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Information for investors in Securities, Pensions and Insurance

July 2020

Schools' Financial Education Programme Virtual Awards Ceremony

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**NICOLETTE
JENEZ**

DEPUTY EXECUTIVE DIRECTOR

Promoting Integrity in the Jamaican Financial Sector.

Schools' Financial Education Programme

Virtual Awards Ceremony



Talia Soares,
Digital Master of Ceremonies

The Schools' Financial Education Programme (SFEP) is an extra-curricular learning experience created by the Financial Services Commission in association with fellow regulator, the Bank of Jamaica (BOJ) and Junior Achievement Jamaica (JAJ). It is geared towards introducing high school students to key financial information and concepts such as saving, budgeting, managing credit and being a savvy consumer. This is done as part of our duty as a good corporate citizen and as a contribution to Jamaica's

Vision 2030 Development Plan. Vision 2030 encourages greater financial inclusion through the proliferation of financial literacy and access to financial services.

Over the 10 years of implementing the programme, the Financial Services Commission has touched the lives of over 5,000 high school students who have become ambassadors of sound financial decision making among their peers. Every year, the programme is capped off by a final awards ceremony where students are celebrated for completing the programme and also doing well in our host of competitions; essay and video competitions.

This year, the team in the Office of Communication and International Relations decided to improve the programme with the addition of a Jingle Competition. This allowed a new channel of expression for our students to best portray the given theme "Sow today, reap tomorrow". Students certainly thrilled our panel of judges which included members of the FSC team, international recording and performing artiste Papa Michigan and the BOJ's Assistant Director of Communications, Melanie Lawes.

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Schools' Financial Education Programme Virtual Awards Ceremony

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The winning entries won prizes ranging from tablets and headphones to backpacks and bluetooth speakers. SFEP is and will always be of paramount importance to the Financial Services Commission in relation to Vision 2030. This year due to the challenges the world faced, and the fact that the programme had expanded to cater more forms of expression, innovation played a key role in the 2020 edition of the programme.

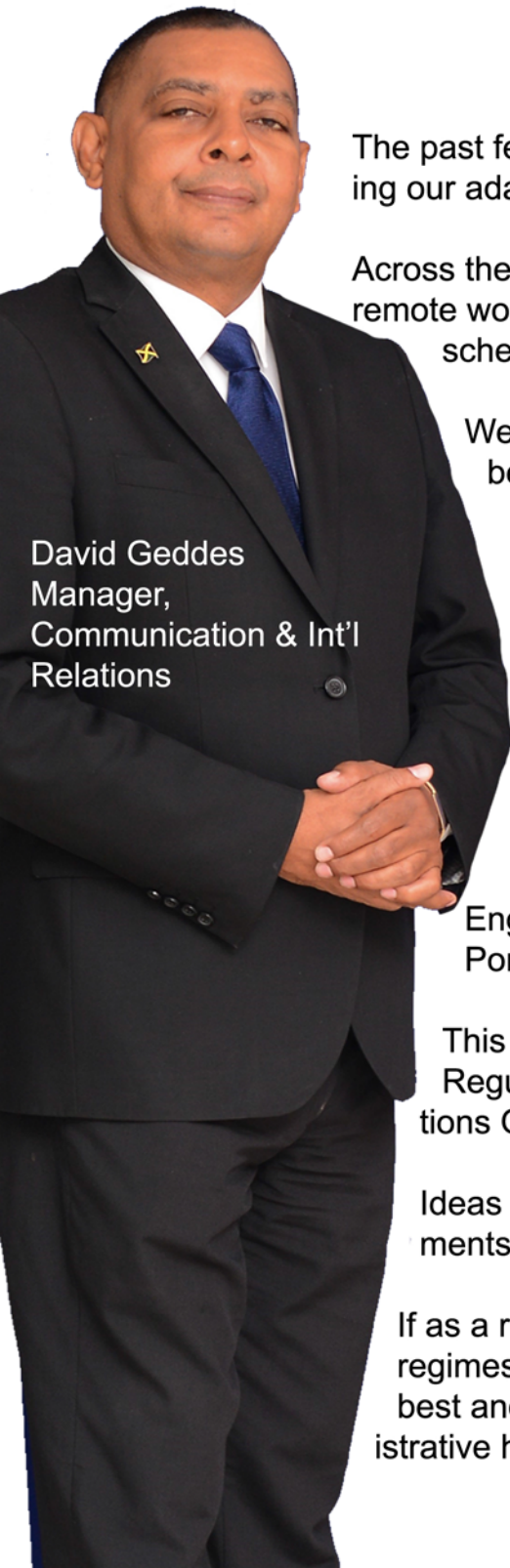


Patricia McDowell,
External Relations Coordinator,
Financial Services Commission

The winners of the various competitions came from different parts of the island. For the Essay Competition, Jevaughn Richards and Odean Smith of York Castle High School came first and third respectively, with Antonecia Peart of DeCarteret College coming in a close second.

The 5 member team of St. Jago High School took the first place prize in the Video Competition, beating the likes of Glenmuir High School in second and the Horace Clarke High School in third.

Our very first Jingle Competition saw DeCarteret College beat some rather fierce competition in Tafuta Wiggan of Muschette High School. Amanda Dacas stole the show, partnering up with Jevaughn Patterson to take first place and then with K'Ladenae Pinnock to secure her top two status in the competition.



David Geddes
Manager,
Communication & Int'l
Relations

The past few months have for the most part brought out the best of us, highlighting our adaptability and resilience.

Across the Caribbean we have been faced with various challenges including remote working and the continuing proliferation of scams and Ponzi/Pyramid schemes.

We have risen to the challenge and witnessed regional cooperation at its best, from the Financial Services Commission Jamaica hosting the first online summit of CAPS/CAIR to bi monthly sharing of regional experiences through the International Forum for Investor Education (IFIE).

It now seems an opportune time for financial regulators across the region to come together and establish a Regulatory association; not along sector lines even though these are critical, but bringing together financial regulators to discuss regulatory affairs that transcend Securities, Insurance and Private Pensions.

Issues such as best or next practices in Consultation, Stakeholder Engagement, Risk Based Supervision, Public Education and combatting Ponzi/Pyramid Schemes.

This is not novel idea, there exists the Organisation of Caribbean Utility Regulators and on the other hand the Commonwealth Telecommunications Organisation.

Ideas brewed in the silos of the Insurance or Pensions regulatory environments may not benefit the Securities Industry.

If as a region we are to facilitate development and implement regulatory regimes that inhibit money laundering we must come together uniting the best and the brightest regulatory minds, legal and technical as well as administrative heads.



CONSOLIDATED SUPERVISION & HOW INSURANCE COMPANIES ARE IMPACTED

Consolidated Supervision otherwise called group-wide supervision can be defined as a comprehensive approach (involving qualitative and quantitative elements) to the supervision of financial institutions that provide services to the public in the insurance, securities and pensions sectors to (i) identify, assess and understand the non-financial and financial risks (on-and off-balance sheet) within the entire group and the possible threat posed to these institutions; and (ii) to address any deficiencies in management, operations, capital, liquidity or intra-group exposure before they pose a threat to other entities within the group and the wider financial market.

Simply put, group-wide supervision is the coordination and cooperation with regulators to supervise and monitor the activities in a financial group. Insurance companies with a bank in the group are required to have a holding company under the Banking Act.

Following amendment to the relevant legislation, an insurance company, its parent company, subsidiaries, affiliates and any other company in the group with the insurance company; will have to comply with the requirements to facilitate group-wide supervision.

Understanding Financial Regulation

A chat with Cornelia

Is there a correlation between financial literacy and retirement planning?

Studies in other jurisdictions¹ have shown that there is a positive relationship between financial literacy and retirement planning. Individuals that are more financially knowledgeable (understand compounding interest, time value of money, diversification of portfolio, etc.) are more likely to take deliberate actions (the early the better) to ensure a stream of income upon retirement. In response, governments and several nonprofit organizations have undertaken initiatives to enhance financial literacy. Jamaica, through the Financial Services Commission ("FSC"), is a member of the Network for Pensions in the Latin America and the Caribbean ("PLAC Network"). The PLAC Network, in partnership with the Inter-American Development Bank Retirement Saving Lab, is funding the development of innovative mechanisms that encourage voluntary savings for retirement.

What is the role of the Financial Services Commission in retirement planning?

The FSC provides a key role in financial literacy, especially with regards to retirement planning (participating in town hall sessions, publishing educational material, etc.). The FSC, through

its Pensions Division, regulates and supervises the private pension industry with the aim of enhancing confidence in retirement planning. The private pension industry consists of formal retirement arrangements established by employers for their employees (superannuation funds) or investment managers for persons not in a superannuation funds (retirement schemes). The FSC assesses the governance and financial position of the pension plans and their agents (administrators and investment managers), with key focuses on what is disclosed to the members and benefit preservation.

What is the difference between Defined Benefit and Defined Contribution?

A defined benefit ("DB") plan offers a pre determined benefit upon retirement calculated using a formula that may include several factors such as pensionable salary and years of service. The retirement benefit of a defined contribution ("DC") plan is based on how much has been contributed and the growth of that money over time. With the DB plan the investment risk is borne by the employer, while in a DC plan the investment risk is solely borne by the members. Where the investment risk is borne by the members, they receive the benefits of larger pensions when investments yield high returns but they may also receive lower pensions when

investment returns are low. Also, the employer's contribution rate is usually fixed for DC plans while that rate usually varies for DB plans, based on actuarial recommendation to pay the expected balance of cost to secure the retirement benefits promised.

Why is participating in an approved retirement scheme better than saving in the bank?

Similar to the benefits derived from participating in a superannuation fund, contributions to approved retirement schemes are tax-deferred, that is, contributions are deducted from salary before the calculation of taxes. An employer can contribute to a retirement scheme on behalf of an employee and benefit from tax savings as well. Further, earnings on investments in a retirement scheme are tax exempted; therefore it provides better earning potential when compared to a regular saving account. Contributions to a retirement scheme are locked-in, which removes the temptation of withdrawing funds, enhancing the achievement of the primary goal to provide an adequate income at retirement age.

About what percentage of Jamaicans actually have a retirement plan?

As at December 31, 2019 the private pension coverage was approximately 10.1% of the



Cornelia HARPER PECK
Senior Director of Pensions

employed labour force. Also as at December 31, 2019, 6.3% of the employed labour force participates in the public sector pension system and 0.2% participates in specified pension plans (plans established by law and do not seek approval from the FSC or the Commissioner of Income Tax). In addition, according to the latest Statistical Institute of Jamaica Labour Force Survey as at October 2018, 38.5% of the employed labour force was actively contributing to the National Insurance Scheme² ("NIS"), which also provides a benefit upon retirement. It is anticipated that private pension coverage will increase by approximately 27.6% after the registration of members to the Tourism Workers' Pension Scheme³ as it is designed to cover all workers in the tourism sector (hotel workers, craft vendors, tour operators, workers at attractions, etc. – whether permanent, contract or self-employed) between the ages of 18 – 59 years old.

¹ Studies reviewed are noted in the appendix.

² Source: http://www.jamaicaobserver.com/news/increase-in-nis-deductions-takes-effect_161836?profile=1470

³ Source: <https://jis.gov.jm/registration-for-tourism-workers-pension-scheme-to-begin-shortly/>

What are the national implications for low pension coverage?

Pension is meant to provide a suitable income in retirement that maintains the standard of living that the person has been accustomed during their working life. It is likely that persons not contributing in these arrangements, while they are able to, will become dependent on their savings, family or government at retirement, which does not provide the same level of protection as a pension plan. A typical recourse in the lack of pension coverage is to turn to the government, which is already strained with its resources.

Data indicate that we are living longer; what does this mean for the pension industry?

As the population grows older the balance between ensuring adequacy of pension benefits and long-term sustainability of the pension industry is tested. For DB plans, the longer the members live the greater the longevity risk on the plan's sponsor as they have to meet any pension payment deficiencies. This could lead to larger sponsor's contributions and a more conservative investment strategy. For DC plans, the members need to consider the level of replacement income they believe will be reasonable for their desired quality of life. In an effort to save more there may be a desire to delay retirement or increase their voluntary contribution rate, if possible.

Tax Administration Jamaica sets the maximum contribution rate at 20% of pensionable salary and the pension legislation stipulates that normal retirement age be between 60-65 years old, with that being extended up to 5 years for late retirement. Consideration would need to be given to increasing the normal retirement age.

The FSC recently expanded some of its investment limits, thereby, giving the trustees more opportunity to potentially earn better yields on investments. Investment income growth will aid the sustainability of DB plans and give better benefits to members of DC plans when they reach retirement age.

Pension preservation is a larger problem on the NIS (a pay-as-you-go public pension system), where the sustainability of the system is greatly dependent upon the contribution of the working population. There needs to be significantly more contributions than pension withdrawals to make the system viable and that position is stressed in an aging population environment. There have been efforts made by the Government to combat this risk such as the increase in the contribution rate from 5% of salary in 2018 to 6% in 2020 and the threshold moving from \$1.5 million in 2020 to \$5 million by 2022⁴. The public sector pension system has also undertaken amendments to make the plan contributory for all members as well as incrementally increasing the retirement age⁵ each year from 60 in 2016 to 65 by 2021.

What can the nation and, by extension, the regulator, do to get more people enrolled in retirement plans?

The key is financial literacy and inclusion. The expectation is that a financially literate individual is able to understand and apply financial management skills and to make better financial decisions. With this in mind, the Government of Jamaica has embarked on a National Financial Inclusion Strategy, in which the FSC plays a role, to address challenges in financial access and financial resilience through retirement products (among other things). Specifically, individuals which are self-employed or employed in a non-pensionable post need to be aware of the importance of retirement planning (the earlier they start, the more lucrative the venture) and the enrollment requirements. The more this is understood the more likely they are to participate in a pension arrangement. Additionally, the FSC needs to continue its efforts in financial education; engaging

the public through print and broadcast media. Where input from the FSC is solicited by approved retirement schemes regarding their engagement with the public, assistance will be provided (barring any preferential treatment).

What is Micro Pensions and will this help increase coverage?

The informal sector has been constrained by inaccessibility to a wide range of financial services such as credit, savings, insurance, remittance products and pensions. Micro-pension is meant to enable individuals to have greater access to pension services and financial literacy programmes. Micro pensions should facilitate a simplified pension enrolment process, increased accessibility for persons in remote areas and will promote the use of electronic means to facilitate identification and contribution remittances. All together this should, in effect, facilitate increased pension coverage.

Appendix			
Authors	Date	Jurisdiction	Title of Study
Anne Nolan, Karina Doorley	Feb 2019	Ireland	Financial Literacy & Preparation for Retirement
Tatjana Aubram, Monika Kovarova-Simecek, Gabrielle Wanzenried	Dec 29, 2016	Austria and Switzerland	Financial Literacy & Pension Planning – A Comparative Study for Austria and Switzerland
Annamaria Lusardi , Olivia S. Mitchell	Oct 2011	United States of America	Financial literacy & retirement planning in the United States
Elsa Fornero, Chiara Monticone	Oct 11, 2011	Italy	Financial literacy & pension plan participation in Italy
Natalie Gallery, Gerry Gallery, Kerry Brown, Craig Furneaux, Chrisann Palm	Jul 7, 2011	Australia	Financial literacy & pension investment decisions
Rob J. Alessie, Maarten van Rooij, Annamaria Lusardi	Jun 2011	The Netherlands	Financial Literacy, Retirement Preparation & Pension Expectations in the Netherlands

4 Source: http://www.jamaicaobserver.com/news/increase-in-nis-contributions-helping-to-sustain-national-insurance-fund_164689?profile=1373
5 Constables retirement age stayed at age 60 and legislators and parish councilors had an immediate increased to 65.

VIRTUAL TOWN HALL MEETING



COMING IN AUGUST

WE'LL BE DISCUSSING:

***THE ROLE OF THE FINANCIAL SERVICES COMMISSION IN FINANCIAL
REGULATION***

HELPING CONSUMERS OF FINANCIAL SERVICES

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DETAILS!***



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The editorial staff of the Invested newsletter welcomes your comments, suggestions and articles as we strive to share financial information with our many stakeholders.

The Financial Services Commission also welcomes invitations to speak at forums as well as community meetings.

Public education and financial literacy are critical elements as we pursue financial inclusion.