

## FINANCIAL SERVICES COMMISSION

### Private Pension Industry Quarterly Statistics

December 2014

#### Overview

As at December 31, 2014, there were eight hundred and two (802) pension plans<sup>1</sup> covering nine percent of the employed labour force, with assets totaling \$341.41 billion representing a three percent increase over the previous quarter (See Table 1). Plan membership increased marginally during quarter.

**Table 1 : Key Statistics**

	December 2014	September 2014	June 2014
<b>Number of Plans</b>	802	806	805
<b>Asset Values (\$'000)</b>	341,413,284	331,564,608	323,693,782
<b>Total Membership</b>	102,112	102,105	102,047

*Note: September 2014 has been re-stated*

#### Investment Mix

Direct holdings of securities of governments comprised approximately 41 percent of total investments as at December 31, 2014; this represented a marginal growth in the total quantity held. Investment arrangements represented approximately 30 percent of total investments as shown in Table 2.1. Investment arrangements, which include pooled funds and deposit administration contracts, are significantly invested in government securities. This indirect investment in government securities accounts for approximately 58 percent of these investment arrangements as at December 31, 2014. The value of the equities within these investment arrangements have increased by 21 percent during the quarter and represent 22 percent of the total assets of these investment arrangements, however there was a significant 20 percent reduction in the real estate stock which accounts for nine percent of the value of these investment arrangements.

Investments in promissory notes increased by 27 percent during this quarter continuing the growth experienced in the previous quarters. Investments in repurchase agreements increased by approximately 22 percent to \$31.77 billion reversing the one quarter reduction experienced as at September 30, 2014. Bonds and debentures within the portfolio continued the upward trend as the value increased by nine percent to \$5.24 billion as at December 31, 2014.

Despite the continued anaemic performance of the stocks listed on the Jamaica Stock Exchange ("JSE"), which experienced a decline of 5.31 percent for the calendar year, notwithstanding a six percent increase quarter over quarter which was partially attributable to two new listings on the JSE's main market during the review quarter. There was a four percent increase in value of the direct holdings of stocks and shares within the investment portfolio of pension plans when compared with the third quarter of 2014. The value of this asset class stood at \$31.79 billion, representing approximately nine percent of total invested assets.

<sup>1</sup> This number includes pension plans which are active, terminating and those that are inactive.

**Table 2.1: Aggregate Investment Mix**

Types of Investment	Amount Invested \$'000	% of Total Investments	Amount Invested \$'000	% of Total Investments	Amount Invested \$'000	% of Total Investments
	Dec-14		Sep-14		Jun-14	
Deposits	2,803,468.14	0.83%	2,876,056.77	0.88%	2,972,168.16	0.93%
Commercial Paper	39,349.00	0.01%	38,375.00	0.01%	18,233.00	0.01%
Securities of Governments	138,343,761.01	40.88%	137,561,699.58	42.18%	134,333,927.34	41.93%
Repurchase Agreements	31,769,320.00	9.39%	26,156,791.37	8.02%	28,680,945.98	8.95%
Bonds and Debentures	5,244,507.03	1.55%	4,797,875.37	1.47%	4,074,656.81	1.27%
Mortgage Loans	263,139.84	0.08%	225,935.04	0.07%	232,443.92	0.07%
Other Loans	2,303,052.83	0.68%	2,044,967.71	0.63%	2,076,634.00	0.65%
Promissory Notes	2,416,403.00	0.71%	1,909,238.00	0.59%	1,681,192.00	0.52%
Leases	1,794,332.35	0.53%	1,806,674.77	0.55%	1,843,777.00	0.58%
Stocks and Shares	31,795,266.92	9.40%	30,537,175.99	9.36%	29,914,302.90	9.34%
Real Estate	19,902,517.96	5.88%	19,535,009.57	5.99%	19,401,716.00	6.06%
Investment Arrangements	100,577,034.55	29.72%	97,398,086.56	29.86%	93,964,689.78	29.33%
Derivatives	0.00	0.00%	0.00	0.00%	0.00	0.00%
Other Investments	1,144,245.00	0.34%	1,247,809.00	0.38%	1,194,389.00	0.37%
<b>Total Investments</b>	<b>338,396,397.64</b>	<b>100.00%</b>	<b>326,135,694.73</b>	<b>100.00%</b>	<b>320,389,075.88</b>	<b>100.00%</b>
Other Net Assets	3,016,886.22		5,428,913.34		3,304,705.93	
<b>Total Assets</b>	<b>341,413,283.86</b>		<b>331,564,608.07</b>		<b>323,693,781.81</b>	

*Note: September 2014 has been re-stated.*

*Investment Arrangements describe Investments in Deposit Administration Contracts and Pooled Funds*

During the quarter, total reported foreign securities holdings in the industry grew by approximately 29 percent to \$24.01 billion. A corresponding increase in the aggregate foreign securities as a percent of total invested assets was recorded during the quarter (See Table 2.2). The aggregate foreign securities as a percent of total invested assets stood at 7.09 percent as at December 31, 2014.

**Table 2.2: Aggregate Foreign Investment Mix**

Types of Investment	Amount Invested \$'000	FX Invested \$'000	% of Invested Amount	Amount Invested \$'000	FX Invested \$'000	% of Invested Amount
	Dec-14			Sep-14		
Deposits	2,803,468.14	24,474.63	0.87%	2,876,056.77	2,568.81	0.09%
Commercial Paper	39,349.00	11,724.56	29.80%	38,375.00	0.00	0.00%
Securities of Governments	138,343,761.01	6,893,745.48	4.98%	137,561,699.58	6,874,461.92	5.00%
Repurchase Agreements	31,769,320.00	2,778,189.95	8.74%	26,156,791.37	1,134,966.54	4.34%
Bonds and Debentures	5,244,507.03	119,434.65	2.28%	4,797,875.37	91,759.63	1.91%
Mortgage Loans	263,139.84	4,971.68	1.89%	225,935.04	5,318.33	2.35%
Other Loans	2,303,052.83	872.11	0.04%	2,044,967.71	1,231.74	0.06%
Promissory Notes	2,416,403.00	15,923.11	0.66%	1,909,238.00	7,865.13	0.41%
Leases	1,794,332.35	2,011.88	0.11%	1,806,674.77	0.00	0.00%
Stocks and Shares	31,795,266.92	989,647.17	3.11%	30,537,175.99	984,171.41	3.22%
Real Estate	19,902,517.96	0.00	0.00%	19,535,009.57	0.00	0.00%
Investment Arrangements	100,577,034.55	13,151,075.97	13.08%	97,398,086.56	9,559,822.32	9.82%
Derivatives	0.00	0.00	0.00%	0.00	0.00	0.00%
Other Investments	1,144,245.00	15,985.10	1.40%	1,247,809.00	19,286.14	1.55%
<b>Total Investments</b>	<b>338,396,397.64</b>	<b>24,008,056.28</b>	<b>7.09%</b>	<b>326,135,694.73</b>	<b>18,681,451.97</b>	<b>5.73%</b>

Note: September 2014 has been re-stated.

Investment Arrangements describe Investments in Deposit Administration Contracts and Pooled Funds

### Active Pension Plans

The number of active pension plans accounted for 53.42 percent of the total private pensions industry. As at December 31, 2014 there were four hundred and twenty-nine (429) active plans, three less than the previous quarter (See Table 3). The winding-up of three pension plans was partially responsible for the reduction in active membership in private pension arrangements in Jamaica.

**Table 3: Membership**

	December 2014	September 2014	June 2014
Number of Active Plans	429	432	436
Active Membership	94,645	94,683	98,355

Three hundred and nineteen (319) of the 429 active plans are defined contribution (“DC”) plans. Despite the greater number and larger membership pool of DC plans reported, defined benefit plans accounted for the majority of the pension industry assets (See Table 4).

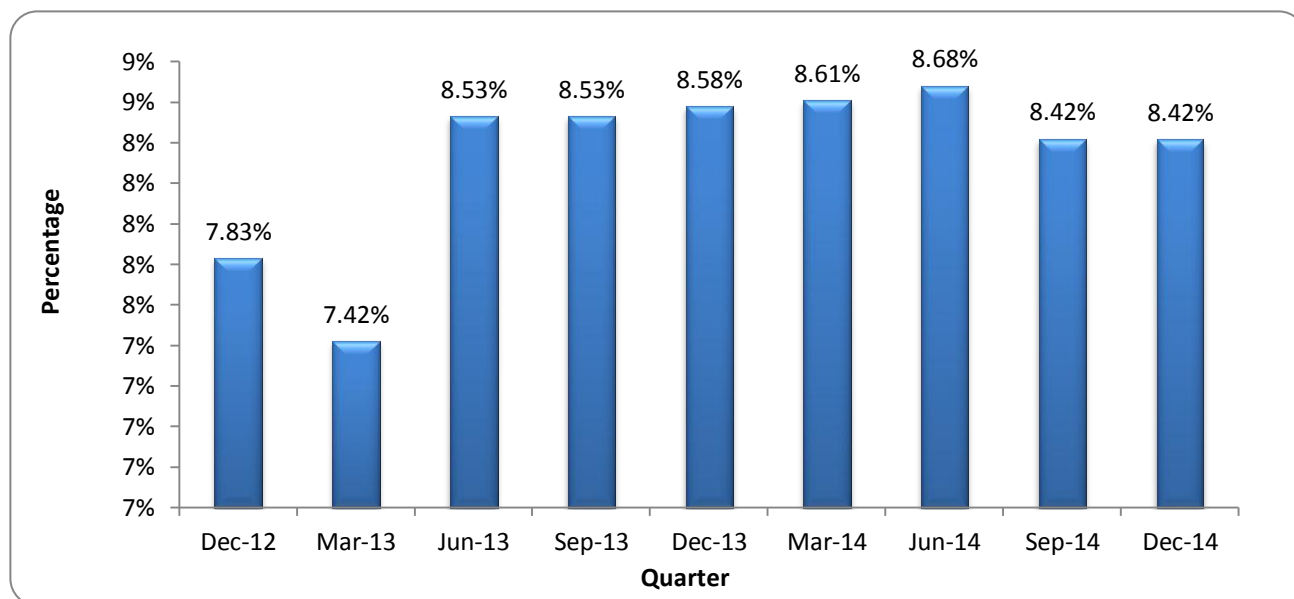
**Table 4: Active Pension Plans by Type**

	December 2014	September 2014	June 2014
<b>Number of Plans</b>			
Defined Benefit	110	108	109
Defined Contribution	319	324	327
<b>Total Active Plans</b>	<b>429</b>	<b>432</b>	<b>436</b>
<b>Membership</b>			
Defined Benefit	22,194	22,072	25,782
Defined Contribution	72,451	72,611	72,573
<b>Total Membership</b>	<b>94,645</b>	<b>94,683</b>	<b>98,355</b>
<b>Assets Values</b>			
Defined Benefit (\$'000)	209,812,785	203,442,041	203,451,061
Defined Contribution (\$'000)	117,356,382	113,485,576	107,365,128
<b>Total Asset Values (\$'000)</b>	<b>327,169,167</b>	<b>316,927,617</b>	<b>310,816,189</b>

Membership in active pension plans as at December 31, 2014 covered 8.42 percent of the Jamaican employed labour force<sup>2</sup> a marginal decline when compared to the June quarter (See chart 1). This is as a result of the decrease of membership in active pension plans and a corresponding reduction in the employed labour force.

<sup>2</sup> The Jamaican employed labour force as at October 31, 2014 was 1,124,500 according to the Statistical Institute of Jamaica (statinja.gov.jm).

**Chart 1: Private Pension Coverage as a Percentage of the Employed Labour Force**



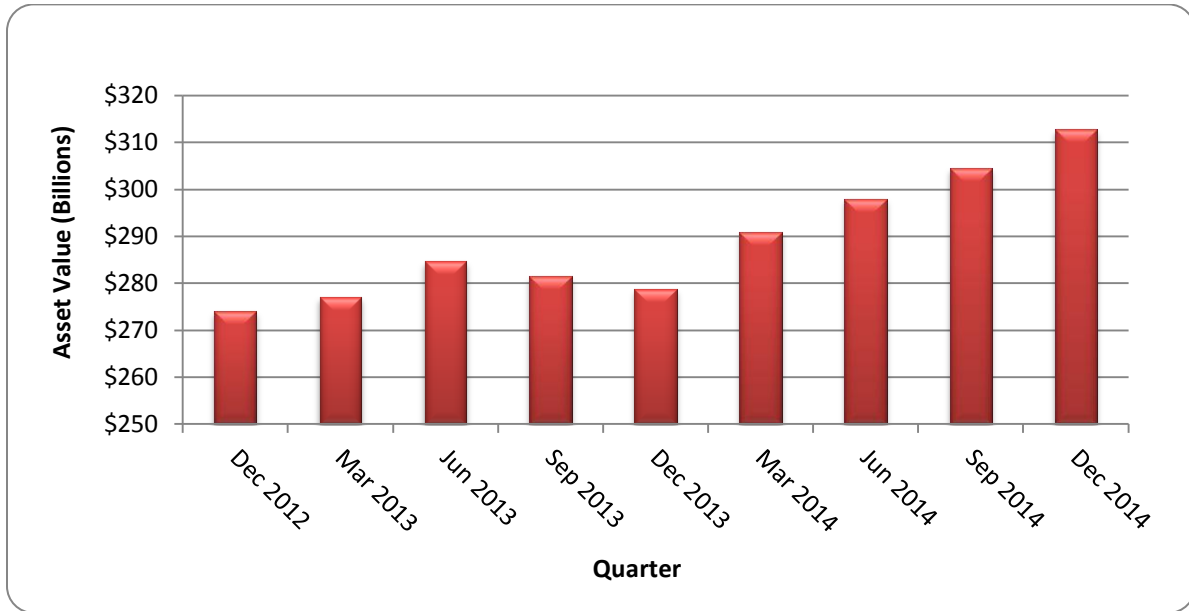
### Active Plans by Type

As illustrated in Table 5, superannuation funds (“funds”) accounted for approximately 97 percent of the number of active plans and 96 percent of total assets. During the review quarter the assets of active retirement schemes (“schemes”) increased by 6.21 percent to \$14.29 billion, relative to an increase of three percent recorded by superannuation funds (See Charts 2 & 3). Whilst membership in active funds continues to decline, membership in schemes remained flat during the quarter.

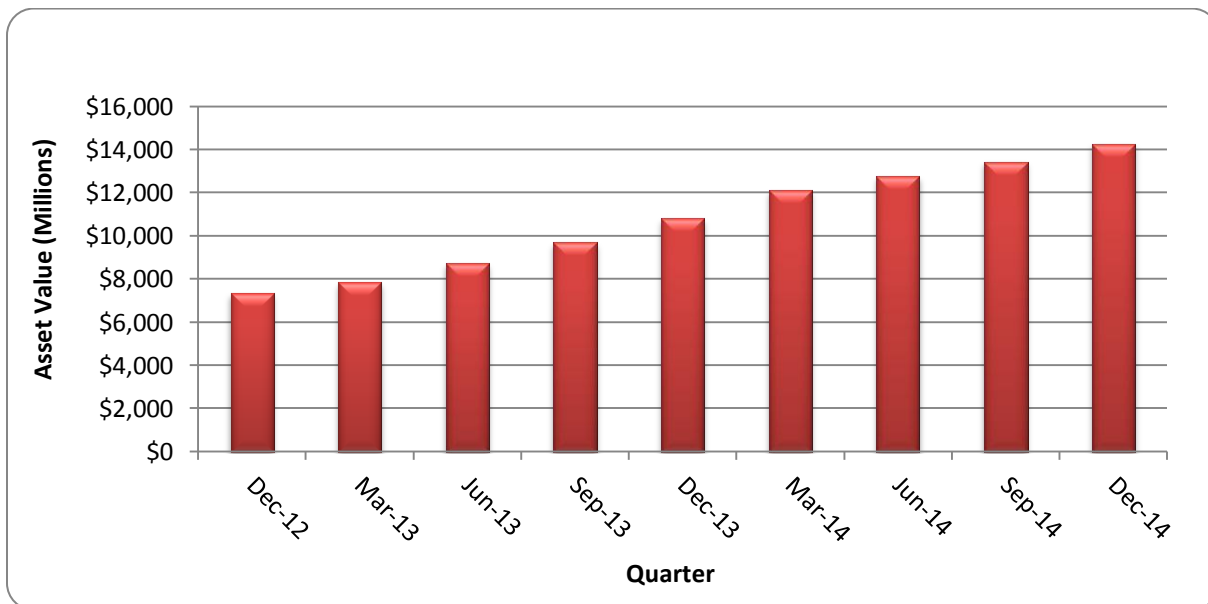
**Table 5: Active Plans by Type as at December 31, 2014**

	Number of Active Plans	Percentage of Plans	Number of Members	Percentage of Membership	Asset Value (\$'000)	Percentage of Asset Value
Retirement Schemes	13	3.03	32,253	34.08	14,288,886	4.37
Superannuation Funds	416	96.98	62,392	65.92	312,880,281	95.63
<b>TOTAL</b>	<b>429</b>	<b>100.00</b>	<b>94,546</b>	<b>100.00</b>	<b>327,169,167</b>	<b>100.00</b>

**Chart 2 – Asset Values for Active Superannuation Funds**



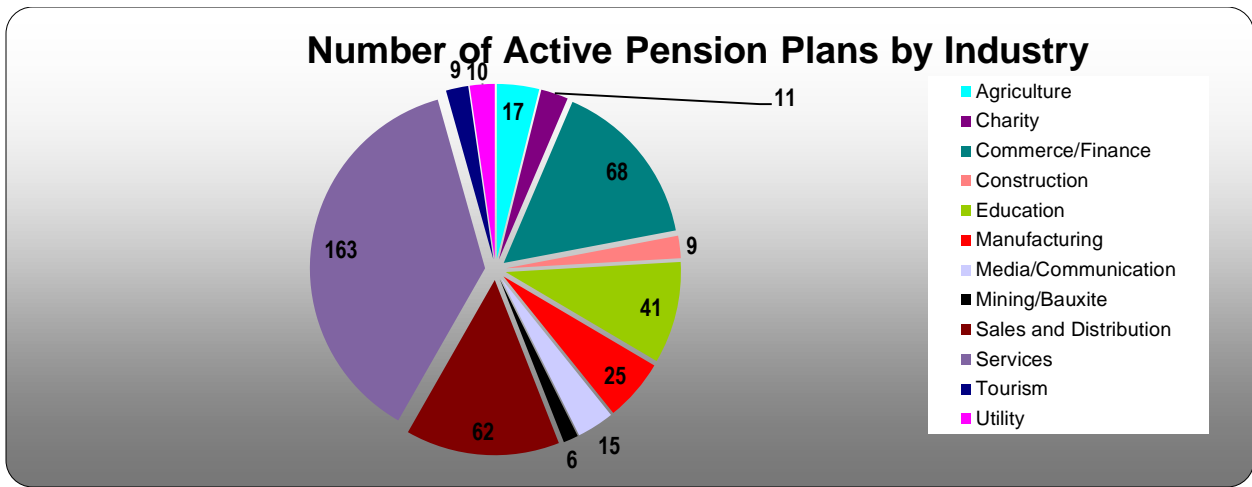
**Chart 3 – Asset Values for Active Retirement Schemes**



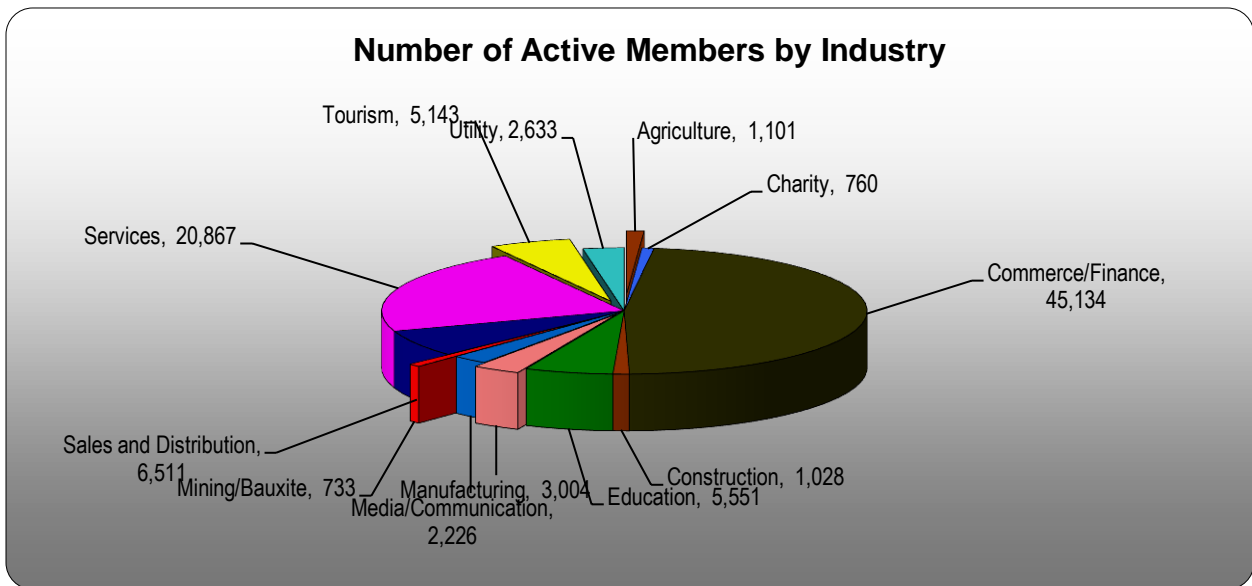
### Active Plans by Industry

The Commerce and Finance Industry accounted for 47.69 percent of active members and 40.88 percent of the pension industry assets at December 31, 2014, representing the largest share of active members and pension assets of active plans respectively. The industry segment with the second largest share of the market is the Services Industry with 22.05 percent of the active members and 16.79 percent of assets of active plans. Charts 4 - 6 illustrate the breakdown of the number of active plans, the membership and the asset values by industry as at December 31, 2014.

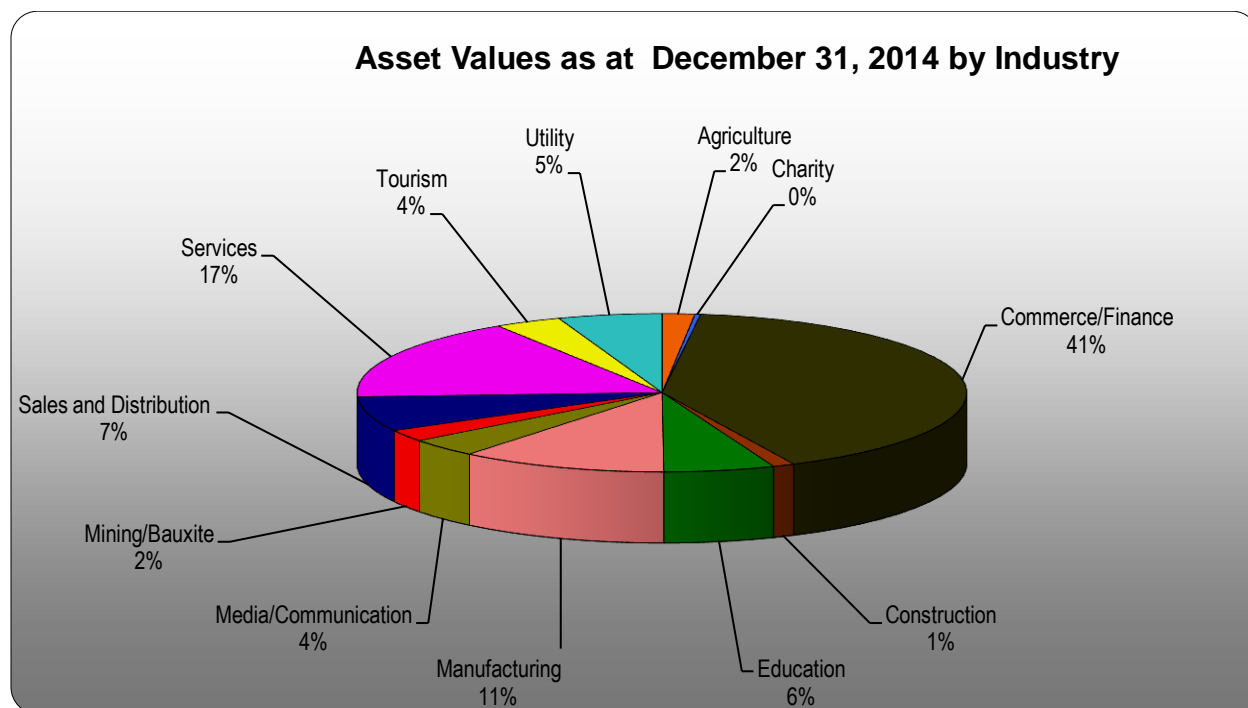
**Chart 4: Number of Active Plans by Industry**



**Chart 5: Number of Active Members by Industry**



**Chart 6: Asset Values by Industry**



**Solvency of Active Pension Plans**

Four hundred and seventeen (417) plans, representing approximately 97 percent of the 429 active plans have submitted solvency data; analysis of the data shows that as at December 31, 2014, approximately 92 percent of all active pension plans, for which data were submitted, were solvent. The data also indicated that, for all pension plans for which data were submitted, 93 percent of defined contribution pension plans were solvent compared to 88 percent of active defined benefit pension plans. In the case of active defined benefit pension plans the sponsors have an obligation to fund the shortfall given the nature of these plans.

**Table 6: Solvency Levels of Active Plans as at December 31, 2014**

	Number of plans	Solvency Level				% of plans which are solvent
		Less than 100%	Between 100% & 120%	Between 120% & 150%	Greater than 150%	
<b>Defined Benefit</b>	109	13	22	37	37	88
<b>Defined Contribution</b>	308	21	189	72	26	93
<b>Total</b>	<b>417</b>	<b>34</b>	<b>211</b>	<b>109</b>	<b>63</b>	<b>92</b>



## **Inactive Pension Plans**

During the quarter one inactive retirement scheme withdrew its application for registration; as a result the number of inactive plans within the private pensions industry decreased by one; See Table 7:

**Table 7: Inactive Pension Plans by Type**

	December 2014	September 2014	June 2014
<b>Number of Plans</b>			
Defined Benefit	5	5	5
Defined Contribution	15	16	17
<b>Total Inactive Plans</b>	<b>20</b>	<b>21</b>	<b>22</b>
<b>Membership</b>			
Defined Benefit	2,244	2,244	2,244
Defined Contribution	139	139	153
<b>Total Membership</b>	<b>2,383</b>	<b>2,383</b>	<b>2,397</b>
<b>Asset Values</b>			
Defined Benefit (\$'000)	337,154	338,827	341,623
Defined Contribution (\$'000)	153,012	153,289	166,573
<b>Total Asset Values (\$'000)</b>	<b>490,166</b>	<b>492,116</b>	<b>508,196</b>

## **Terminating Plans**

During the December quarter three plans terminated; however based on a reclassification of plans statuses and benefit types the number of terminating plans remained the same when compared with the previous quarter. The asset values for these terminating plans stood at \$13.75 billion (See Table 8).

**Table 8: Terminating Pension Plans by Type**

	December 2014	September 2014	June 2014
<b>Number of Plans</b>			
Defined Benefit	80	81	80
Defined Contribution	273	272	267
<b>Total Terminating Plans</b>	<b>353</b>	<b>353</b>	<b>347</b>
<b>Membership</b>			
Defined Benefit	4,187	4,244	523
Defined Contribution	897	795	772
<b>Total Membership</b>	<b>5,084</b>	<b>5,039</b>	<b>1,295</b>
<b>Asset Values</b>			
Defined Benefit (\$'000)	8,231,075	8,486,679	8,307,084
Defined Contribution (\$'000)	5,522,876	5,658,196	4,062,313
<b>Total Asset Values (\$'000)</b>	<b>13,753,951</b>	<b>14,144,875</b>	<b>12,369,397</b>

## **Investment Managers**

There were no new investment managers participating in the private pensions industry as at December, 2014. However one investment manager that had applied for licensing by the FSC withdrew the application for licensing during the quarter. Life insurance companies represent 11.11 percent of the total number of investment managers; however they continue to account for approximately 51 percent of total private pension assets. Life insurance companies and securities dealers (39.15 percent) account for 90 percent of the private pension industry assets. Credit unions and building societies with less than one percent accounted for the smallest market share of private pension assets (See Table 9).

**Table 9: Total Assets Under Management of Licensed Investment Managers**

<b>Investment Managers</b>	<b>Number of Entities Dec 2014</b>	<b>Asset Values Dec 2014 (\$'000)</b>	<b>Number of Entities Sep 2014</b>	<b>Asset Values Sep 2014 (\$'000)</b>	<b>Number of Entities Jun 2014</b>	<b>Asset Values Jun 2014 (\$'000)</b>
Insurance Companies	3	173,853,285	3	169,238,804	3	163,756,619
Securities	16	133,647,248	16	129,371,848	16	127,639,905
Credit Unions/ Building Societies	2	220,629	2	213,927	2	322,210
Other	5	33,692,122	6	32,740,029	6	31,975,048
<b>Total</b>	<b>26</b>	<b>341,413,284</b>	<b>27</b>	<b>331,564,608</b>	<b>27</b>	<b>323,693,782</b>

## **Risk Outlook**

The Jamaican economy grew by approximately one per cent in 2014 and inflation stood at six per cent culminating the fourth consecutive year of single digit inflation. The Jamaican dollar also depreciated by 10.4 per cent during 2014. The private pension industry continues to be stable in the face of continuing local and global economic challenges with, 41 per cent of its aggregate assets directly invested in Government of Jamaica securities. This continues to represent the single most significant investment risk exposure for pension plans as interest rates remained relatively low.

Investment in foreign securities and foreign assets within the aggregate portfolio has increased by approximately 30 per cent to \$24 billion; representing seven per cent of total invested assets. As investment arrangements which account for 55 per cent of the foreign currency stock continue to increase their holdings in foreign securities and assets at a significant pace the private pensions industry will be increasingly exposed to foreign currency risk in the short to medium term.

The local stock market, after an initial slump has exhibited signs of recovery evidenced by two consecutive quarters of growth on the main index. Nine per cent of the private pension assets are invested in equities and the improved performance of the local stock market provides opportunities for pension plans which need to diversify their portfolios and reduce counter party and foreign exchange risk exposures.

The number of Jamaicans participating in private pension arrangements declined during the year resulting in reduced pension coverage at the end of 2014 when compared with 2013. Sponsoring employers have sighted economic factors as the main reasons for terminating funds. As they continue to feel the strain of the tight fiscal policies this poses a risk to the pensions industry. However the continued growth in the retirement scheme segment is expected to offset this, as members of winding-up funds have generally transferred their accrued benefits to schemes. However the viability of retirement schemes is dependent on the levels of disposable incomes within the Jamaican economy as well as the employment levels of the Jamaican workforce.

As the FSC continues to monitor and supervise the conduct and governance practices of investment managers and administrators, the trustees and members of funds and schemes are encouraged to be vigilant where disclosure materials are concerned as well as ensuring that the assets are being prudently invested and in accordance with the Statement of Investment Policies and Principles.

### ***Summary***

The private pension industry continues to be stable in the face of continuing local and global economic challenges. During the review quarter, the number of active pension plans declined when compared with the September 2014 quarter, as a result of the termination of three plans. The number of Jamaicans participating in private pension arrangements declined for the second consecutive quarter. The Jamaican employed workforce also contracted during the quarter resulting in the pension coverage remaining unaffected.

Despite this, the total assets in the private pensions industry increased during the quarter and the solvency levels of pension plans remained adequate.