



Financial Services Commission Fees for the Pensions Industry

The purpose of this bulletin is to present the basis for the Table of Fees set out in the Fourth Schedule of the Pensions (Superannuation Funds and Retirement Schemes) (Registration, Licensing and Reporting) Regulations, 2005.

Fee Strategy and Principles

The FSC has developed seven principles which form the basis for its fee strategy and which were applied in developing the fee structure for the securities and insurance industries. The principles were also discussed at meetings with the FSC's pension stakeholders group and with the Jamaica Confederation of Trade Unions. The principles are as follows:

1. **Full Cost Recovery** – The FSC should operate, in the long term, on a full cost recovery basis. The FSC is intended to perform its functions in an independent and impartial manner. One important aspect of independence requires that the FSC be self financing on a sustained basis. Furthermore, given its mandate, the FSC benefits the consumers of general insurance, life insurance, securities and pension services and the providers of these services by increasing stability and confidence in the industries it supervises. Therefore, it should be those industries, rather than the taxpayer at large, that should fully fund the operations of the FSC. In accordance with this principle, however, the FSC should not seek to collect revenue in excess of its costs on a continuous basis.
2. **Revenue Based on Regulatory Effort** – FSC revenue from different industry sectors should be based on regulatory effort. This suggests that industry sectors that require higher levels of regulatory effort resulting in higher FSC costs should be required to pay higher fees. In other words, there should ordinarily be no cross subsidization among different industries. Similarly, within a given industry it is generally accepted that larger companies typically require more regulatory effort than smaller companies with the implication being that larger companies should generally pay higher fees.
3. **Revenue Stability** – FSC revenue should be stable over time. As the FSC matures its expenditure should become relatively stable and be influenced primarily by inflation, the growth of the various financial services industry sectors and productivity gains in the operation of the FSC. As a result, it is beneficial for the FSC to have a stable source of revenue. Reliance on a volatile revenue source which has both windfall gains and windfall losses may result in an inefficient

system of regulation. Regulated entities also benefit from stability and reasonable certainty with respect to their fee costs.

4. **Contingency Reserve Fund** – The FSC, for reasons of operational stability, should be allowed to build a contingency reserve fund. The closure of a regulatory agency for even a short period of time due to a funding shortfall could have catastrophic results. For this reason, it was proposed that the FSC be allowed to build a contingency reserve fund as a cushion to protect itself against years of below normal fee revenue or years of higher than normal expenditure. It was proposed that the FSC initially set fees at full cost recovery plus ten percent until it has established a contingency reserve fund which approximates fifty percent of annual expenditure. Once this target has been reached, it was proposed that fee levels reflect cost recovery only and that fee levels be reduced if the contingency reserve fund exceeds its predetermined level.
5. **Ease of Understanding and Simplicity of Administration** – To the extent possible, the formulae used to determine FSC fees should be straight forward and easy to understand by both the FSC and those paying the fees. Ease of understanding will help ensure that those paying the fees can be satisfied that fees are being levied in a fair and equitable manner. In addition, the processes used by the FSC to determine fee levels and to collect fees should be relatively simple and straight forward so that FSC administration costs can be minimized.
6. **Ease of Verification** – To the extent possible, the parameters on which fees are based should be easy to verify by the FSC. For example, if it is decided that fees in the life insurance sector are to be based on premiums or alternatively on assets, the premiums or assets used as the fee determination base should be those reported in the financial statements of each company to the extent possible. The fact that such statements are subject to independent audit and scrutiny will help ensure that everyone is treated in an equitable manner. Similarly those paying the fees should be provided with sufficient information to verify that the FSC is, in fact, levying fees at an appropriate level. In this context, the FSC proposes that it report its fee collections once each year as part of its independently audited financial statements. These statements are publicly available and must be submitted to the Minister for tabling in parliament.
7. **Predetermined Review Dates** – A periodic review should be made with respect to the fee policy of the FSC. As conditions change, it may be necessary to adjust specific fees either upward or downward or make changes in fee policy. In this context, it is proposed that the FSC undertake a review of its fee policy at least every 2 years and that each review be accompanied by public consultation with those affected.

It should be pointed out that feedback on the principles was sought from the securities and insurance industries. There was general acceptance on the principles with the exception of the “Contingency Reserve Fund”. A number of industry respondents did not agree with this principle and it was argued that if the FSC set its fees in a proper manner, a reserve fund should not be required. In addition it was suggested that any short term financial shortfall of the FSC should be funded by Government. As a result of the responses from the industries, six of the principles have been adopted and the Contingency Reserve Fund principle has been put on hold pending further analysis.

FSC Costs and Cost Allocation

The principle of full cost recovery implies that the FSC must set fees at a sufficient level to recover its costs. Furthermore, the regulatory effort principle implies that the FSC must devise a technique to allocate its costs among various industry sectors including general insurance, life insurance, securities and pensions.

The FSC has developed a cost allocation model which divides costs into three categories:

- Direct staffing costs for employees performing supervisory and regulatory activities for the particular industry.
- Direct staffing costs for employees performing the support functions (eg. Accounting, Personnel & Administration, IT, Public Education).
- Overhead costs including office accommodation, public utilities etc.

The cost allocation model consists of four steps:

- I. Allocate each staff member and their salary and benefits to one of the four industry sectors, or to the support function based on the work done by the employees. (See Table 1 for 2005/6 and Table 3 for 2006/7 – estimated FSC staff time allocation by industry sectors)
- II. Determine total direct staffing costs for each of the four industry sectors and support function.
- III. Allocate staffing costs for the support function to each of the four industry sectors in proportion to that sector's direct staffing costs.
- IV. Allocate overhead costs to each industry sector in proportion to the total staffing costs of the sector.

Table 1: Estimated FSC Staff Time Allocation by sector (% of Total)

For the Financial year 2005/6

FSC Division	Life Insurance %	General Insurance %	Securities %	Pensions %	Support %	Total %
Executive Director	-	-	-	-	100	100
Deputy Executive Director	15	31	46	-	8	100
Examination	20	27	48	5	-	100
Insurance	33	67	-	-	-	100
Securities	-	-	100	-	-	100
Pensions	-	-	-	100	-	100
Actuarial	40	30	-	30	-	100
Legal Services	15	10	40	25	10	100
Enforcement	5	35	10	50	-	100
Registration	29	30	36	5	-	100
Policy & Research	20	20	45	5	10	100
Corporate Services	-	-	-	-	100	100

Note: Staff allocation time estimates are based on actual work performed in previous years and expectations for 2005/6. It should be noted that the initial pension registration will be handled in a special unit attached to the Pensions Division consisting of 12 persons. The FSC's existing registration unit will provide minimal assistance estimated at 5%.

Table 2: Estimates of 2005/6 costs by Industry Sector (\$ million)

Cost Category	Life Insurance	General Insurance	Securities	Pensions	Total
Direct Staff Costs	29.2	43.2	66.6	64.1	203.1
Support Staff Costs	8.1	12.0	18.6	18.0	56.7
Total Staff Costs	37.3	55.2	85.2	82.1	259.8
Overhead Costs	16.5	24.4	37.6	36.2	114.7
Total Costs	53.8	79.6	122.8	118.3	374.5

Table 3: Estimated FSC Staff Time allocation by sector (% of Total)

For the Financial Year 2006/7

FSC Division	Life Insurance %	General Insurance %	Securities %	Pensions %	Support %	Total %
Executive Director	-	-	-	-	100	100
Deputy Executive Director	20	25	45	-	10	100
Examination	20	25	45	10	-	100
Insurance	33	67	-	-	-	100
Securities	-	-	100	-	-	100
Pensions	-	-	-	100	-	100
Actuarial	40	30	-	30	-	100
Legal Services	15	10	40	25	10	100
Enforcement	5	35	10	50	-	100
Registration	29	30	36	5	-	100
Policy & Research	20	20	45	5	10	100
Corporate Services	-	-	-	-	100	100

Table 4: Estimates of 2006/7 costs by Industry Sector (\$ Million)

Cost Category	Life Insurance	General Insurance	Securities	Pensions	Total
Direct Staff Costs	37.6	56.3	80.2	76.4	250.5
Support Staff Costs	10.3	15.5	22.0	21.0	68.8
Total Staff Costs	47.9	71.8	102.2	97.4	319.3
Overhead Costs	12.0	18.0	25.6	24.3	79.9
Total Costs	59.9	89.8	127.8	121.7	399.2

The results of the cost allocation model for the two years are shown in Tables 2 & 4.

The tables indicate that for 2005/6 and 2006/7 the cost to regulate and supervise the pensions industry is expected to be \$118.3 Million and \$121.7 Million respectively.

The total cost estimates for each industry sector are the fee targets that must be achieved if the FSC is to meet full cost recovery.

Pension Industry Fees

The fee structure for the pensions industry will cover the following activities:

- Licensing and Registration Fees
- Application Fees

Licensing and Registration Fees

The licensing and registration fees are divided into the following three categories:

1. Administrator

A Pension Fund Administrator will be required to pay an annual fee calculated at the rate of \$500 per active member as at the end of the financial year, immediately prior to the renewal date, plus a flat fee of \$250,000.

2. Investment Manager

An Investment Manager will be required to pay an annual fee calculated at a rate of 0.060% on assets as at December 31, immediately prior to the renewal date (subject to a minimum fee of \$250,000) and a flat fee of \$250,000.

3. Responsible Officer

A Responsible Officer will be required to pay an annual fee of \$50,000.

Application Fees

Each individual, entity or superannuation fund/retirement scheme applying for registration/licensing will be required to pay an application fee as follows:

- \$5,000 for registration of a Trustee or a Responsible Officer
- \$25,000 for licensing of an Administrator or Investment Manager.
- \$30,000 for registration of a Superannuation Fund or Retirement Scheme.

The annual fee rates have been set to generate sufficient revenue to meet FSC operating costs for regulating the pensions industry.

It should be noted for the 2005/6 financial year the fee structure is expected to generate approximately \$102.9 Million from annual registration fees and \$22.5 Million from application fees, for a total fee of \$125.4 Million. The estimated cost for regulating the pensions industry for 2005/6 is \$118.2 Million (*See Table 2*).

For 2006/7 the fee structure is expected to generate approximately \$113.2 Million in total fees compared to estimated cost for regulating the pensions industry of \$121.7 Million (*See Table 4*).