develop proportionally.

7.5 Sickness and disability insurance: Organizational improvement

The integration of ZV and OV will save administrative costs. On the other hand, there will be incidental expenditures to implement this integration. The structural budgetary effect is positive, but relatively small. A table is not included, as the net budgetary impact of this policy is insignificant at the macro level.

7.6 Unemployment insurance instead of Cessantia

The unemployment insurance scheme provides a monthly wage-related benefit for a maximum duration. It replaces the one-off payment from Cessantia. The central policy option assumes

- a gross replacement rate of 70 percent of gross wages,
- a maximum amount of unemployment benefit of ANG 25.000,
- a reference requirement of 9 months. An unemployed worker should have been employed for at least 9 months within the previous two years in order to qualify for unemployment insurance benefits.

The end of this section discusses outcomes for alternative parameters of the unemployment insurance scheme.

If the maximum duration is three months, then the expenditures are moderately higher than the current Cessantia expenditures. However, if the maximum duration is nine months, then expenditures more than double. The premium per employee would then rise by 2.4 percentage-points to 4 percent. In the long-term (2050) it is expected that the expenditures as well as the revenues are inflated by the same productivity growth and growth of the working-age population. Hence the ratio between expenditures and revenues remains the same, and the premium remains the equal.

We take into account administration costs of 16 cents per ANG of unemployment benefits paid out by SZV. This equals the current average administration costs of SZV.¹⁷

The implementation of the unemployment insurance scheme would also lead to savings in financial assistance and to additional tax revenues. With a maximum unemployment insurance duration of 6 months, it is expected that nearly one thousand less people enter financial assistance on a yearly basis. This results in annual savings of ANG 2 million in the government budget. As people in financial assistance do not pay income taxes and many people in unemployment insurance do, the policy option also leads to an increase in income tax revenue. This amount is estimated at ANG 2 million. Savings in financial assistance expenditures positively depend on the maximum unemployment insurance duration.

Alternative parametrizations of the unemployment insurance scheme are of course possible, and imply a different impact on the government budget. If the gross replacement rate is set at 60 percent instead of 70 percent, then both expenditures and premiums would be about 8 percent lower. And with a gross replacement rate of 80 percent, expenditures and premiums would both be about 7% higher. If the maximum unemployment benefit is set at ANG 30.000 (instead of ANG 25.000) per year, then expenditures and premiums both increase by about 9% compared to the figures in Table 7.6.

¹⁷ See SZV's Condensed Annual Report 2020.

Table 7.6 Expenditures and revenues in three policy scenarios for replacing Cessantia by an unemployment insurance scheme (2022 million ANG)

	2022: Cessantia			2022: Unemployment Insurance		2022: Unemployment Insurance minus Cessantia	
Maximum duration (months)	-	3	6	9	3	6	9
Public expenditures (direct effect)	0.2	14	23	28	14	23	28
Financial assistance expenditures		-1	-2	-2	-1	-2	-3
Direct employer costs	10	-	-	-	-10	-10	-10
Premium revenues	0.7	14	23	28	13	22	27
Income tax revenues		4	7	8	4	7	8
Implied premium per employee (%)	1.5	2.0	3.3	4.0	0.5	1.8	2.4
Total expenditures as %GDP	0.4	0.5	0.9	1.1	0.5	0.9	1.1

Source: Own calculations.

Note: Figures are indicative. Cessantia expenditures are largely made by employers directly, whereas UI expenditures are made by government (and financed by premiums).

The calculations assume that the (structural) use of unemployment insurance equals 4, 6, and 7 percent of the working-age population, for the maximum durations of 3, 6, and 9 months respectively. Note that the structural use of unemployment insurance is typically lower than the unemployment rate. This is the case in most countries, because not all unemployed qualify for unemployment insurance benefits. This concerns in particular long-term unemployed (beyond the maximum unemployment insurance duration) and unemployed workers not meeting the reference requirement (i.e. being employed for at least 9 months prior to their unemployment spell). The assumed use of unemployment insurance therefore corresponds to an unemployment rate of about 10 percent. If during economic downturns the unemployment rate is higher than 10 percent, then the public expenditures on unemployment insurance increase proportionally to the unemployment rate. On the other hand, if the business cycle is positive and unemployment is lower than 10 percent, then the expenditures will proportionally decrease.

7.7 Financial Assistance for elderly with incomplete AOV

Financial Assistance is also available for elderly with an incomplete AOV who reside in Sint Maarten and have little or no other resources. At present, around 400 AOV recipients receive supplementary financial assistance (source: own calculations based on VSA data and the government budget). The related government expenditures are ANG 1.8 million annually (Table 7.7).

In the absence of reforms, by 2050 expenditures would increase by 190 percent as a result of population growth of the elderly (ANG 5.3 million). Currently, the take-up of financial assistance is estimated at 9 percent of the elderly population (source: own calculations based on VSA data, government budget and own demographic projections).

Table 7.7 Expenditures on supplementary Financial Assistance of AOV recipients in three scenarios (deflated to 2022 million ANG)

	No policy change		Higher FA take-up		
	2022	2050	2050	2050	2050
Take-up	9%	9%	12%	20%	25%
Expenditures	1.8	5.3	8	13	17
Change in expenditures		-	3	8	11

Source: Own calculations.

The policy option increases expenditures on financial assistance benefits to elderly to ANG 8 million, in case 12 percent of AOV recipients would apply for the benefits. If the take-up would increase to 20 percent of AOV recipients in Sint Maarten, expenditures would rise to ANG 13 million. And if a quarter of AOV recipients would receive supplementary financial assistance then the concerning expenditures would increase to ANG 17 million.

7.8 Stimulating second-pillar pensions

Pension contributions are deductible from one's taxable income. However, most workers do not save in an occupational pension plan. Not all employers facilitate pension savings and not all employees make use of the opportunity to save money for their pension. Current estimates for Sint Maarten of the pension take-up range between 24 and 50 percent.¹⁸

More workers will participate in second-pillar pension plans if the government and social partners pay more attention to pension saving, and stimulate employers and workers to make use of the opportunities to save for their old-age pensions. Communication, transparency, and positive framing of the benefits of pension savings may help to achieve this. More flexibility in the pension schemes (e.g. in the pay-out phase or different risk profiles) could also make them more attractive.

The budgetary impact depends on the take-up and the pension premium in the new situation. We calculate the budgetary impact for a take-up of 50 and 75 percent. We compare these take-up rates to a benchmark take-up of 24 percent, which is the lower bound estimate of the current use of second-pillar pensions. We calculate the budgetary impact for a yearly pension premium of 12 and 22 percent (of the worker's income minus AOV-franchise). These percentages are based on the analyses of Keesen (2013) and SER (2013), who formulate lower and upper bounds for the pension premium.

The implied budgetary impact lies between ANG 2 and 9 million. This budgetary impact is not expected to change much in the future, as the amounts calculated are in fact structural amounts (based on individual life cycles) and demographic changes both have positive and negative budgetary effects which cancel out.¹⁹

When calculating the financial effects, it is assumed that the marginal income tax paid while working is 30 percent. It is also assumed that the tax paid on the pension benefit is 20 percent, with the first ANG 7066

¹⁸ See Keesen Actuarissen (2013) and SER Sint Maarten (2012).

¹⁹ More pensioners means that tax revenues (levied on pension income) will increase. On the other hand, a relative decrease in the working-age population means that the fiscal subsidies have to be paid for by a smaller number of individuals.

being exempt from taxation. The real return on investment in pension assets is assumed to equal 2 percent per year, after the subtraction of costs for administration and asset management.

The implied premiums are shown in the right panel of Table 7.8. These premiums only apply in case of take-up; otherwise they equal zero.

Table 7.8 Tax revenues and premiums given take-up rate (deflated to 2022 million ANG)

	50% take-up	75% take-up	Total premium paid per employee	Employer premium	Employee premium
Premium 12%	-2	-5	12%	8%	4%
Premium 22%	-4	-9	22%	14.7%	7.3%

Source: Own calculations.

Note: Rows indicate the total premium paid per employee over their income minus the AOV-franchise. Columns indicate the percentage of eligible workers who make use of this tax deductibility. The amounts are indicative.

7.9 Higher AOV eligibility age

Raising the AOV eligibility age leads to a decrease in AOV expenditures. It also creates an increase in income tax revenues and premiums paid, as on average people will retire at a later age. If no action is taken, then AOV premiums will only cover 65 percent of the expenditures in 2050 (Table 7.9). This development is driven by demographic change (ageing). If the AOV eligibility age is increased to 70 years in 2050, then the premiums raised will more than suffice to cover AOV expenditures. An intermediate option of raising the AOV eligibility age to 67 will lead to premium revenues covering 80% of expenditures.

If the AOV eligibility age would remain unchanged at 65, then both expenditures and revenues would increase in the coming decades. However, expenditures would rise at significantly faster pace than revenues. Expenditures in 2050 would increase by 190 percent as a result of population growth of the elderly. Premium revenues would then increase by about 45 percent. One third of this latter growth is related to a growth of the working-age population, and the two thirds are related to productivity growth. In the longer run, productivity growth will lead to higher labor income, which is the basis for premiums and labor income taxes.

Table 7.9 AOV expenditures and premium revenues in three scenarios (deflated to 2022 million ANG)

	2022	2050	2050	2050	Change (2050)	
AOV eligibility age	65	65	67	70	67	70
Expenditures	90	265	220	155	-45	-110
Premium revenues	115	170	175	180	+5	+10
Tax revenues workers above age 65	0	0	15	30	+15	+30
Premium / benefits	125%	65%	80%	115%	+15%-points	+50%-points

Source: Own calculations.

Note: Figures are indicative, and rounded to ANG 5 million or 5%.

8 Economic and social feasibility

8.1 Introduction

Reforming the social security system of Sint Maarten has been on the agenda for years. Various bodies have made recommendations over a series of years to improve the social security system; the emphasis of these recommendations is often on the affordability and financial sustainability of social security system, and much less on providing an adequate safety net to the people of Sint Maarten and providing the right labor market incentives. To date, the earlier recommendations have only been implemented to a limited extent.

The IMF (2022) recommends Sint Maarten to urgently implement premium increases and cost reductions in order to put social security (and health care) on a financially sustainable path and to prevent deficits in the public budget. According to the IMF, the social security and health insurance system (SZV) poses risks to Sint Maarten's public finance and to the process of fiscal consolidation. In view of the IMF, the SZV has taken several steps to improve efficiency, including compliance measures, measures to lower costs, and raising the income ceiling on social insurance contributions. These steps slow the pace of reserve depletion of the healthcare and social security funds, but additional reforms are needed to put the system on a sustainable footing, according to the IMF.

The Board of Financial supervision of Curacao and Sint Maarten (Cft), has been pressing for years for reforming the social security system and in particular for raising the AOV age in order to make, and keep, the AOV financially sustainable. With the IMF, the Cft considers the financial perspective of the social security funds a risk for government finances if policy remains unchanged. The Cft insists on concrete policy measures to make and keep social provisions affordable. Improving compliance is one of these measures for which the Cft has been pressing.

The country package of Sint Maarten has a broader perspective when it comes to social security reform than just affordability and financial sustainability. In the country package, it is concluded that the social security system of Sint Maarten does not contain the incentives necessary to stimulate labor market participation and that it does not offer sufficient guarantees to manage social problems, in particular in light of Sint Maarten's high vulnerability to economic and natural shocks. The country package must ensure that the social security system will have an activating function, with the right incentives in the right place, while ensuring an adequate social safety net. The reforms designed under the country package – and as proposed in this report – aim to modernize and improve the functioning of the social security system. In the proposed reforms, financial savings are not an end in themselves, but a means to make the system affordable and sustainable for current and future generations.

At the same time, the major financial problems with the healthcare and AOV funds heading towards Sint Maarten cannot be underestimated and ignored. Although this problem now mainly manifests itself in health care costs – shortages mainly occur in ZV (which mainly covers medical costs and only to a limited extent the costs of continued payment of wages in the event of illness) – the financial perspective for the AOV is also worrying. This is due to the aging population of Sint Maarten.

In addition to measures primarily aimed at modernizing and improving the effectiveness and the efficiency of the social security system, the proposed package of reforms also includes measures aimed at affordability and financial sustainability. The package has been designed in such a way that it is possible to implement an integrated package of reforms that implies a substantial improvement in the safety net function and the

activating effect of the system, has favorable effects on public finances and contributes to financial sustainability, and does not need to lead to premium increases. In addition, improvements in the functioning of the social security system aim to realize economic benefits that contribute to more stable welfare growth in Sint Maarten and its resilience to economic shocks.

8.2 Economic performance and social security

Sint Maarten is known as a fragile yet relatively resilient economy. The past decade has shown that the country is regularly hit by external shocks. Hurricanes Irma and Maria caused an economic contraction in 2017 and 2018 of 5.8 and 6.6 percent respectively. As a result, unemployment rose to 9.9 percent in 2018. The hurricanes also made it clear how resilient the economy of Sint Maarten is - noting that major financial and operational support has been made available by the Netherlands for the reconstruction -: the economy of Sint Maarten grew in 2019 - the year after hurricanes Irma and Maria - by 10.9 percent.

Sint Maarten is one of the countries in the Caribbean region hardest hit by the COVID-19 crisis. The economy shrank by 17.9 percent in 2020 and unemployment rose to 16.8 percent. The impact of COVID-19 on Sint Maarten was therefore about twice as strong as the average impact in the Caribbean region. At the same time, Sint Maarten is showing a strong recovery with real growth figures of 8, 7.5 and 5 percent in 2021, 2022 and 2023. For the medium term, real economic growth of 2 percent per year is somewhat higher than what the IMF estimates for Aruba and Curacao. In response to COVID-19, the government of Sint Maarten introduced several measures to support employment and incomes.

Table 8.1 Key figures Sint Maarten

	Sint Maarten	Curacao	Aruba	Caribbean region
Real per capita GDP, 2022	USD 29.765	USD 19.160	USD 28.863	USD 13.000
Real GDP growth, medium term projection (2026 and onwards)	2%	1,5%	1,5%	2%
Unemployment rate, 2022	11,2%	19,2%	10,5%	11%
Youth unemployment rate, 2018	17,9%	29,3%	16%	n.a.
Share of temporary contracts, 2018	19%	15%	8%	n.a.
Debt-to-GDP ratio, 2022	63%	83%	106%	80%

Source: Caribbean Analytics and Statistics (2022)²⁰

Sint Maarten is one of the most prosperous countries in the Caribbean region according to official statistics. GDP per capita is more than twice as high as the Caribbean average, one and a half times that of Curacao, and equal to that of Aruba. The situation might well be less favorable than it seems. A large number of undocumented workers live and work in Sint Maarten. These workers contribute (to some extent) to the country's GDP, while they are not accounted for in determining the countries' per capita GDP (as this only accounts for the official population).

Despite the high volatility, the economy of Sint Maarten grew faster than the Caribbean region and faster than Aruba and Curacao. In addition, the prospects are also more favorable than for Aruba and Curacao.

²⁰ <https://economisch-bureau.shinyapps.io/caribbean-analytics-statistics/>

Sint Maarten has a relatively dynamic labor market. The share of temporary contracts is considerably higher than in Aruba, Curacao and the Netherlands. A vast majority (about 80 percent) of workers come from outside Sint Maarten. Temporary contracts and the inflow of (temporary) foreign labor accommodate the volatile and seasonal economy of Sint Maarten. Despite recent external shocks (hurricanes Irma and Maria, and Covid-19), the official participation rate has remained roughly stable over the last years and the unemployment rate is in line with regional peers. Sint Maarten has a large informal economy, the exact size of it is unknown. The informal economy consists of people having second jobs 'off the radar' and illegal (foreign) labor.

Despite a strong increase from 15 percent in 2010 to 63 percent in 2022, the debt-to-GDP ratio is relatively favorable compared to Aruba, Curacao and the Caribbean region. Since the COVID-19 crisis however, Sint Maarten's debt ratio has risen above the threshold set by the IMF for Caribbean countries²¹. In addition, public finances in Sint Maarten have to deal with a major liability, i.e. the deficits in the health care and social security funds that are already foreseen for the short term if no measures are taken. Both the IMF and the Cft warn against the risk for fiscal consolidation of these deficits.

Despite its relatively favorable economic performance, Sint Maarten is experiencing substantial poverty with associated social problems. In addition to the large number of undocumented migrants, the poverty problem is also directly related to the outdated and poorly functioning social security system and the skewed income distribution. There is no insurance against loss of income in the event of unemployment through an unemployment scheme. The lack of an unemployment scheme in Sint Maarten is all the more pressing because of the countries' high sensitivity to external shocks and the seasonality the economy. The financial assistance, which one has to fall back on in case of unemployment, is far from sufficient to reach the subsistence level. As a result, there is a high risk that unemployment pushes people towards the informal labor market or even towards illegal activities. And there is also hardly any activating policy. The AOV, on which many elderly people are completely dependent for lack of a supplementary pension, is also insufficient to make ends meet. There is a lot of poverty among the elderly in Sint Maarten. And there is also hardly any activating policy.

In a modern, relatively prosperous economy like Sint Maarten, the social security system should insure workers against the loss of income, and labor laws should protect jobs. In a modern social security system, risks and incentives are placed where they can best be controlled or are most effective. That is with employers and employees as primary actors in the labor market; and where the market falls short, the government intervenes. Both – sufficient protection and activation – are lacking in the social security system of Sint Maarten.

The reforms proposed in this report are aimed at modernizing and improving the effectiveness of the social security system of Sint Maarten: with the right incentives in the right place; that activates and protects employees; that stimulates employers to invest in quality of work; that contributes to stable economic development; that is affordable in both terms of public finance and burden on employers and employees; and that can count on support by social partners and stakeholders.

8.3 Financial feasibility

The financial implications of the proposed recommendations are summarized in the table below (see for an extensive presentation of financial effects, chapter 6).

²¹ Debt-to-GDP ratios above 55 percent are considered to put a drag on economic growth in Caribbean countries.

Table 8.2 Structural annual financial effects of the proposed reforms²²

		Public finance	Employer costs	Employer premiums
		budget improvement (+) or budget decline (-)		
Activating financial assistance	<ul style="list-style-type: none"> • Adjustment benefits • Better enforcement 	-0.7	-	
Strengthened incentives in ZV and OV	<ul style="list-style-type: none"> • Shift risk from public to employer • Investment in prevention and reintegration 	0	-1 to -2	-0.6 to -1
Unemployment insurance	<ul style="list-style-type: none"> • Safety net for unemployment • Consumption smoothing and better matching 	+5 to +10	+3 to +17	+0.5 to +2.4
Improve income for elderly with incomplete AOV	<ul style="list-style-type: none"> • Financial assistance for targeted group 	-3 to -11	-	-
Index AOV eligibility age to life expectancy	<ul style="list-style-type: none"> • Gradual increase • Improvement financial sustainability 	+60 to +140	[+5 to +10] ²³	0

As the table reveals, the package of reforms implies a significant improvement in public finances. The net improvement of the integrated package of reforms implies a structural, long term improvement of the public budget of ANG 50 to ANG 130 million annually (country Sint Maarten and SZV).

Dependent on several policy choices to be made – in particular choices with regard to the depth and length of the unemployment benefit scheme – the package of reforms can be cost neutral for employers. Costs for employers may increase however with more generous unemployment benefit schemes. Indexation of the AOV eligibility age only increases employer costs on a (aggregated) macroeconomic level as premiums will be paid over more employees who work longer. The premium itself remains unchanged.

The package of reforms is concluded to be financially feasible and contributes to the long term financial sustainability of the social security system of Sint Maarten.

8.4 Economic benefits

The proposed social security reforms primarily serve the purpose of providing an adequate safety net for people who need it, ensuring sufficient income in the event of job loss and old age, activating people to increase self-reliance and inclusiveness, and reduce poverty and related social problems. These reforms are designed in such a way that with the right choices, the modernized system is affordable and will remain sustainable in the future.

The proposed reforms entail a number of economic benefits that contribute to a stable economic development. These economic benefits are particular relevant for Sint Maarten as the countries' economic development is volatile, seasonal and vulnerable to economic shocks. The recommended package of reforms contributes to enhanced economic resiliency.

²² The ranges presented in this table represent policy-options with regard to the reforms.

²³ The increase in employers' costs is fully attributable to employees working longer. There is no increase in premiums.

Significant economic benefits can be expected from the unemployment scheme. First, the unemployment scheme ensures better consumption smoothing, acts as an 'automatic stabilizer' for the economy and is an effective policy instrument to mitigate the impact of economic shocks. Unemployment insurance primarily serves to spread consumption over time (consumption smoothing) in the event of fluctuations in the economy and employment. This prevents acute social problems in the event of unemployment, resulting in high social costs. Limiting the loss of household income during economic crises keeps aggregate demand on track, slowing down a self-reinforcing process of economic downturn and further rising unemployment. The benefits of consumption smoothing and the stabilizing effect on the economy are of particular importance to Sint Maarten, because the economy has a highly volatile character due to limited diversification and its high dependency on international trade (exports and imports).

Second, an unemployment scheme is an adequate tool to increase the resilience of households and the economy as a whole against external shocks, such as hurricanes and pandemics. With an unemployment scheme in place, there is a legal and financial infrastructure, and an implementation structure, to mitigate the socio-economic consequences of shocks with such a heavy impact. For example, during severe economic shocks with long-lasting effects, the parameters of the unemployment scheme – such as the duration/amount of benefits and/or the access requirements – can be adjusted in such a way that such effects can be mitigated effectively.

Thirdly, an unemployment scheme contributes to a better match between supply and demand in the labor market because the unemployed can make a more considered choice for work during unemployment. Acute financial distress due to unemployment is prevented from forcing sub-optimal choices to be made, such as choosing a job that does not fit well or for informal work or illegal activities out of necessity.

Economic benefits also materialize from other proposed reforms, such as the strengthened incentives to invest in proper working conditions, in the quality of work and to prevent sickness. The reforms result in less sickness and improved productivity. In addition, increasing the AOV eligibility results in sustainability of the AOV fund, mitigates the financial risk of the ageing population for Sint Maarten's public finances, and creates room for productive public spending.

8.5 Acceptance and social feasibility

The proposed package of reforms is not a rigorous, costly plan. It is a coherent and feasible plan to achieve an efficient and affordable social security system. It is essential that the preconditions as described in preceding chapters are fulfilled first (enforcement, social dialogue) before the proposed reforms are implemented. However, this does not apply to all reforms; a number of them can already be realized in the short term and qualify as no-regret measures (see next chapter Implementation).

Political and societal buy-in, consistency with other parts of the country package, sufficient and timely communication, and sufficient capacity, organizational strength, expertise and resources for both the reform trajectory and for the structural implementation are, according to stakeholders, necessary conditions for successful implementation of this extensive reform trajectory. There is strong uncertainty and concern among stakeholders about all three conditions.

In the context of this study, the proposed package of reforms has extensively been discussed and tested with stakeholders and social partners in Sint Maarten. The various steps taken during the research project – description of the current social security system, problem analysis, reform proposals, and financial effects –

were presented to stakeholders and the support for these reforms was tested and discussed. The following general picture emerges from these conversations:

- There is broad support for the whole package of proposed reforms and for the individual measures. Stakeholders qualify the package as 'balanced', 'logical', 'cohesive', 'positive' and 'easy to digest'.
- Stakeholders see significant value for Sint Maarten in an unemployment scheme; understand the benefits of strengthening incentives for employers to invest in sick-leave prevention; and understand the need to raise the AOV age, especially when this measure is announced on time and introduced gradually – as is the case with indexation based on life expectancy. At the same time, there are fundamental concerns among stakeholders on several levels.
- A primary concern is the political commitment and courage needed to decide on and implement this package of reforms. Stakeholders attach great importance to communication with and involvement of employers, trade unions and the general public before and during the implementation of reforms. This not only creates a broad understanding and support before and during the implementation process; as a result, the reforms will be 'requested' from society, which creates the necessary pressure on politics. Thorough and consistent communication also prevents misconceptions about the reforms and the intended results. Communication is also essential to allay substantial concerns about the impact of reforms. It is important that stakeholders are (and remain) well informed about this.
- A second concern is the coherence of reforms in social security and the labor market, with reforms in other areas of the country package such as health care (General Health Insurance), taxation, the public sector, and education. There is a broad perception that insufficient attention is paid to this coherence and that this coherence is insufficiently safeguarded. As a result, there is a risk of 'too much at once' and of inconsistency or even contradiction of reforms in these different areas. Sint Maarten and the Netherlands should give top priority to ensuring and safeguarding this cohesion and prioritizing reforms.
- A third concern relates to the capacity, expertise and resources in the country of Sint Maarten, and the organizations involved, that is needed for the implementation of these reforms. The country of Sint Maarten has little or none of these.
- A fourth and final point of concern relates to the SZV. During the discussions with stakeholders, various signals were received about problems and backlogs in the implementation of existing schemes by the SZV. Stakeholders are therefore concerned about whether the SZV is currently in a position to implement a new scheme such as an unemployment scheme.

8.6 Conclusion

The package of reforms is designed such that it results in savings in government expenditures, that does not lead to a higher premium pressure for employers and employees, while providing an effective social safety net. Additional expenditures are offset by savings in other parts of the system. In addition, the proposed reforms entail economic benefits that are of particular significance to Sint Maarten. The package of reforms can count on broad acceptance and support, while at the same time there are fundamental concerns on the implementation process. The package of reforms is concluded to be financially, economically and socially feasible, however several preconditions must be met and concerns need to be addressed.

9 Implementation

9.1 Risks

There are several risks that could hinder the successful implementation of the reforms.

A first risk concerns the implementation of only part of the proposed reforms and not the package as a whole. When this risk manifests itself, one can no longer speak of a balanced package and the financial feasibility, support base and economic benefits become uncertain.

A second risk concerns the order in which the reforms are implemented. If the enforcement function in social security and the labor market has not been brought up to the minimum required level, and if the social partners do not have a strong enough position in the (run-up to the) implementation process, some of the reforms are ineffective or may even backfire. It is therefore strongly recommended not to reform ZV and OV, nor to introduce an unemployment scheme, as long as the enforcement function is not effective. This precondition applies less strongly to reforms of financial assistance and formalizing financial assistance for AOV recipients, and does not apply for raising the AOV eligibility age, for which improving enforcement is not required. In fact, it is strongly recommended not to postpone the decision to gradually increase the AOV eligibility age as this would entail financial distress and more rigorous and painful decisions in the future.

A third risk concerns insufficient political commitment and continuity. Reform of social security and the labor market requires a lengthy process of several years, in which continuous attention and priority must be given to the balancing of employers' interests and where difficult choices have to be made. An effective reform process (see also the section on implementation) also requires that a number of steps that are politically less attractive be taken before the more appealing reforms are implemented. Implementing the full package of reforms, in the right sequence, requires political courage and determination.

A fourth risk stems from resistance among social partners to the proposed reforms. This risk manifests itself to a large extent when the proposed reforms in the area of the labor market and in the area of social security are inconsistent and insufficiently balanced. Or when the implementation of both reforms does not take place simultaneously. It is essential that reform of both areas is discussed, prepared and carried out as a whole.

A fifth risk concerns the burden on the civil service of Sint Maarten. The phasing of the reform proposals makes it feasible, provided the necessary capacity, knowledge and resources are made available. If the required external capacity, knowledge and resources are not made available, or are not made available on time, or are insufficient, this can lead to the entire package not being implemented, or to cherry picking.

9.2 Implementation program

Ten steps for the implementation plan and process are distinguished. These steps are presented in the diagram below, including an indicative timetable, and a budget of capacity, expertise and resources. The implementation plan consists of ten steps; a period of three years is foreseen for implementation and an indicative implementation budget to cover external implementation costs of USD 725,000. This budget excludes the costs of deploying civil servants from the country of Sint Maarten, the costs of legal capacity, and the costs (such as automation and digitization) of the SZV for the implementation. The costs of

strengthening enforcement are also not included; for this purpose an assessment of the respective organization will have to take place as well as an incorporation in the efforts that are being made with regard to theme B of the country package (effectiveness of the public sector).

0 - Program 'Modernization labor market and social security Sint Maarten'

It is important to consider the social security reforms as an integrated program with reforms in the labor market. The different steps are interrelated and must be implemented in the correct order. It is recommended that an external program manager be appointed to guide the entire process of implementation. This program manager directs the various projects, monitors progress and escalates to the Minister of VSA if necessary, prepares decision-making, provides progress reports, information flows, etc. The program manager also maintains contact with the stakeholders and informs and involves them if necessary. The program manager is a full-time position; the costs are estimated at USD 150,000 per year.

1 - Integrated policy paper reforming labor market and social security - 2023Q1

It is essential that the reform proposals for the labor market (E.1) and for social security (E.4) are brought together in one integral policy paper. This is not just a writing exercise. In order to arrive at a policy paper that can actually serve as a basis and guideline for the implementation process, social partners and a number of key stakeholders will have to be consulted again, some reforms will have to be worked out in more detail and, where possible, coordination will be sought with reforms in other areas. The costs (including travel and accommodation costs) are estimated at USD 25,000.

2 - Decision on policy paper by the Council of Ministers - 2023Q1

Decision-making by the Council of Ministers on the integral reform program serves as the formal starting point for implementation process. The Minister of VSA, mandated by the Council of Ministers, should present the reform program to the social partners on the basis of this decision.

3 - Communication plan - 2023Q1 to 2025Q3

Support from social partners and the general public for the reform program is not self-evident, but must be created, stimulated and supported by targeted communication and information activities. Awareness will have to be created among trade unions, employers and the public about how the reforms contribute to greater security, activation and resilience of the economy. Strictly speaking, this applies not only to the reform of the labor market and social security, but to the country package as a whole.

Effective communication is a requirement for successful implementation. Without effective communication, reform of the labor market and social security becomes a black box for the public, misperceptions may arise, eventually leading to resistance. An important part of the implementation process is therefore the development and implementation of a communication plan. Primary target groups of the communication strategy are the social partners (trade unions and employers), politicians (ministers and parliamentarians), public and semi-public organizations (ministries, advisory bodies, supervisors, etc.). Secondary target groups are the media, the general public, Dutch politicians and international organizations (World Bank, IMF). It is recommended that a communication expert be appointed to develop and implement this strategy, unless internal (government) communication experts can take up this project. We budget the costs of development of such a plan at USD 50,000 and the costs of implementation at USD 25,000 annually.

4 - Conference with social partners and stakeholders - 2023Q2

As a starting point for the implementation process, a broad conference is proposed with trade unions, employer organizations, key stakeholders, government officials and independent experts. The aim of this conference is to ensure that all parties involved receive the same objective information at the same time

about the bottlenecks in the current system, the proposed reforms and their underpinnings, the financial effects, and the continuation of the implementation process. Such a conference has already taken place in Aruba and is the starting point for a process in which trade unions and employers together try to find common ground for the proposed reforms. The costs of organizing this conference are estimated at USD 25,000.

5 - Structure and organize the role of social partners - 2023Q2 to 2023Q3

The involvement of social partners in the process leads to better understanding between government, employers and employees and improves the effectiveness and the efficiency of the process. The social dialogue (bipartite and tripartite) is an essential precondition for effective reform of the labor market and the social security system. It is recommended to organize and structure from the outset of the implementation process dialogues between unions and employer (bi-partite) and between unions, employers and the government (tri-partite).

The development of knowledge among employers' organisations and unions can be promoted by contacts with sister organisations in Aruba, Curacao and The Netherlands. A joint foundation of social partners could be considered.

6 - Implementation of no-regret measures - 2023Q3 to 2024Q1

For a number of reforms, strengthened enforcement is an absolute condition for implementation (ZV/OV, unemployment scheme). This does not apply to other reforms, such as raising the AOV age and - to a lesser extent - the formalization of the social assistance benefit for AOV beneficiaries. After agreement has been reached with the social partners, these reforms can already be implemented in 2023 (raising AOV age in the first quarter of 2023; financial assistance at the end of 2023). These reforms qualify as no-regret measures.

A decision in the short term to index the AOV age to life expectancy ensures the long-term financial sustainability of the social security system in general, and the AOV in particular, and prevents politically difficult and socially painful decisions having to be made in the future to make incidental, strong increases in the AOV age.

[illegible]

7 - Strengthen the enforcement function - 2024Q2 to 2025Q1

Lack of compliance due to ineffective enforcement is a problem in several policy areas in Sint Maarten: taxes, healthcare, immigration, labor and social security. Concerning the latter (social security), there are major challenges with regard to the payment of premiums, payment of wages during Carensdagen, payment of Cessantia, payment of the minimum wage and licenses for temporary work agencies. It is recommended to apply an integrated, coherent approach to enforcement functions in those policy areas. Aligning procedures, methodologies, risk analysis, intelligence/data, implementation of a single e-/ID-number (*burger service nummer*), etc. in different areas of enforcement, may lead to significant improvements in effectiveness and efficiency.

Strengthening the enforcement function should be started with from the outset of the implementation process. It is recommended to carry out an assessment of the enforcement functions across all policy areas and develop a plan of action and implementation to bring these at the minimum required level. This should be done as part of theme B (cost and effectiveness of the public sector) of the country package and should be given top-priority in the implementation agendas of the country package. Adequate enforcement is a precondition for effective reforms in most policy areas (and themes of the country package); postponement entails a significant risk to the effectiveness of a significant part of the country package.

8 - Capabilities and organizational assessment SZV (targeted at unemployment scheme) - 2023Q2 to 2023Q3

There are concerns about implementation capacity of the SZV. These concerns relate to the implementation of current schemes, such as ZV and the AOV, and to the implementation of the newly recommended unemployment benefit scheme.

SZV has made various improvements in the internal organization in recent years, but further improvements are required. An extensive 'SZV 3.0' project is currently being launched, aimed at strengthening the internal organization and digitization in order to be able to operate more efficiently and in a more customer-friendly way.

An assessment by an external expert is recommended in order to assess SZV's ability to implement the proposed unemployment scheme and identify improvements to be made to that end. SZV is sympathetic to this assessment, which is limited to the feasibility of the unemployment scheme.

It is recommended that this assessment be carried out in the first half of 2023, so that the resulting improvements can be incorporated into the 'SZV 3.0' project. A budget of USD 100,000 is foreseen for this assessment by an external expert. The assessment will have to provide insight into which reinforcements are needed, what their capacity and budget requirements are, and which timelines are realistic.

9 - Unemployment scheme - 2023Q4 to 2025Q2

The introduction of the unemployment scheme has two main components. Firstly, there are the organizational adjustments at SZV in order to make implementation possible. These adjustments follow from the assessment by the external expert in the first half of 2023 and will be included in the 'SZV 3.0' process.

Secondly, there is a complex legal process. This process includes the dismantling of the Cessantia, the possible conversion to severance pay in the Civil Code, and the legislative process (drafting, advice, parliamentary discussion, decision-making and implementation) with regard to the national ordinance on unemployment schemes.

The realization of this step requires legislative capacity and expertise that is currently not or hardly available in Sint Maarten. For the time being, it is assumed that this capacity and expertise will be made available with the help of the Netherlands, partly for the benefit of legislative processes in the context of other parts of the national package. No budget has therefore been budgeted for this additional capacity.

10 - ZV and OV - 2023Q4 to 2025Q2

Also for the reform of ZV and OV and the introduction of a national ordinance on incapacity for work, organizational adjustments are required at SZV and a legislative process is required. For this, too, the necessary legislative capacity should become available.

9.3 Governance

The ten steps described above, together with the labor market reforms, form the program 'Labor Market and Social Security Modernization', which can be implemented between the end of 2022 and mid-2025. A programmatic and project-based approach to these reforms is an important, but not yet sufficient, condition for effective implementation of the proposed reforms. It is essential that there is a governance structure that makes it clear to all organizations and persons involved in the implementation how responsibilities for implementation, support, steering, monitoring, reporting, commissioning, escalation and ultimate responsibility are organized and with whom they are held. Without such an implementation and governance structure, projects will become out of step, sub-goals will become leading instead of the main goal, accountability will fall short and the chances of successful implementation of the program as a whole will be small.

The reform of the labor market and social security is part of the country package of Sint Maarten and of the implementation agendas that Sint Maarten and the Netherlands have agreed in that regard. The ultimate political responsibility therefore rests with the Prime Minister of Sint Maarten and the State Secretary for the Interior and Kingdom Relations of the Netherlands. In case of problems in the progress of the program, they serve as the highest escalation platform.

The Council of Ministers of Sint Maarten established the program and mandates the Minister of VSA as the politically responsible minister of the program. This implies that all officials and organizations involved in the implementation of the program and of the individual projects work on behalf of the minister of VSA. Other ministers do not intervene in commissioning, management or implementation. This requires a concrete, clear formulation of the mandate that has been established in the Council of Ministers and to which the full cabinet commits.

A steering committee for the program is installed that falls under the instructing minister of VSA. The steering committee consists of senior officials from the policy directorates of the ministries involved (VSA, Justice) and is chaired by the SG of the Ministry of VSA.

The Temporary Working Organization will play an important role in monitoring and facilitating the implementation process. In addition, the Ministry of Social Affairs and Employment of The Netherlands, and possibly other organizations from The Netherlands, will provide expertise and assistance during the entire process of implementation.

With the implementation of this program, the civil service of Sint Maarten, in particular the Ministry of VSA and the SZV, will have a significant additional task for a longer period of time. It is therefore important that the (chairman of) the steering committee receives adequate support. This support consists of the program manager to be appointed, who is responsible for the day-to-day management of activities, the preparation of decision-making by the steering committee, the reports, the agendas, and ensuring the information flows.

The implementation is organized in project teams (e.g. communication, legislation, social assistance, incapacity for work, unemployment, pensions). Project teams are staffed by expert employees from the organizations/services involved. The different projects require different forms of external support to make the implementation feasible, in particular legal capacity. Without additional, external capacity and expertise, implementation of the program will not get off the ground (in its proposed form).

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