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**SOCIAL
PROTECTION
IN JAMAICA**

STRENGTHS AND LIMITATIONS OF
ITS REDISTRIBUTIVE MECHANISMS

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SOCIAL PROTECTION IN JAMAICA

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Abstract

This paper explores how social protection in Jamaica helps reduce inequality through redistributive mechanisms, and the effects on company and worker behavior, labor market segmentation and productivity. For that purpose, it analyzes the main social protection programs, including contributory programs, the national health program and the main poverty alleviation program. The analysis finds that Jamaica has a fragmented social protection system, with some elements favoring redistribution and others hindering it. Costs associated with formality result in few direct benefits for formal workers and high cross-subsidization of informality, acting as an implicit tax on formal private-sector employment. Furthermore, Jamaica has a national insurance scheme with low coverage due to high informality and a highly regressive government pension scheme. Universal health coverage and the poverty alleviation program facilitate redistribution by focusing benefits on lower-income quintiles. Jamaica's social protection architecture has a direct impact on social outcomes, as well as productivity and the rule of law, and a comprehensive analysis is key to its improvement.

JEL Code: H23, H55, H75, J21, J31, J32, J38, J40, J45, J46, J65, J80.

Keywords: Provision and effects of Social Protection Programs, labor force, wages and labor costs, welfare redistribution

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1. Introduction

The objective of this paper is to evaluate to what extent social protection in Jamaica helps reduce inequality through redistributive mechanisms, and what impact these have on productivity. To that end, it analyzes a selection of key social and protection policies that affect inequality, not only by redistributing resources, but by shaping the behavior of companies and workers, segmenting the labor market and affecting productivity.

To understand how social protection policies operate in Jamaica, the legal framework that regulates them must first be examined. The social security system, labor policies and programs associated with the participation or status of workers affect labor market characteristics and segmentation. There are two main contributory pension schemes: the National Insurance Scheme (NIS), which is compulsory for all workers, and the Public Pension Scheme (PPS), which is specific to public employees. Additionally, there are a series of programs funded partially or totally through payroll taxes that affect labor segmentation. The varied nature of the contributory programs results in direct benefits and cross-subsidies that might disincentive formalization. Second, an analysis of labor regulations, such as the minimum wage law and redundancy policies, will give a fuller picture of the (dis)incentives that explain the low participation in the contributory social security scheme and the segmentation of the labor market. Third, this paper looks at programs that can contribute to the redistributive effects of the system. The sections on the universal health system and the main anti-poverty program, the Programme of Advancement Through Health & Education (PATH), will reflect on Jamaica's social protection system's ability to reduce inequality through redistributive mechanisms. The systemic analysis of the social protection system will show how social policies interact with each other and impact social outcomes, productivity and the rule of law.

1.1. The labor market

The Jamaican social security structure is organized by a legal framework that includes legislation on the national insurance system; income and equal opportunities; job security and termination of employment; freedom of association, collective bargaining and labor relations; working conditions, hours and vacations; maternity license; and additional regulations for specific sectors, including public service. Table 1 summarizes the list of essential legislation that segments workers in Jamaica.

All employees between the ages of 18 and 70 must be registered under a NIS number and contribute to the scheme, regardless of whether they are working full-time, part-time or on probation. This includes domestic workers, agricultural workers, seasonal workers and self-employed workers. Therefore, every worker in Jamaica is legally mandated to contribute to the social security system (Eclker, 2018; Ministry of Labour and Social Security [MLSS], 2020). There are special regulations on contributions and contractual relationships for self-employed workers and domestic workers, such as “flat amount” contributions. Public service employees, in addition to the NIS, are also covered by the Public Service Pension Law, which regulates specific benefits for the sector.

Table 1. Legal Framework for Workers

		Private Employee	Government Employee	Self-Employed	Domestic Worker	Agricultural Worker	Employer
Constitution	Jamaica (Constitution) Order in Council Act, 1962 (S.I. 1962 No. 1550).	*	*	*	*	*	*
Insurance System	National Insurance Act (Act 38 of 1965)	*	*	*	*	*	*
Income and Equal Opportunities	Minimum Wage Act, 1938	*	*		*	*	*
	Employment (Equal Pay for Equal Work) Act of 1975	*	*		*	*	*
	Women (Employment of) Act (Cap. 417).	*	*		*	*	*
	Employees Share Ownership Plan Act (Act 7 of 1994).	*					*
Job Security, Termination of Employment	Employment (Termination and Redundancy Payments) Act (Acts 31 of 1974, 6 of 1986).	*			*	*	*
Freedom of Association, Collective Bargaining and Labor Relations	Labour Relations and Industrial Disputes Act. (L.N. 310/76).	*					*
	Trade Union Act (Cap. 389).	*			*	*	*
Working Conditions, Hours Worked and Vacations	Employment (Flexible Work Arrangements) (Miscellaneous Provisions) Act, 2014 (Act No. 15 of 2014).	*			*		*
	Holidays with Pay Act (Cap. 149).	*	*		*	*	*
	Holidays (Public General) Act (Cap. 148).	*	*		*	*	*
Maternal Licenses	Maternity Leave Act (Act No. 44 of 1979).	*	*		*	*	
	National Insurance (Maternity Benefit) Regulations 1980.	*	*	*	*	*	
Additional Regulations Per Sector	Shops and Offices Act (Act No. 27 of 1957).	*					*
	Mining Act (Cap. 253).	*					*
	Fishing Industry Act (Act 17 of 1975).	*		*			*
	Shipping Act (Act No. 8 of 1998).	*		*			*
Public Service	Public Service Regulations (L.N. 92/61).		*				
	Public Bodies Management and Accountability Act, 2001 (Act No. 30 of 2001).		*				

Source: Author's own elaboration.

Jamaica has a population of approximately 2.7 million people, of which 1.3 million participate in the labor force (48.9 percent). The labor market can be organized based on the stratification derived from the NIS, which is mandatory for all workers in the country. The labor force can be divided among employees (56.4 percent), self-employed workers (31.9 percent), employers (3 percent), and unemployed workers (8.7 percent). Employees are categorized into private, domestic, government and agricultural workers, a subdivision that reflects variance in the type of coverage and contributions to the social security (Figure 1).

Figure 1. Jamaica's Labor Market Composition

Labor Force	Employee	752,900	56.4%	Private	367,507	48.8%
	1,334,900	48.9%		Domestic	64,500	8.6%
				Government	148,200	19.7%
				Agricultural	172,693	22.9%
				Self-Employed	426,200	31.9%
Unemployed	115,700	8.7%				
Employer	40,100	3.0%				

Source: Author's own calculations based on The Statistical Institute of Jamaica (STATIN) 2018.

Jamaica has been growing slowly for the last seven years, with average annual GDP growth of 1 percent and a peak of 1.94 percent in 2018 (World Bank Data). Through a strict Stand-By Arrangement with the International Monetary Fund (IMF), the country has developed sturdier domestic institutions and stronger fiscal discipline. Unemployment declined from 15.5 percent in 2011 to 7.3 percent in 2019, a historic low. The labor force also grew from 47.9 percent of the population to 50.2 percent in the same period (Table 2).

Table 2. Main Labor Market Indicators, 2011-2018

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020*
Population	2,697,983	2,707,191	2,716,400	2,722,900	2,727,500	2,733,100	2,728,500	2,727,900	2,727,200	2,726,800
Labor Force	1,293,186	1,297,600	1,304,500	1,310,700	1,325,400	1,355,500	1,346,800	1,334,900	1,369,500	1,279,600
Employed Population	1,093,000	1,103,400	1,110,500	1,124,500	1,146,800	1,180,800	1,207,100	1,219,200	1,269,100	1,118,300
Unemployment Rate	15.5%	15.0%	14.9%	14.2%	13.5%	12.9%	10.4%	8.7%	7.3%	12.6%

Source: STATIN, Labour Force Survey 2014-2018.

* June 2020.

The most significant problem faced by the labor market is informality, which represents approximately 60 percent of total employment. The Statistical Institute of Jamaica defines as formal only people who are engaged in non-agriculture activities. Domestic helpers employed by households are also excluded from the data as they are in an independent category that

falls under neither the formal nor the informal sector. Thus, the *Labour Force Survey* divides the labor force between formal, informal, agricultural and domestic workers. Nevertheless, the legislation states that both agricultural workers and domestic workers should contribute to the NIS. Therefore, this document considers as informal workers any worker not contributing to the NIS. This approach is better, as it looks at compliance with the law regardless of the occupation of the worker. Workers classified as informal are not complying with the labor laws, whether that responsibility fall to the employer (employed, domestic and agricultural workers) or to the workers themselves (self-employed workers).

Unlike unemployment, informality has not been affected by the trend in economic growth. Figure 2 shows the evolution of GDP growth and the stability of informality in recent years. While growth has been positive since 2013, informality has remained unchanged.

Figure 2. GDP growth and labor informality, 2011-2018

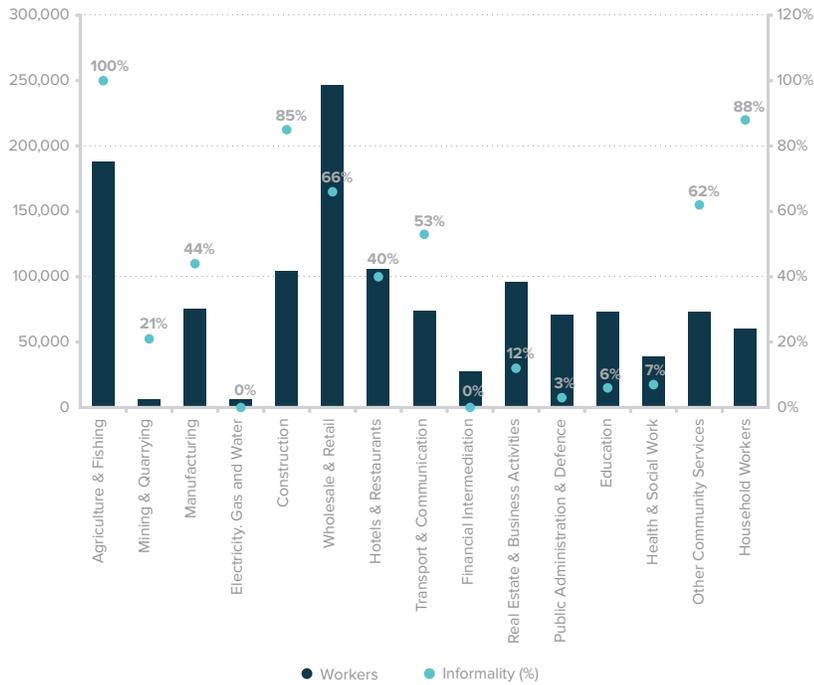


Source: World Bank Data, STATIN.

The highest levels of compliance with registration are found where the company or organization is larger (e.g., financial; electricity, gas and water, etc.) and where evasion is very difficult. There is more informality where economic processes are carried out by smaller firms or individuals, and where enforcement is much weaker or non-existent (e.g. agriculture, domestic work, construction, wholesale) (Figure 3). If informality is analyzed by occupational group, skilled agricultural (77 percent) and construction (79 percent) workers host the largest groups of informal workers. Service workers (51 percent), plant and machine operators (57 percent), and elementary occupations (59 percent) present lower (but still high) rates of informality. On the other side of the spectrum, white-collar workers such as administrative workers (5 percent) and professionals (27 percent) have the lowest levels of informality (STATIN).

Official reports estimate that 80 percent of jobs in Jamaica are in micro, small and medium enterprises (MSMEs), but the majority are created by sole proprietorships, as nearly 35 percent of working Jamaicans are self-employed and only 7.8 percent of them create jobs for others (MICAFA, 2018). MSME classification is based on total annual turnover and employment. Microenterprises have sales less than J\$15 million and employ fewer than five workers. Small enterprises have sales between J\$15 million and J\$75 million and employ between 5 and 20 workers, while medium enterprises have sales between J\$75 million and J\$425 million and employ between 21 and 50 workers (MICAFA, 2018).

Figure 3. Number of workers and informality (percentage), by industry (2018)



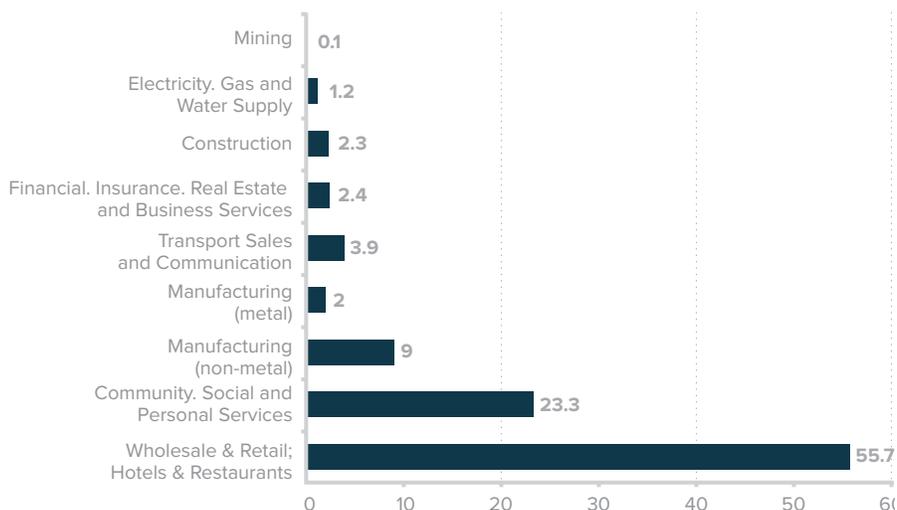
Source: Authors' calculations based on STATIN.

Note: Informality in Agriculture and Fishing is not available. It is expressed at 100 percent because STATIN does not include the sector as part of formal employment.

According to an analysis by the Ministry of Industry, approximately 97.6 percent of all classified and registered enterprises fell within the definitions of MSME (MICAFA, 2018). While there are no recent official estimates on the size and composition of the MSME sector, it is estimated that there are about 200,000 formal small-and-medium enterprises (SMEs) in Jamaica, and between 200,000 and 400,000 microentrepreneurs (World Bank and IMF, 2015). The MSME landscape, including informal enterprises, is estimated to be 82 percent microenterprises, 14 percent small enterprises, and 4 percent medium-size enterprises (PSDP 2008; MICAFA, 2019). Figure 4 shows the sectoral composition of MSMEs: Wholesale and Retail, Hotels and Restaurants stands out with 55.7 percent, followed by Community, Social and Personal Service with 23.3 percent and non-metal manufacturing with 9 percent.

Businesses in Jamaica have to comply with licensing, registration and tax requirements and procedures. The two main regulations are a) registration with the Companies Office of Jamaica under either the Companies Act or the Registration of Business Names Act, and b) licensing under the Trade and Business Act, the Spirit License Law, the Hotel License, or similar (MICAFA, 2018). The available data show that only between 36 percent and 44 percent of MSMEs meet the registration requirements (Inter-American Development Bank [IDB] 2006, MICAFA, 2018).

Figure 4. Distribution of MSMEs by sectors, 2016



Source: Ministry of Industry, Commerce, Agriculture, and Fisheries (MICAF) 2018.

2. Contributory Social Security

Payroll taxes in Jamaica collect contributions for five specific programs: the National Insurance Scheme (NIS), the National Health Fund (NHF), the National Housing Trust (NHT), the Education Tax, and the Human Employment and Resource Training Trust (HEART). As presented in Table 3, contribution rates vary among employees, employers and self-employed workers. All contributions are deducted from the gross salary, except the Education Tax, which is estimated based on gross income minus NIS and any payment to an approved pension fund. The percentage for the NHF is collected through the NIS contribution, which adds up to 6 percent of gross salary up to a wage ceiling of JD\$1,500,000 per year (4 minimum wages).

Table 3. Contributions by wage/salary workers and self-employed workers

	Paid Employment			Self-employed workers
	Employee	Employer	Total	
National Insurance Scheme (NIS)	2.5%	2.5%	5.0%	6.0%
National Health Fund (NHF)	0.5%	0.5%	1.0%	1.0%
National Housing Trust (NHT)	2.0%	3%	5.0%	3.0%
Education Tax	2.25%	3.50%	5.75%	2.0%
Human Employment and Resource Training Trust (HEART)	-	3%	3.0%	-
Total	7.25%	12.5%	19.75%	12.0%

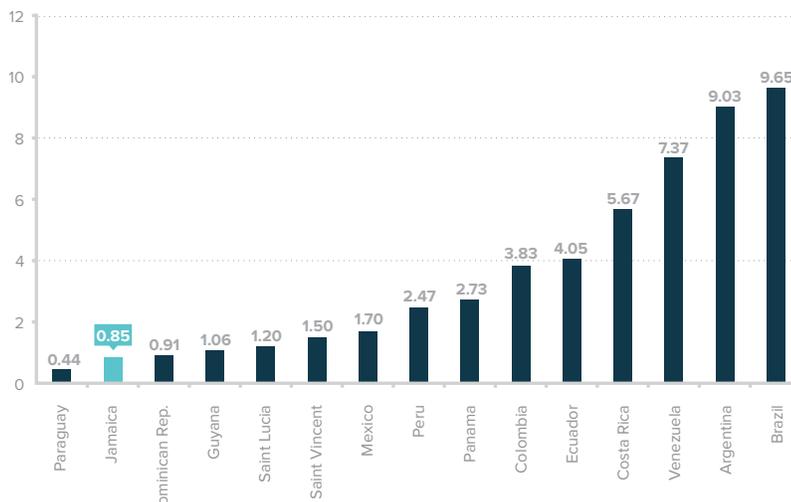
Source: Authors calculations based on TAJ (2020).

2.1. National Insurance Scheme

Jamaica’s public social insurance comprises the National Insurance Scheme and the Public Sector Pension Scheme. In addition, there are a plethora of private occupational pension schemes. The NIS was established in 1966 and is a contributory, defined benefit pension system. It provides benefits for retirement, disability, orphans, widows and widowers, work accidents and death, as well as dependent and spouse allowance, maternity allowance and funeral grants. There are, additionally, health benefits under the NI Gold, but these are only for retirees. All NIS pensioners (old-age pensioners and widows/widowers) are automatically enrolled in the plan and are not required to pay any premium. The plan covers hospitalization, hospital outpatient care, surgical services, doctors’ visit, diagnostic services, prescription drugs and dental and optical care. Benefits have annual utilization limits, and beneficiaries are required to make co-payments. Currently, the NI Gold represents roughly 0.5 percent of NIS spending.

Overall, spending on the main contributory pension in Jamaica is low, as less than 1 percent of GDP is spent on the NIS. This puts Jamaica among the countries with the lowest pension expenditures in Latin America and the Caribbean (Figure 5). Worldwide, countries’ public pensions for older persons amount on average to 6.9 percent of GDP, and the average public pension expenditure for Latin America and the Caribbean is 6 percent of GDP (International Labour Organization [ILO], 2017).¹

Figure 5. Pension expenditure as a percentage of GDP, middle-income countries



Source: ILO 2017.

The NIS is mandatory for all workers, and the non-working population can also make voluntary contributions. The contribution rate was recently increased to 6 percent, comprising 3 percent from employees and 3 percent from employers applied to gross earnings, with an

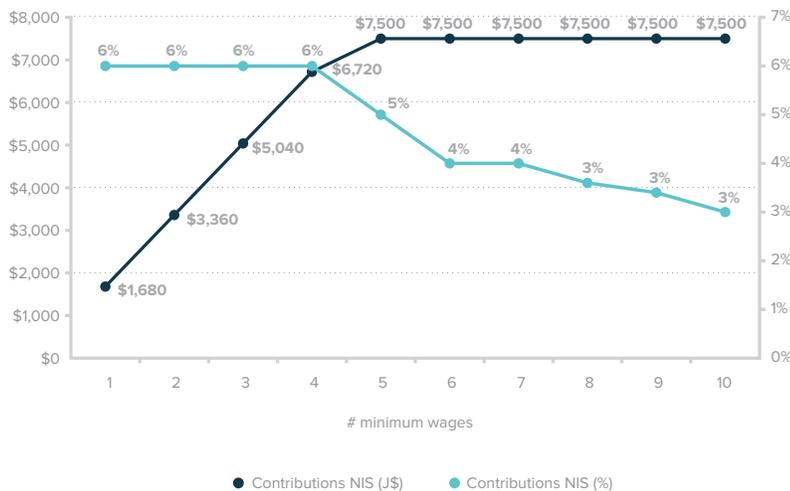
¹ The data represents public social protection expenditure on pensions and other benefits, excluding health, for persons above statutory pensionable age, by country income level, latest available year (percentage of GDP). Link: <http://www.social-protection.org/gimi/gess/RessourceDownload.action?ressource.ressourceId=54660>.

insurable wage ceiling of J\$1.5 million per annum, which is expected to increase to J\$3 million in 2021 and to J\$5 million in 2022 (MLSS, 2020). Out of the 6 percent collected for the NIS, 1 percent is allocated to the NHF, making the real rate 5 percent. The contribution to the pension system is low compared to the rest of the Caribbean, which has an average rate of 10.2 percent, and to Latin America, which has an average rate of 12.1 percent (Nassar et al., 2016). This has repercussions for the scheme’s financial stability, as the NIS will become a deficit program within the next 10-15 years (JIS, 2016).

Currently, the NIS contributions are regressive; due to the wage ceiling, workers earning more than four minimum wages begin to pay proportionally less (Figure 6). This incongruity will be solved once the wage ceiling increases to J\$5 million in 2022, which will practically cover all the payroll.

Domestic workers and voluntary contributors contribute a flat amount of J\$200 per week, which is expected to increase to J\$250 per week beginning 1 January 2021. Self-employed workers initially contribute the flat rate per week but are later assessed, based on tax returns, the balance of 6 percent of their salary up to the wage ceiling (Eclker, 2018).

Figure 6. Amount contributed according to salary in nominal value and as a percentage



Source: Authors calculations.

The retirement age is 65 for men and women, and retirement is compulsory from age 70.² The retirement benefit is a flat rate plus a wage-related benefit, which is based on whole career earnings. The amount of the flat rate depends on contribution history. The pensioner can obtain a full flat rate, ¾ flat rate, or half flat rate depending on the number of years they contributed (Table 4). The value of the flat rate is currently J\$3,400 per week, approximately half of minimum wage, and is adjusted every three years based on an actuarial review. The wage-related benefit is based on the contributions made to the scheme over the years: J\$0.06 for every J\$13 contributed. The benefits are not directly related to the minimum

² Workers may choose early retirement with a penalty of one percent per year of the pension for each year they retire before the age of 65.

wage. The NIS amounts are established by the Ministry of Labor and Social Security through an official actuarial review, while the minimum wage is approved by the government with the advice of the National Minimum Wage Commission.

A full pension (full flat rate plus wage-related benefit) requires that the worker contribute a yearly average of 39 weeks from the time they turn 18 until they retire at age 65, which equals 35 full years of contributions. A minimum of one year of contributions entitles the worker to a one-time grant of J\$30,000 (one monthly minimum wage).

The first limitation of the NIS is its low coverage of adults over 65. The scheme currently provides approximately 105,000 pensions, 78 percent of which are old-age pensions (Eckler, 2018; MLSS, 2020). Out of 291,000 adults over 65, the NIS only covers 28 percent through benefits directly related to worker contributions, and 36 percent if all other NIS pensions are added.

Low coverage is directly related to access to formal jobs and the NIS requirements for years of contributions. Among the elderly population (adults over 65), only three out of 10 reach the minimum nine years of contributions necessary to receive a pension from the NIS. Moreover, less than 1 in 10 contribute the 35 years necessary to reach the maximum flat-rate amount (Table 4).

Table 4. Contributions required for an old-age pension

Years of Contributions	Flat Rate + WR	% of Population over 65
35 years or more	Full flat rate + WR	7%
Between 23 and 35 years	3/4 flat rate + WR	7%
Between 9 and 23 years	1/2 flat rate + WR	14%
Less than 9 years	No pension	72%

Source: Eckler Consultants, 2018; MLSS, 2020.

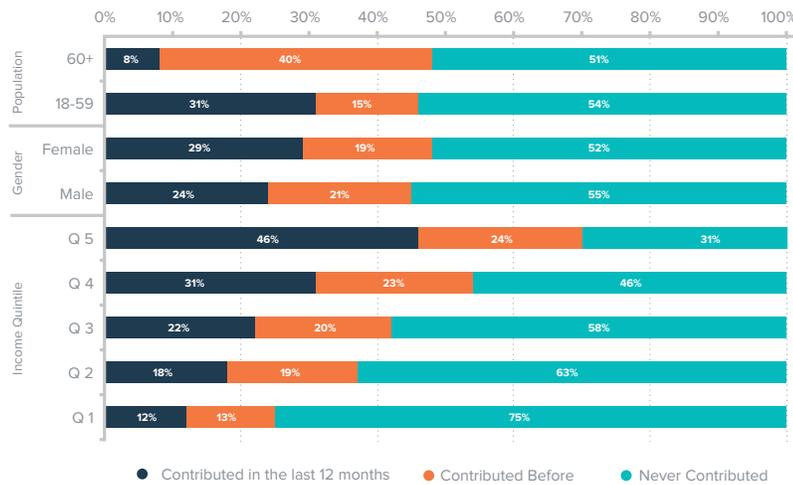
Low access and permanence in the formal employment sector exclude the majority of the population from ever contributing to the NIS, and stop many from obtaining any NIS benefit. Of people close to retirement age, 5 out of 10 never contributed to social security. Of those who did contribute, two out of five do not qualify for a benefit, as they were unable to contribute the minimum of nine years. Thus, they lose everything that they contributed. This means that seven out of 10 adults do not have access to an NIS pension, and for two of these 7, the NIS is a tax on 100 percent of their contributions (Jamaican Survey of Living Condition [JSLC], 2017).

Proportionally more people with high incomes have access to formal jobs. Figure 7 shows contributions to the NIS by population group. When the population is organized by income quintiles, it is observed that 75 percent of Q1 never contributed to the NIS, while that number is 31 percent for Q5. This naturally translates into lower coverage of the poorest quintiles, as will be seen further along. It is possible to infer from the data that those in the lowest quintiles have a lower permanence in formality and struggle to contribute enough for a pension. In other words, the workers who contribute to the scheme, and yet never earn a pension, are not evenly distributed across income quintiles but are skewed towards poor population.

The difference in access to formal employment is also present by gender, but unexpectedly, women make up a higher percentage of contributors. This would require further analysis, but could be related to the sectoral composition of the female labor force.

Another important finding from Figure 7 is that formality is not a constant, but variable, with people going in and out. It shows that 31 percent of the population ages 18 to 59 contributed in the last 12 months, while 15 percent said they contributed in the past, meaning that they were formal employees, but they are now either working an informal job or are out of the labor force. This, together with the fact that two out of three NIS beneficiaries do not contribute for enough years to receive the full pension, indicates that a large part of the population participates in the formal labor market at some point, but is then unable to endure long enough to capitalize on the benefits, and thus loses the contributions made over the years. That population is also more heavily concentrated in low-income ones.

Figure 7. Contributions to NIS, by population groups



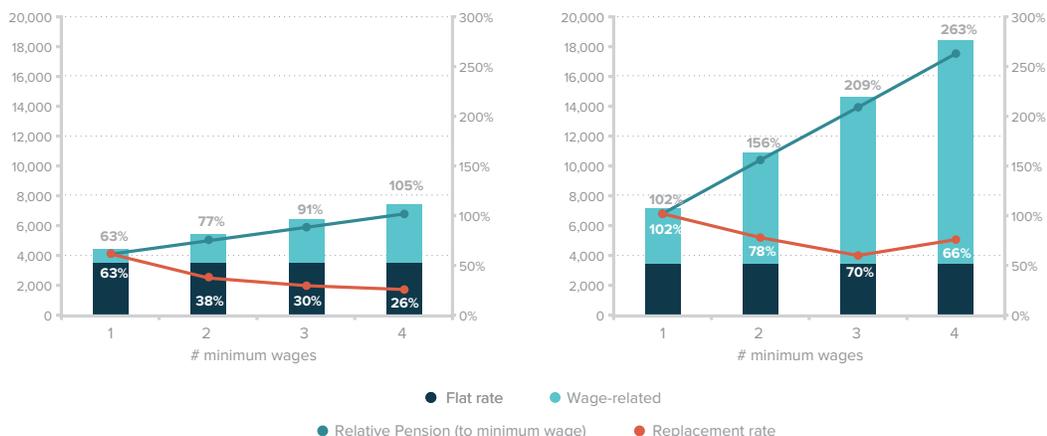
Source: JSLC, 2017.

A second important limitation of the NIS is the erosion of contributions and benefits. On the one hand, there is no inflation adjustment on the values contributed throughout the years, which significantly reduces baseline calculations for the wage-related benefit. From 1972 to 2019, there has been an average of 16 percent annual inflation, which affects the contributions of those who entered the labor market earlier during this period. On the other hand, once the benefit is calculated, inflation affects the wage-related component. While the flat rate component is adjusted periodically by the Ministry of Labour, the wage-related pension of existing retirees is not increased after commencement (Eckler, 2018). This is an implicit inflationary tax over the pensions that reduces the incentive to contribute to the NIS.

Figure 8 presents the calculation of the retirement benefit for pensioners that earned one, two, three or four minimum wages during their working period, assuming a constant wage and full contributions for 47 years. The graph on the left captures the expected values without inflation adjustment (as implemented by the NIS), while the graph on the right estimates the value of benefits if contributions over the years were adjusted for inflation. The graphs show the benefit amounts (indicating the proportion of the flat rate and the wage-related benefit) and the replacement rates and relative pension level.³

³ The replacement rate is defined as the gross pension entitlement divided by gross pre-retirement earnings. The relative pension level is the gross pension entitlement divided by a value of reference, in this case, one minimum wage.

Figure 8. Expected pension benefits (nominal amount and as a percentage of minimum wages) by the number of minimum wages. With and without adjustment for inflation



Source: Authors calculations based on Eckler Consultants 2018.

The graph on the left highlights the importance of the flat rate component in the total benefit, as it increases the replacement rate for lower salaries and reduces the impact of inflation on lower pensions. For workers earning one minimum wage before retirement, the flat rate represents 77 percent of the benefit, while for a worker earning four minimum wages, it represents 46 percent of the total benefit. Naturally, this affects the replacement rate and the relative pension. Workers earning one minimum wage have both a replacement rate and a relative pension of 63 percent, while workers previously earning four minimum wages have a replacement rate of 26 percent and earn approximately 105 percent of a minimum wage.

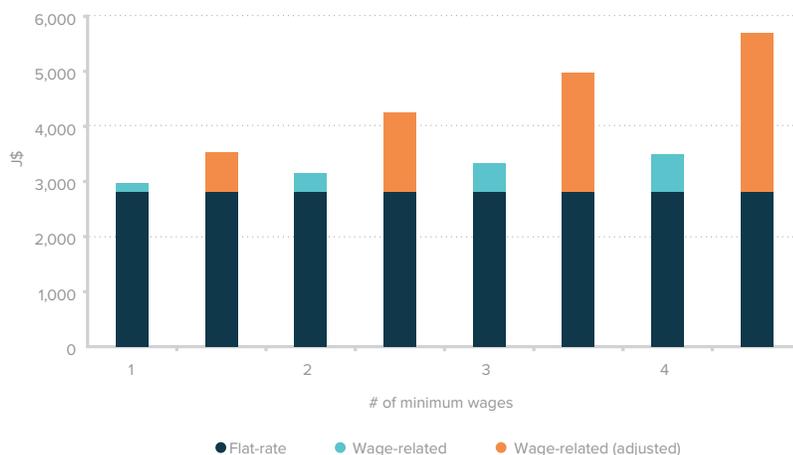
The graph on the right shows the estimated values of the pensions if adjusted for inflation. The first thing that changes is the proportion of the benefit represented by the flat rate. In this case, the flat rate represents 48 percent of the benefit for a worker making one minimum wage and only 18 percent for a worker making four minimum wages. Nonetheless, it still favors low-wage workers, improving redistribution by increasing their pension. Secondly, the wage-related benefit increases significantly, favoring those workers with higher salaries. For workers earning one minimum wage, both the replacement rate and the relative pension increase to 102 percent. For workers earning four minimum wages, the replacement rate increases to 66 percent and the relative level to 263 percent, meaning that they would earn pensions higher than two and a half minimum wages (instead of one by current calculations).

Considering the differences in the benefits if inflation was taken into account, it is estimated that workers earning one, two, three and four minimum wages would increase their benefits by 63 percent, 103 percent, 130 percent and 150 percent respectively. Therefore, pensions have a very large inflationary tax, which affects higher wages more significantly.

Once workers retire and the size of the pension is defined—assuming workers qualify for one—the pension is also influenced by inflation. Figure 9 describes the erosion in the real value of pensions through 2016 for those who retired in 2001, a period during which the

average annual inflation rate was 9.7 percent. For each wage level, the first bar reflects the actual value of the pension in 2016 and the second the value that would have been observed had the variable component been fully indexed. Those who retired with a pension of one minimum wage lost 16 percent of the real value of their pension; those with two minimum wages lost 26 percent; those with three minimum wages lost 34 percent; and those with four minimum wages lost 39 percent.

Figure 9. Pension Benefit with and without inflation adjustment (2001-2016)



Source: Authors estimations based on STATIN.

Based on the analysis of the NIS, some conclusions can be reached: without inflation, and if every worker was formal all the time, the NIS would be redistributive. This would be due to the flat rate, which benefits workers with lower wages. However, since not everyone is formal all the time, and since lower-income earners spend less time in formality than higher-income earners, the redistributive impact of the flat rate is lost. Moreover, the lower-income earners pay a very high tax because they lose their contributions by not making the minimum years of contributions. For those who do get a pension, their payments are significantly affected by inflation. Every pensioner loses, but the higher-income earners lose proportionally more than the lower-income earners because the wage-related benefit, which is not indexed to the consumer price index, is eroded in real terms. As a consequence, all contributors lose for one reason or another, either because of the nine-year contribution threshold or because of inflation; but lower earners lose more.

2.2. Public Pension Scheme (PPS)

Under the Public Pension Act, a public-sector employee who has at least 10 years of continuous service may retire under this scheme.⁴ The normal retirement age will gradually increase from 60 to 65 by 2023, and a pension is calculated at the rate of 1/540 of pensionable

⁴ A detail of all the possible situations that allow for retirement can be found in Accountant’s General Department’s website <https://www.treasury.gov.jm/service/pension-administration/#1234567>.

emoluments, multiplied by each complete month of pensionable service. The pensionable salary at the date of retirement is used to compute the pension due. After the benefit is calculated, increases are paid each year based on the government’s discretion. To qualify for an increase, pensioners should be in retirement for at least 2 ½ years and should be over the age of 55 (Auditor General’s Department [AGD], 2020). Beneficiaries are classified into the following categories: Public Officer; Police (Island Special Constabulary Force, Jamaica Constabulary Force); Parish Council; Governor-General; Pensioners relief fund; Compassionate Award; Widows and Orphans; Jamaica Railway Corporation; and Agricultural Society.

The PPS is the most regressive program in Jamaica since it is still financed almost entirely by public funds, adding up to a total expenditure of 1.75 percent of GDP. Although some categories of workers made contributions (police, councilors, and parliamentarians), the majority of public workers did not contribute to the system until two years ago. The contribution rate will gradually increase by one percentage point each year, to five percent by 2022. Nevertheless, there is no sustainable relationship between contributions and benefits. Actuarial projections show that if all employees contributed five percent of their salaries, contributions would cover only 20 percent of the expenditure (MOF, 2014). Therefore, the government would continue to subsidize the program with general revenues, spending approximately 1.4 percent of GDP.

Table 5. PPS income and expenses (% of GDP) and number of beneficiaries by benefit type

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Total*	1.52%	1.46%	1.51%	1.63%	1.55%	1.75%
Gov. of Jamaica	1.46%	1.40%	1.45%	1.57%	1.51%	1.71%
Contributions	0.06%	0.06%	0.06%	0.06%	0.04%	0.04%
Beneficiaries						
Old-Age pensions	31,843	32,029	33,217	29,105	38,286	N/A
Widow/widower Pensions	4,245	4,410	4,549	3,760	3,189	N/A

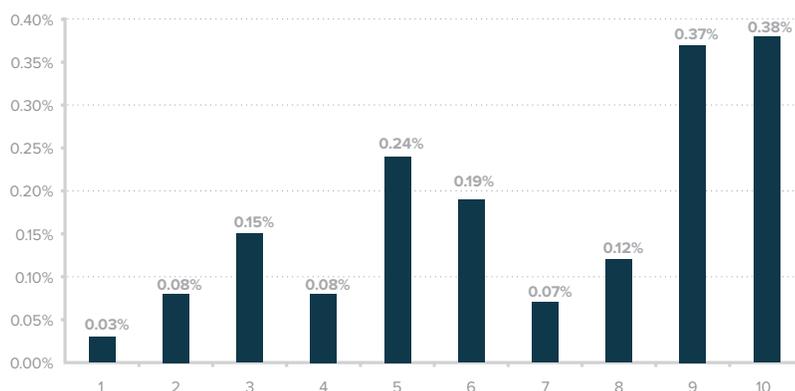
Source MOFPS.

Note: *70% corresponds to statutory expenditures and 30% to recurrent expenditures.

PPS benefits average 1.9 minimum wages, which is significantly higher than the NIS pensions, even though they are primarily financed through general revenues. This situation deepens the regressiveness of the PPS. The coverage is approximately 10 percent of the population above 65 years old, but varies significantly by income decile. Higher-income households have approximately 19 percent coverage, while PPS is almost absent in the lowest deciles. Figure 10 estimates how the PPS expenditure is distributed across income deciles based on the distribution of PPS beneficiaries. Out of the total 1.75 percent of GDP, the highest two deciles receive at least 0.75 percent. This shows the regressiveness of the scheme.

On average, PPS pensions are more than five times higher than NIS pensions. The average PPS pension represents 1.9 minimum wages, while the average NIS is 0.4 minimum wages. However, the average PPS contribution is approximately 10 percent of the average NIS contribution (Table 6). The NIS covers more than double the number of elderly, which highlights the uneven spending on pensions between both programs.

Figure 10. PPS expenditure as a percentage of GDP, by decile



Source: JSLC, 2017; Accountant General's Department.

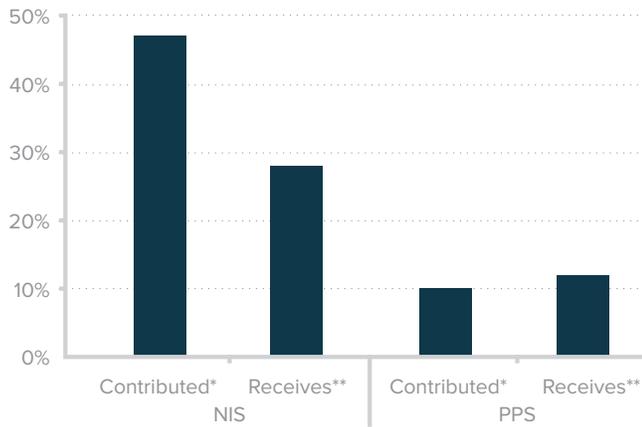
Table 6. Benefits comparison: NIS v. PPS

	Average Weekly Pension (J\$)	Average Weekly Pension (#minimum wage)	Average Weekly Contribution (J\$)	Beneficiaries
NIS	2,505	0.4	1,061	78,000
PPS	13,244	1.9	110	36,000
Ratio (av PPS/av NIS)	5.29		0.1	

Source: Authors based on MLSS and Accountant General's Department.

Another interesting finding is the comparison between those who contribute to and those who obtain the NIS and PPS benefits. This comparison is an estimate that is obtained from the JSLC and administrative data. Taking that into consideration, Figure 11 shows the stability of public workers versus the instability of formal workers in the private sector. While nearly two out of five contributors to the NIS do not receive any benefits, the correlation between PPS participants and beneficiaries is almost one to one. Public-sector employees are more likely to remain in their positions long enough to obtain a pension, and the benefits derived from the PPS are much higher than the NIS.

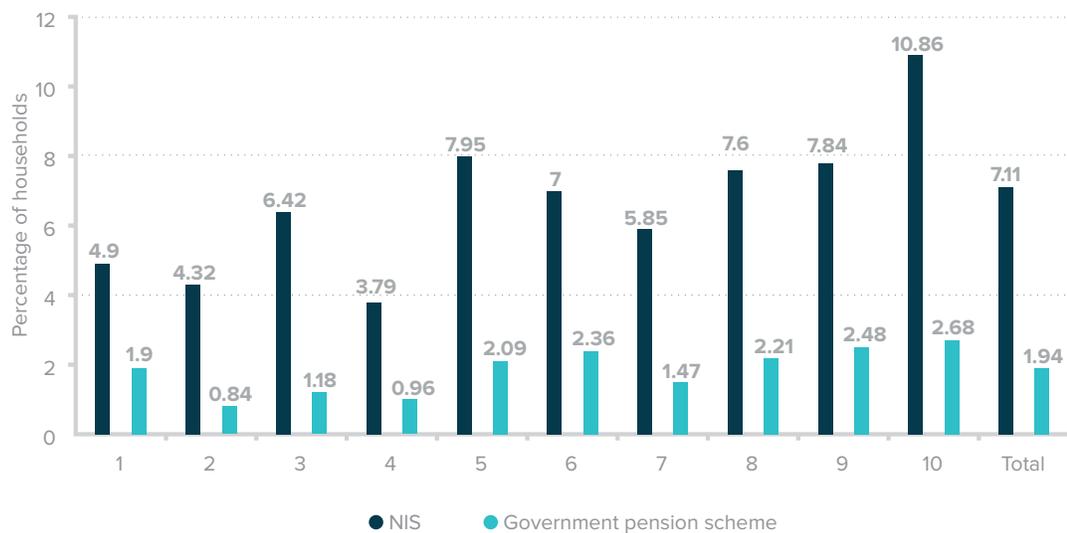
Figure 11. Population 65+ that contributed and receives NIS or PPS



Source: JSLC, 2017, MLSS, Accountant General's Department.
 * Based on survey responses. ** Based on administrative data.

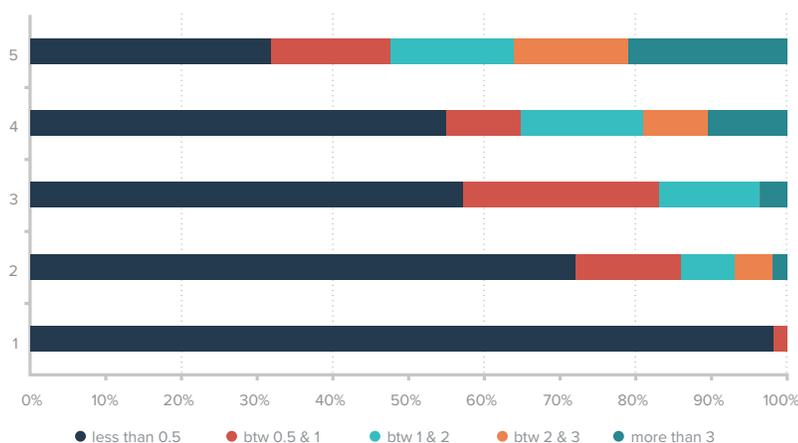
As a result of the design features, together with the different labor market dynamics of public and private-sector workers, the overall pension scheme is highly regressive and acts as an implicit tax on formal private-sector employment. When analyzed across income levels, it can be seen that lower-quintile households have smaller coverage as compared to richer households (Figure 12). The poorest of the elderly are the least protected and thus live in a more vulnerable situation. The distribution of pension benefits reflects regressiveness, as almost the entire first quintile receives less than half the minimum wage (Figure 13).

Figure 12. Percentage of household receiving NIS or PPS within the last 12 months



Source: JSLC, 2012.

Figure 13. Pension amounts (NIS, government and private) measured in minimum wages, by quintile



Source: JSLC 2012.⁵

As concluding remarks for the contributory programs, firstly, it can be argued that the main pension scheme in Jamaica, the NIS has low coverage. An estimated 7 out of 10 workers do not access an old-age pension, and 2 out of those 7 contribute but lose everything as they don't reach the minimum period required for a pension. Secondly, the contributory pension system is biased by income, with greater formality in higher quintiles leading to higher chances of obtaining an NIS pension. This is a limitation on the potential redistribution from higher-income workers to lower-income workers. Nonetheless, among pensioners, the use of the flat-rate benefit favors lower-income workers as it protects the value of the pension, although is harder for this group to access a pension. Thirdly, there is a de facto inflationary tax that erodes NIS benefits, which affects higher wage earners more. Finally, the pension system for the bureaucracy is highly regressive. It represents 1.75 percent of GDP and is financed almost entirely by the public purse. Even if all workers contributed, they would not be able to cover the costs.

2.3. Other Programs Financed With Payroll Taxes

In addition to NIS contributions, Jamaica's payroll taxes include contributions to the NHF, the NHT, HEART and the Education Tax. These programs cover a wide range of policies that, unlike the NIS, do not deliver direct benefits to the workers who contribute. Most of the funds collected through these contributions are allocated either to universal programs such as the NHF or to benefits that include a wider population than the contributors. This makes the benefits cross-subsidies from formal workers to other populations.

The NHF is an agency of the Ministry of Health and was established in 2003 by the National Health Fund Act. It helps Jamaicans access medicines in the public and private health sectors through the provision of the National Health Fund Card and the Jamaica Drug Program for the Elderly Card (JADEP). It also provides grants to institutions to improve health service

⁵ This estimate, using the Jamaican Survey of Living Condition (JSLC) 2017, presents very similar results. However, given that the 2017 sample is smaller, some of the quintiles have very few observations, which distorts the final table.

delivery and supports multiple health promotion programs to contribute to the prevention, reduction, and management of non-communicable and communicable diseases (NHF, 2020). The NHF's main expenditures are the NHF Card and JADEP, which represent 60 percent of the budget, and approximately 0.25 percent of GDP (NHF, 2020). The NHF is part of Jamaica's universal health coverage, and thus it is aimed at the entire population.

The income for the NHF comes from 20 percent of the excise tax on tobacco products; 5 percent of the Special Consumption Tax; and 1 percent of annual income up to J\$1.5 million paid by employees and employers, collected by the NIS. These funds are used for the acquisition, storage, and distribution of pharmaceuticals and medical supplies, and the delivery of medicines to patients. The total expenditure of NHF for fiscal year 2018/2019 was 0.44 percent of GDP (NHF, 2020).

The NHT was established in 1976 through an amendment to the National Insurance Act. The NHT expands and improves the existing housing supply in Jamaica by promoting housing projects; providing loans to taxpayers to help them buy, build, maintain, repair, or improve their homes; and encouraging and stimulating the improvement of production methods of houses (NHT, 2020).

It is financed mainly by contributions at a rate of five percent of the gross wages. Employee contributions (two percent) are reimbursable annually after seven years and in full at retirement, with interest at two percent per year (which may barely cover inflation). The employer's contribution (three percent) is non-refundable. Self-employed workers pay three percent of taxable income and may request a refund. The NHT has additional sources of income besides the contributions. These include repayment and interest from its mortgage portfolio and investment income from its investment portfolio (NHT, 2020). In terms of targeting, the benefits are aimed at all persons, not just formal workers.

The Education Tax was established in July 1983 through the Education Tax Act. It was implemented to promote education in Jamaica, which is universal and free. The proceeds go directly to the consolidated fund, which is a set of funds used by the government for public benefit. The Education Tax is paid on gross income less NIS at a rate of 2.25 percent for workers and 3.5 percent for employers (TAJ, 2020).

Finally, contributions to HEART were established under the HEART Act of 1982 (and amended in 2003). The contributions of three percent of gross salary paid by employers are used to fund training and certification programs for all Jamaicans of working age, regardless of whether they are formally or informally employed. Employers are required to pay HEART contributions when their total gross payroll expenses exceed J\$14,444 (half the monthly minimum wage). Businesses that conduct training may deduct the cost from their contribution (TAJ, 2020).

Based on the destination of these payroll taxes, they can be classified as direct benefits to the contributor or a cross-subsidy to the rest of the population. Direct benefits are contributions that finance programs that provide benefits only to those contributing. The NIS is considered a direct benefit, even if those contributors who were not able to reach the minimum threshold for a benefit are subsidizing those that were. The NHF could be classified partly as a direct benefit, as it provides specific benefits to contributors, and employees can request a reimbursement. But the NHF provides a wider range of financial assistance that exceeds the contributory benefit, and employer contributions are not reimbursable. A program like HEART could also be considered in part a direct benefit, as employers can deduct their training from the amount contributed. The rest of the payroll taxes should be considered cross-subsidies, as they finance programs with a wider scope than the contributors. These

include the NHF, the Education Tax and parts of the NHT and HEART. Table 7 classifies the tax rates according to whether they represent a direct benefit or a cross-subsidy. The result is that 8.5 percent of payroll taxes are direct benefits and 11.3 percent cross-subsidies, although the real percentages vary given that they have slightly different bases for calculation.

When all rates are calculated as a percentage of gross pay (Education Tax is calculated over statutory income), contributions represent 17 percent. Out of this total, nine percentage points are cross-subsidies and eight percentage points are direct benefits. In other words, for each dollar contributed, J\$0.47 is a direct benefit for the contributor, assuming that the worker can obtain a pension, and J\$0.53 goes to cross-subsidize other programs and populations. The implicit tax on formality is 9 percent of gross salary, and if the worker does not reach the threshold for a pension, that tax is 14 percent. Such a cost becomes a barrier and a disincentive to formality and helps explain why informality is high in Jamaica.

Table 7. Payroll taxes

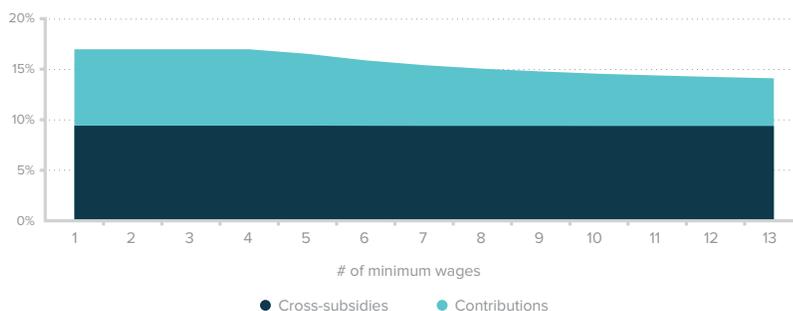
	Direct Benefit	Cross-subsidization
	19.8% (17% of gross pay)	
	8.5% (8% of gross pay)	11.3% (9% of gross pay)
Contributory Programs	Employee	Employer
National Insurance Scheme (NIS)	2.5%	2.5%
National Health Fund (NHF)	0.5%	0.5%
National Housing Trust (NHT)	2%	3%
Education Tax*	2.25%	3.50%
Human Employment & Resources Training (HEART)	-	3%

Source: Authors calculations.

* Calculated over statutory income.

Figure 14 models the evolution of payroll taxes as salary increases. Firstly, it shows the composition based on the destination of the contributions (direct benefits or cross-subsidies). Secondly, given the current NIS wage ceiling, it shows that contributions are slightly regressive, as they fall after four minimum wages.

Figure 14. Payroll taxes as percentages of gross salary, by salary



Source: Authors calculations.

When the contributions to social security and other programs financed through payroll taxes are added, it is clear that the tax on formality in Jamaica is high. Several of the programs do not represent direct benefits to the contributors and are transfers to larger or universal programs that cover the non-contributory population. Table 8 shows the amount collected by the government as a percentage of GDP. The total contributions add up to 4.67 percent of GDP, out of which 2.87 percentage points are cross-subsidies.

Under the umbrella of social security contributions, Jamaica has established an implicit formality tax that helps fund other government expenses. First, from a redistributive point of view, the social security scheme is regressive. This problem was clear from an analysis of the pension system. Second, from an efficiency point of view, the system is equivalent to a tax on formal hiring, which lowers the country’s aggregate productivity by inducing the displacement of productive resources to informal enterprises.

When the social security system is broken down into individual benefits, formal workers have more access to nominal benefits than the average informal worker, due to redundancy payments, minimum wage guaranty and, eventually, the NIS. The benefits that can be quantified add up to an expenditure of almost 30 minimum wages per capita. But, as Table 9 shows, this expenditure represents only 60 percent of the amount contributed per capita. For every dollar a formal worker contributes, they receive J\$0.60 in benefits (J\$0.47 from payroll programs and J\$0.13 from universal health spending). An informal worker only has access to non-contributory benefits such as health, HEART, and benefits derived from the NHT, adding up to a per capita expenditure of 24 minimum wages, approximately 81 percent of the expenditures formal workers receive, but without having any contributions deducted from their salary. Finally, a poor informal worker has access to more benefits through poverty-focused programs. This increases the expenditure per capita to almost 130 minimum wages.

Table 8. Payroll taxes collected, as a percentage of GDP (FY 2018/2019)

Program	Source	Direct Benefit	Cross-subsidy
NIS	Employee	0.43%	
	Employer	0.43%	
NHF	Employee		0.11%
	Employer		0.11%
NHT	Employee	0.63%	
	Employer		0.93%
Ed. Tax	Employee		0.55%
	Employer		0.86%
HEART	Employer	0.31%	0.31%
Total		1.80%	2.87%

Source: MLSS, NHF, NHT, MOF, HEART, STATIN.

From the analysis of the contributory programs, it can be inferred that the costs associated with formality have few direct benefits for workers engaged in a formal contract. For every dollar contributed, the person gets back J\$0.60, including universal health spending. The rest could be considered a formality tax. This tax represents a great source of revenue for

the State. As shown, with tax revenues amounting to 4.67 percent of GDP, the formality tax reaches 2.87 percent of GDP.

Table 9. Social protection benefits by segmentation

Formal	Informal	Informal (Poor)
Universal Health Coverage		
Redundancy		
Minimum Wage		
Labor Training (HEART)		
Pension (NIS)*		Pension (PATH)
Health Benefit (NI Gold)*		Health Benefit (JADEP)
National Housing Trust		
Per Capita Expenditures (# Minimum Wages)		
29.56	24.05	129.65
% of Labor Force Covered		
40%	60%	17%

Source: Authors calculations based on MLSS, NHF, NHT, MOF, HEART.

* Workers have to contribute for at least 9 years to obtain this benefit.

2.4. Minimum Wage

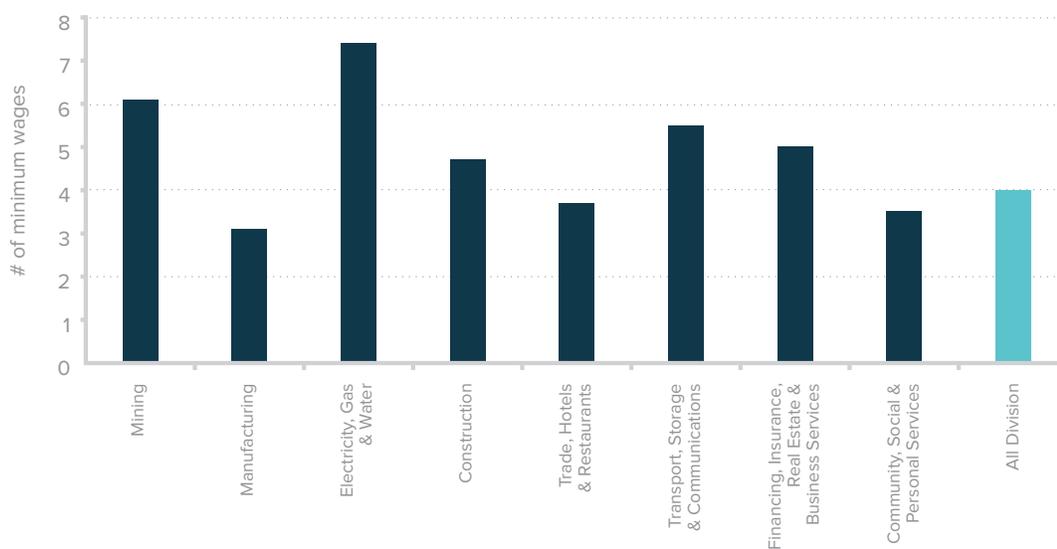
It is important to evaluate, in addition to the tax on formality, the effect that the minimum wage can have on the segmentation of the labor market and, therefore, on income and social security access. If the minimum wage is set too high, it could discourage employers from registering employees.

Jamaica's Minimum Wage Act was passed in 1938. It states that the Prime Minister may fix minimum wage rates for any occupation on the island, either in general or in any specific area, place or district. Two main orders are still in use today: first, the National Minimum Wage Order (1975) sets the wage rate for all sectors, including domestic workers. It is currently J\$7,000 (US\$ 49) per 40-hour workweek. Second, the Minimum Wage Order for Industrial Security Guards (1982) establishes a minimum wage for persons employed as industrial security guards. It is currently J\$9,700 per 40-hour workweek (US\$ 67), with additional pay for use of firearms and dog handling.

There is no one source that can be used to evaluate whether the minimum wage operates as a barrier to formality. The availability of wage data in Jamaica is limited, as the JSLC focuses on consumption and does not have an indicator for individual wages. This requires the use of proxies to estimate the impact of the minimum wage. Firstly, the minimum wage can be compared to the average salary published by the Statistical Institute of Jamaica (STATIN), which captures formal workers in companies with more than 10 employees. The average salary is

currently the equivalent of four minimum wages (Figure 15). This estimation varies depending on the industry, with workers in electricity, gas and water companies earning an average of 7.6 minimum wages, and workers in manufacturing earning 3.1 (STATIN). This comparison is nonetheless biased because it looks at registered workers and excludes workers in establishments with up to nine workers, which make up 96 percent of all MSMEs.

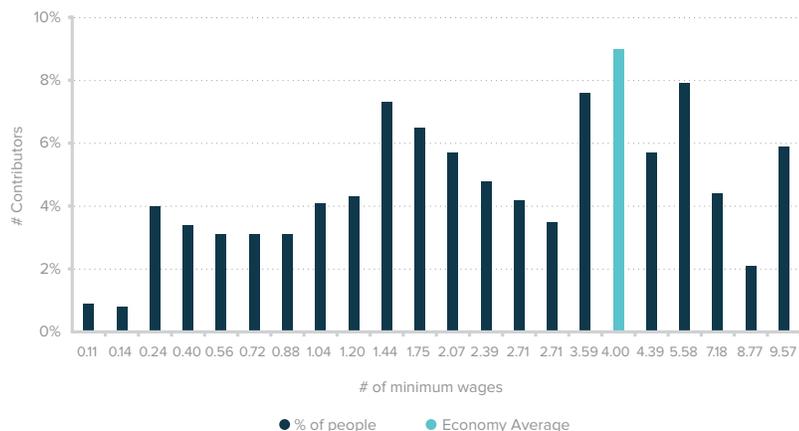
Figure 15. Average wages by industry, measured in number of minimum wages



Source: Author's calculations based on STATIN 2020.

Another source of information is the wages of NIS contributors. In this case, again, the minimum wage remains low compared to the average for formal workers. The average annualized salary for contributors is 2.8 minimum wages, lower than the average salary of four minimum wages (Figure 16). This may be due to the incorporation of all formal workers and not just those in companies with 10 or more people. But it could also be because not all workers contribute 12 months per year (on average, workers contribute 39 weeks per year), or because they under-declare wages (Eckler, 2018). The average is almost three times the minimum wage, which would imply that wage is not a barrier to formality. Nevertheless, NIS contribution still represents the formal economy, which is expected to be higher than the economy-wide average wage.

Figure 16. NIS contributors by average income, in number of minimum wages*



Source: Eckler Consultants, 2018.

* 7.5 percent of contributors are registered with no income at NIS.

A closer estimate could be found using consumption data from the JSLC. Average per capita consumption is one minimum wage, while the poverty line is drawn at one-half minimum wage. However, a better estimate of the relative position of the minimum wage is mean consumption by the working-age population, which should be closer to the income source of households. This calculation can, however, underestimate the income of richer quintiles, as part of it could go to savings and not consumption. Figure 17 shows that the mean consumption of the working-age population is 87 percent of a minimum wage for the first quintile and 124 percent for the second quintile. This calculation assumes that all working-age members of the household are working. But given that not all participate in the labor force, it can be inferred that the average wage for the first quintile should be even higher.

In a study on the minimum wage, representatives of the Private Sector Organization of Jamaica and the Jamaica Federation of Employers (JEF) stated that most of their members pay their lower-level employees between 15 percent and 30 percent above the minimum wage (Marsh et al., 2017), which is consistent with the data gathered. Moreover, as was mentioned earlier, the minimum wage for a low-skilled position such as a security guard is 38 percent higher than the economy-wide minimum wage.

Figure 17. Mean consumption by quintile, working-age (18-65)



Source: JSLC, 2017.

The data gathered provides a preliminary assessment. However, it is not a robust confirmation of the impact of the minimum wage on the labor market. Until there is economy-wide data on wages that includes both formal and informal workers as well as all enterprises, it is impossible to be fully confident in the analysis. Nonetheless, the proxy data on income does not put the minimum wage as a clear barrier to formalization. This is a preliminary conclusion but seems indicative that the wage floor required by law is not high enough to have significant negative effects on formal hiring.

2.5. Layoffs and Suspensions

As with the minimum wage, labor laws can also operate as barriers to formalization by increasing the cost of hiring and firing and thus incentivizing informal contractual relations. But the layoffs and suspension system in Jamaica is not rigid, allowing for intermediate forms of dismissal. Firstly, companies can use part-time work agreements that reduce the working hours of employees and their corresponding remuneration. This measure requires an agreement between the employing and the employed party and must be reviewed periodically as circumstances evolve. Secondly, companies may do short-term layoffs. Jamaica's labor code allows companies to temporarily close and suspend their employees without pay. Under the Employment (Severance Pay and Compensation) Act, an employee may be suspended without pay for up to 120 days. This cost-cutting strategy, while temporary, may allow companies to avoid foreclosure, but it significantly affects employees. After 120 days, if the employee does not return to work, they can ask to be dismissed and receive the corresponding compensation. Finally, employers can close down indefinitely and dismiss employees by paying them severance (Collins, 2020).

Jamaica does not have unemployment insurance, which, together with high informality, may put workers in a fragile position when facing layoffs. Ideally, enterprises should have enough flexibility to hire workers and adapt to economic difficulties, and workers should be protected during unemployment. Jamaica has flexibility but seems to be lacking enough security for workers.

The Employment (Termination and Redundancy) Payments Act (1974) applies to all workers, including domestic workers, but excludes civil service in central and local governments. It states that when an employee has worked for at least four weeks and less than five years of continuous employment, the employer is required to give notice at least two weeks earlier.⁶

An employee must be compensated if their dismissal is wholly or partially attributable to the disappearance of the operations for which they were employed, if the recruitment needs have ceased or diminished, or if the employee has suffered personal injuries caused by an accident at work. The compensation is calculated as two weeks of pay per year for the worker's first ten years of employment, and three weeks per year from the tenth year onwards.

The regulations on minimum wage and layoffs do not appear to explain the high levels of informality in Jamaica. The preliminary estimations on the minimum wage do not seem to create a high entry barrier for formal hiring. On the one hand, the mean consumption of the

⁶ Workers employed less than 5 years: 2 week notice; workers employed between 5 and 10 years: 4 week notice; workers employed between 10 and 15 years: 6 week notice; workers employed between 15 and 20 years: 8 week notice; workers employed more than 20 years: 12 week notice.

working-age population puts minimum wage close to the first quintile income. Also, private surveys report that formal employers tend to pay almost 30 percent more than the minimum wage to entry-level categories. On the other hand, layoffs and suspension do not look restrictive either as legislation is flexible enough so that companies can adapt in case of struggle. Thus, the focus goes back to the contributory structure as the potential barrier to formality and the cross-subsidy as an incentive to remain informal.

3. Universal Health Program

Jamaica offers universal health coverage and subsidized medicines, making it the most redistributive social protection program. The Ministry of Health is responsible for the provision of health care throughout the island, and while it is financed mainly from general revenues, 6.6 percent of its budget comes from contributions from formal workers through the NHF contribution. The NHF is an agency of the Ministry of Health, and, as said, provides financial support to the national health system to improve its effectiveness and the affordability of health care for Jamaica’s population.

In 2008, the Jamaican government approved a no-fee policy applicable to all public health facilities. This policy established that Jamaicans no longer had to pay for health care services such as medical consultations, diagnostic services, hospital admissions, surgeries, medications, physical therapy, ambulance, maternal services, etc. Before this policy, uninsured persons using public health facilities had to pay out-of-pocket fees for these services. The rationale for this policy was that user fees were regressive and prevented access to health care by disadvantaged segments of the population who could not afford the fees (Beuermann and Pecha, 2017). Public health spending increased from a pre-policy (2002-2006) annual average of 2.42 percent of GDP to its current level of 3.29 percent of GDP (Table 10).

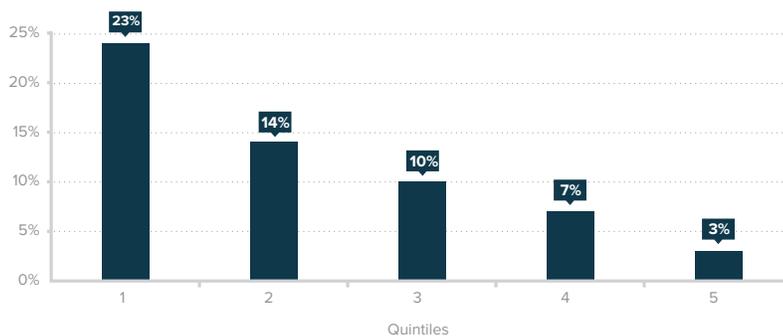
Table 10. The budget of the Ministry of Health, as a percentage of GDP

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Ministry of Health	2.36%	2.46%	2.92%	2.97%	3.30%	3.29%
Programs Subtotal	0.40%	0.57%	0.86%	0.79%	0.78%	0.94%
Government of Jamaica	2.28%	2.34%	2.86%	2.83%	3.15%	3.13%
NIS	0.21%	0.21%	0.19%	0.22%	0.21%	0.22%
External Grants	0.03%	0.05%	0.05%	0.07%	0.07%	0.07%

Source: Government of Jamaica (GoJ).

Given the universality of health care in Jamaica, the per capita health spending is progressive. It represents about 23 percent of per capita consumption in the lowest quintile and 3 percent in the highest quintile (Figure 18). But the total amount spent, 3.3 percent of GDP, is below the average spending in the Americas (4.11 percent) and worldwide (4 percent) (World Health Organization [WHO], 2020).

Figure 18. Health expenditure per capita as a percentage of per capita consumption, by quintile



Source: Authors based on GoJ and JSLC 2017.

A recent study on the Jamaican health system by the Pan American Health Organization (PAHO) warned that the country faces several challenges. Firstly, it faces a triple burden of chronic non-communicable diseases, violence and injuries and emerging and re-emerging infectious diseases. Secondly, due to the active recruitment of health professionals in Jamaica for overseas markets, there is outmigration of medical workers, especially among skilled nurses with university degrees. Thirdly, the regulatory framework is inadequate to reduce major risk factors, create a supportive environment for behavioral change, and counter interference from the tobacco industry. Subsequently, the study projects an increase in the frequency of infectious disease outbreaks that will require a new approach to the Ministry of Health’s health emergency program (PAHO, 2020).

Despite these challenges, PAHO concludes that universal health remains a priority for the Jamaican government. Policies seek to ensure the population’s ability to access quality care provided by trained personnel, in modernized facilities with the necessary levels of equipment, pharmaceuticals and supplies, and the required financial protection (PAHO, 2020).

4. Poverty Reduction Program: PATH

Since its launch in 2002, PATH has become Jamaica’s leading social assistance program in a country with an estimated 500,000 people living below the official poverty line (World Bank, 2020). It currently provides cash grants to approximately 270,000 direct beneficiaries (11 percent of the population). The program provides cash transfers, free access to school meals, and health services to beneficiaries. The specific categories are children from birth to high school completion (0-18 years); pregnant and lactating women; people with disabilities; the elderly poor without pensions; and poor adults. The education grant is conditional upon regular school attendance of not less than 85 percent of the days that school is in session in a particular month. Health grants are conditional upon compliance with the preventive health visit program established by the Ministry of Health and Welfare.

Beneficiaries are selected through the Beneficiary Management Information System (BMIS). The latest report by the AGD from November 2020 affirms that BMIS did not have effective controls and presented inconsistencies between the family status and the family member status of beneficiaries in the system, among other problems (AGD, 2020).

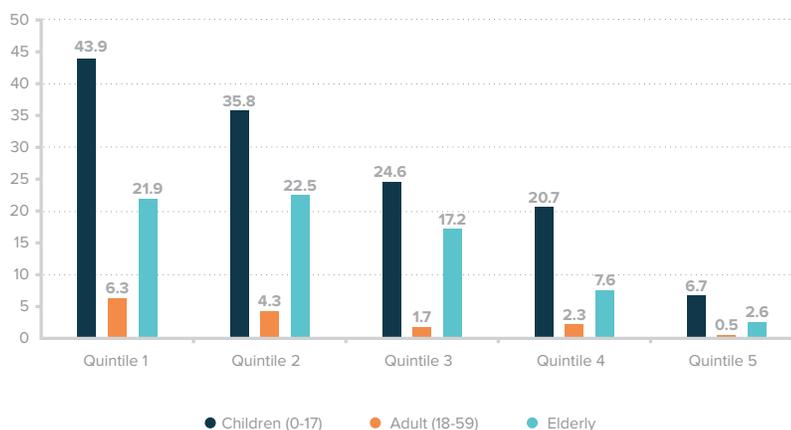
PATH covers 11 percent of the population and focuses more on the lower quintiles, making it a redistributive program (Figure 19). Since PATH focuses on poverty, covering 22 percent of the poor population, a high concentration of benefits in low-income quintiles is expected. In the case of the elderly, the pension coverage is around 12 percent of the elderly population (it represents 23 percent of PATH’s direct benefits), and quintiles 1 and 2 have a 22 percent coverage. Beneficiaries of the PATH pension are poor elderly without any other pension. The benefit is low and represents 22 percent of the value of the average NIS pension, and 3 percent of the average PPS pension. Targeting seems to be its best attribute, having a redistributive effect towards the poorest households (JSLC, 2017). Coverage in higher-income quintiles may be due to inclusion error, although further analysis should be made on this point.

Table 11. PATH benefits and spending (direct beneficiaries), 2018

Benefits	Beneficiaries 2018/2019	% Benefits	Spending (% GDP)
Health (0-6 years)	36,623	13%	0.03%
Pregnancy	1,012	0%	0.01%
Education (6-18 years)	140,338	52%	0.13%
Elderly (60+)	61,249	23%	0.08%
Disabilities	14,989	6%	0.01%
Poor Adults (19-59)	6,844	3%	0.01%
Poor Relief	10,441	4%	0.01%
Total Direct Beneficiaries	271,496	100%	0.28%

Source: MLSS and PATH.

Figure 19. Percentage of population covered by a PATH benefit, by age, income and quintile



Source: JSLC, 2017.

Although the focus is as desired, the magnitude is low considering the pension’s benefit is 34 percent of a minimum wage. The total spending on poverty-focused pensions is 0.08 percent of GDP, out of which 0.05 percent goes to the first two quintiles. Thus, the impact that PATH may have on reducing inequality thanks to the correct focus becomes limited due to the size of the program.

5. Conclusions

The objective of this chapter was to evaluate how much social protection in Jamaica helps reduce inequality through redistributive mechanisms and its effect on the behavior of companies and workers, how it segments the labor market, and how it affects productivity. The main social protection programs, due to their direct impact and level of spending, are the NIS, PPS, Health System and PATH. Table 12 shows the expenditures and sources of funds for these programs. The total represents 6.25 percent of GDP, which is low considering that it includes social security, the main poverty reduction program, and health spending.

Table 12. Main Social Protection Expenditures (% of GDP) and source of funds (% of Expenditure)

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
TOTAL	5.18%	5.18%	5.63%	5.72%	5.98%	6.25%
NIS	0.99%	0.96%	0.91%	0.83%	0.79%	0.86%
Transfers subtotal	0.96%	0.93%	0.87%	0.81%	0.76%	0.82%
Employer Contr.	39.1%	40.7%	40.3%	48.0%	50.1%	50.5%
Employee Contr.	39.1%	40.7%	40.3%	48.0%	50.1%	50.5%
NI Fund	21.8%	18.6%	19.5%	3.9%	0.0%	0.0%
Public Pensions	1.52%	1.46%	1.51%	1.63%	1.55%	1.75%
Transfers subtotal	1.5%	1.5%	1.5%	1.6%	1.5%	1.7%
GoJ	95.9%	95.9%	96.0%	96.5%	97.4%	97.7%
Employee Contr.	4.1%	4.1%	4.0%	3.5%	2.6%	2.3%
Ministry of Health	2.36%	2.46%	2.92%	2.97%	3.30%	3.29%
Programs subtotal	0.40%	0.57%	0.86%	0.79%	0.78%	0.94%
GoJ	100%	99%	100%	98%	98%	98%
External Grants	1%	2%	2%	2%	2%	2%
PATH	0.30%	0.30%	0.30%	0.29%	0.34%	0.36%
Transfers subtotal	0.21%	0.24%	0.22%	0.25%	0.28%	0.33%
GoJ	99.2%	98.9%	98.9%	98.4%	98.9%	98.9%
External grants	0.8%	1.1%	1.1%	1.6%	1.1%	1.1%

Source: MLSS, MOH, MOF.

The overall conclusion is that Jamaica has a fragmented social protection system. On the one hand, pension programs are regressive, especially PPS and cross-subsidies from contributions are high. Among the retirement-age population, half do not receive any social protection benefit (NIS, PPS, PATH, or other), and among those who receive pensions, benefits are skewed towards higher-income quintiles, while lower quintiles have less coverage and

lower benefits (JSLC, 2017). On the other hand, universal health coverage and PATH favor progressive redistribution.

Based on this analysis, there are five particular conclusions. First, social security schemes present some important limitations. In the case of the NIS, at the time of retirement, five out of every 10 people never contributed, and two out of every five people that contributed do not reach the minimum number of years required to receive a benefit and lose everything they contributed for. Out of the three people who obtain a pension, only one gets the full benefit. Benefits are subsequently affected by inflation, as the wage-related component is calculated based on nominal contributions and not adjusted over time. The flat rate, in contrast, reduces the impact of inflation on lower-wage workers and has a positive effect on redistribution among beneficiaries. At the end of the day, the NIS is a narrow program that does not favor redistribution and creates a barrier to formality.

The PPS is a highly regressive program that is financed with public funds (1.75 percent of GDP) and has high benefits for a very delimited group of workers. Average benefits are more than five times higher than the NIS and cover less than half the beneficiaries. Distribution favors populations in the higher-income deciles, with approximately 51 percent of the expenditures going to deciles 8, 9 and 10. But the key limitation is that, even if all workers contributed 5 percent of their salaries to the pension system, it would only cover 20 percent of the expenditures and the program would still have to be financed by general revenues (MOF, 2014).

Second, when looking at all the programs funded by payroll contributions, the cross-subsidies are high. Of the social security contributions, 61 percent (2.87 percent of GDP) do not represent a direct benefit to the worker and are cross-subsidies for general programs (e.g., education, health). Moreover, 39 percent of contributions that directly benefit the worker (1.8 percent of GDP) are then met by an inflationary tax, which further reduces the benefits of formality.

Third, the legal framework that establishes the conditions for hiring and firing is not rigid and thus does not present negative incentives to formalization. Employers have a menu of options to attenuate economic problems by suspending workers and negotiating reductions in wages. This provides flexibility for hiring and should not limit formalization. The negative effect of this flexibility is the vulnerability of the employees, who are not covered against unemployment. Neither is this the case for the minimum wage, although the information gathered is limited. Based on the obtainable data, the minimum wage does not seem to be a high enough barrier to explain informality. The value is close to the mean consumption of the working-age population in the lowest quintile and should be closer to the income of those actually in the labor force. However, this needs to be considered as a preliminary, since a proper assessment of the impact of the minimum wage on the labor market requires data on the wages of informal workers, which unfortunately is not available.

Fourth, the universal health program and the PATH poverty program show a pattern of greater redistribution. Health coverage, since its universalization in 2008, is the government's most redistributive program. Per capita, spending on health represents nearly 23 percent of consumption in the first quintile. However, health spending of 3.3 percent of GDP is low compared to 1.7 percent of PPS and the regional average of 4.11 percent. Reports on health in Jamaica give an account of the effort towards universality, despite the health challenges that remain. PATH, Jamaica's largest social program, shows a strong focus on the poorest quintiles. The coverage, which reaches 11 percent of the population (and approximately 22 percent of the poor), favors redistribution. However, PATH expenditures are low, approximately 0.36 percent of GDP, out of which 0.08 percent are for poor adults (MLSS, 2020).

How much is the system doing to reduce inequality in Jamaica? The balance is poor. Social security in Jamaica is contradictory, with some elements favoring redistribution and others regressiveness. Consequently, it has a negative effect on the labor market: high informality. The low benefits obtained from formality (social security design) and the existence of subsidies for informality (universal and poverty services) appear to be the main barriers to formality in Jamaica. Calculations on per capita spending show that formal workers receive expenditures for almost 30 minimum wages (60 percent of what they contribute), while informal workers receive 24 minimum wages, or 130 minimum wages if they are poor, without paying payroll taxes. For the rest of the population, Jamaica has only one universal health program, which is complemented by poverty programs, such as PATH. This is not enough. The lowest quintiles are not fully covered, and vulnerable populations such as non-poor older adults without pensions are excluded by design.

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