

## FINANCIAL SERVICES COMMISSION

### Private Pension Industry Quarterly Statistics

June 2015

#### Overview

As at June 30, 2015, there were eight hundred and two (802) pension plans<sup>1</sup> covering ten percent of the employed labour force, with assets totaling \$363.07 billion representing a four percent increase over the previous quarter (See Table 1). Plan membership decreased marginally during quarter.

**Table 1 : Key Statistics**

	June 2015	March 2015	December 2014
<b>Number of Plans</b>	802	802	802
<b>Asset Values (\$'000)</b>	363,068,780	349,561,879	341,447,269
<b>Total Membership</b>	109,984	110,041	102,112

*Note: March 2015 has been re-stated*

#### Investment Mix

Direct holdings of securities of governments comprised approximately 38 percent of total investments as at June 30, 2015; this represented a marginal reduction in the total quantity held. Investment arrangements represented approximately 31 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 59 percent of these investment arrangements as at June 30, 2015; a 15 percent increase compared with the previous quarter. The value of the equities within these investment arrangements have increased by 12 percent during the quarter and represent 23 percent of the total assets of these investment arrangements, however there was a significant 32 percent reduction in the retail repo investments which accounts for four percent of the value of these investment arrangements compared with seven percent in March 2015.

The robust performance of the stocks listed on the Jamaica Stock Exchange (“JSE”), which experienced an appreciation of 44.43 percent for the calendar year, was partially attributable to 17 percent increase in value of the direct holdings of stocks and shares within the investment portfolio of pension plans when compared with the first quarter of 2015. The value of this asset class stood at \$40.19 billion, representing eleven percent of total invested assets.

Bonds and Debentures increased by six percent during this quarter reversing the decline experienced in the previous quarter. Investments in repurchase agreements declined by approximately two percent to \$32.33 billion during the quarter. There were significant increases in other loans and other investments which contributed to the growth in the investment portfolio during the review period.

<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
	Jun-15		Mar-15		Dec-14	
Deposits	3,359,088.32	0.93%	3,628,417.21	1.05%	2,507,677.58	0.74%
Commercial Paper	31,766.60	0.01%	92,014.33	0.03%	31,688.35	0.01%
Securities of Governments	136,584,087.61	37.89%	137,770,995.76	39.70%	136,322,128.54	40.28%
Repurchase Agreements	32,333,816.02	8.97%	33,123,790.82	9.54%	33,003,169.78	9.75%
Bonds and Debentures	6,611,919.91	1.83%	6,267,899.70	1.81%	6,331,842.00	1.87%
Mortgage Loans	221,330.16	0.06%	251,097.91	0.07%	263,140.00	0.08%
Other Loans	2,504,746.45	0.69%	2,235,829.95	0.64%	2,303,053.00	0.68%
Promissory Notes	2,817,607.34	0.78%	2,736,793.00	0.79%	2,416,402.89	0.71%
Leases	1,776,677.95	0.49%	1,780,214.76	0.51%	1,800,287.15	0.53%
Stocks and Shares	40,187,403.43	11.15%	34,481,737.47	9.94%	31,639,383.63	9.35%
Real Estate	20,848,713.70	5.78%	20,094,908.64	5.79%	20,065,816.45	5.93%
Investment Arrangements	111,715,977.16	30.99%	103,341,756.22	29.78%	100,573,509.41	29.72%
Derivatives	0.00	0.00%	0.00	0.00%	0.00	0.00%
Other Investments	1,444,264.02	0.40%	1,266,138.38	0.36%	1,156,874.12	0.34%
<b>Total Investments</b>	<b>360,437,398.65</b>	<b>100.00%</b>	<b>347,071,594.17</b>	<b>100.00%</b>	<b>338,414,972.90</b>	<b>100.00%</b>
Other Net Assets	2,631,381.19		2,490,284.63		3,032,295.85	
<b>Total Assets</b>	<b>363,068,779.84</b>		<b>349,561,878.80</b>		<b>341,447,268.75</b>	

*Note: March 2015 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 fell by approximately 16 percent to \$25.40 billion; arresting three quarters of significant increases. A corresponding decline 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 7.05 percent as at June 30, 2015.

**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
	Jun-15			Mar-15		
Deposits	3,359,088.32	244,807.09	7.29%	3,628,417.21	360,079.22	9.92%
Commercial Paper	31,766.60	11,779.06	37.08%	92,014.33	12,008.58	13.05%
Securities of Governments	136,584,087.61	4,418,684.34	3.24%	137,770,995.76	8,013,119.73	5.82%
Repurchase Agreements	32,333,816.02	3,454,472.94	10.68%	33,123,790.82	3,441,800.84	10.39%
Bonds and Debentures	6,611,919.91	131,689.11	1.99%	6,267,899.70	791,431.87	12.63%
Mortgage Loans	221,330.16	3,138.90	1.42%	251,097.91	4,065.69	1.62%
Other Loans	2,504,746.45	131.64	0.01%	2,235,829.95	500.12	0.02%
Promissory Notes	2,817,607.34	16,681.95	0.59%	2,736,793.00	24,589.67	0.90%
Leases	1,776,677.95	2,154.97	0.12%	1,780,214.76	0.00	0.00%
Stocks and Shares	40,187,403.43	1,303,738.40	3.24%	34,481,737.47	1,409,441.54	4.09%
Real Estate	20,848,713.70	0.00	0.00%	20,094,908.64	0.00	0.00%
Investment Arrangements	111,715,977.16	15,790,186.07	14.13%	103,341,756.22	16,293,083.03	15.77%
Derivatives	0.00	0.00	0.00%	0.00	0.00	0.00%
Other Investments	1,444,264.02	20,979.99	1.45%	1,266,138.38	8,868.58	0.70%
<b>Total Investments</b>	<b>360,437,398.65</b>	<b>25,398,444.45</b>	<b>7.05%</b>	<b>347,071,594.17</b>	<b>30,358,988.86</b>	<b>8.75%</b>

Note: March 2015 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 52.37 percent of the total private pensions industry. As at June 30, 2015 there were four hundred and twenty (420) active plans, three less than the previous quarter (See Table 3). Four pension plans wound-up and one inactive plan resumed the remittance of contributions during the quarter. The active membership in private pension arrangements in Jamaica grew marginally during the quarter.

**Table 3: Membership**

	June 2015	March 2015	December 2014
Number of Active Plans	420	423	429
Active Membership	102,515	102,222	94,645

Three hundred and twelve (312) of the 420 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).

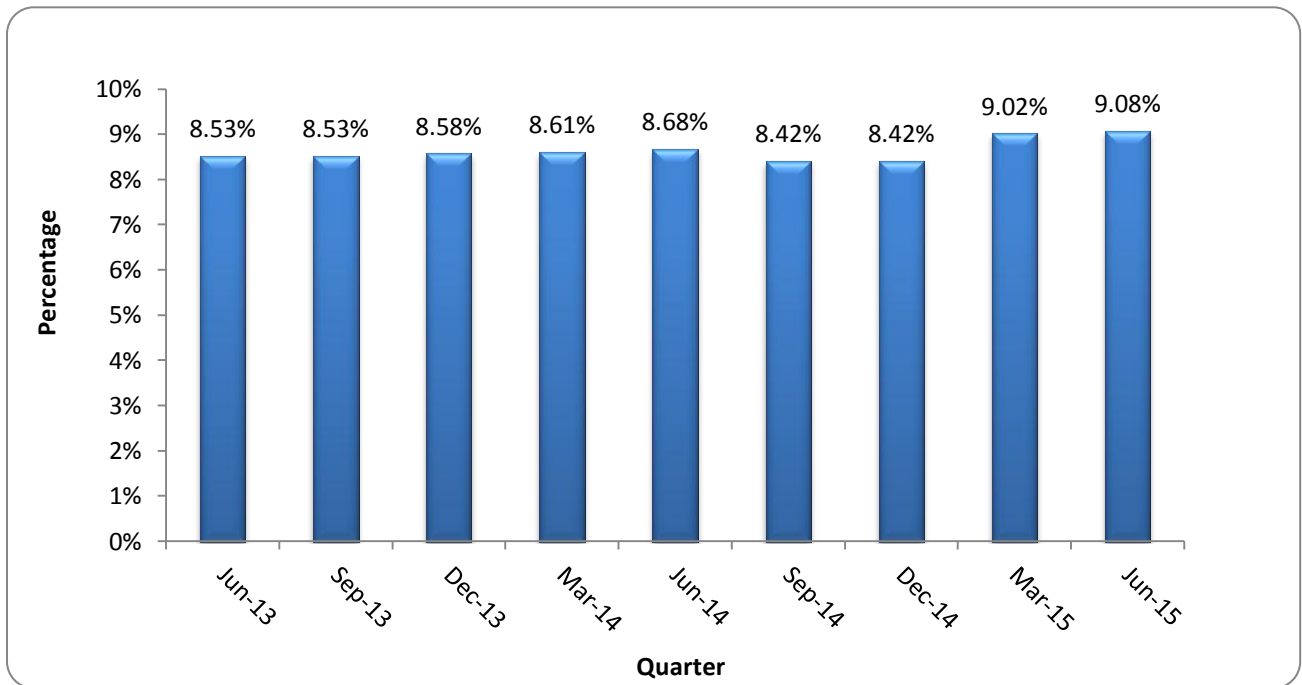
**Table 4: Active Pension Plans by Type**

	June 2015	March 2015	December 2014
<b>Number of Plans</b>			
Defined Benefit	108	110	110
Defined Contribution	312	313	319
<b>Total Active Plans</b>	<b>420</b>	<b>423</b>	<b>429</b>
<b>Membership</b>			
Defined Benefit	21,909	22,018	22,194
Defined Contribution	80,606	80,204	72,451
<b>Total Membership</b>	<b>102,515</b>	<b>102,222</b>	<b>94,645</b>
<b>Assets Values</b>			
Defined Benefit (\$'000)	228,419,013	220,988,637	213,851,116
Defined Contribution (\$'000)	119,781,991	113,948,939	113,352,035
<b>Total Asset Values (\$'000)</b>	<b>348,201,004</b>	<b>334,937,576</b>	<b>327,203,151</b>

Membership in active pension plans as at June 30, 2015 covered 9.08 percent of the Jamaican employed labour force<sup>2</sup> a marginal increase when compared to the March quarter (See chart 1). This is as a result of the increase in membership in active pension plans and a reduction in the employed labour force.

<sup>2</sup> The Jamaican employed labour force as at April 30, 2015 was 1,129,100 according to the Statistical Institute of Jamaica (statinja.gov.jm).

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



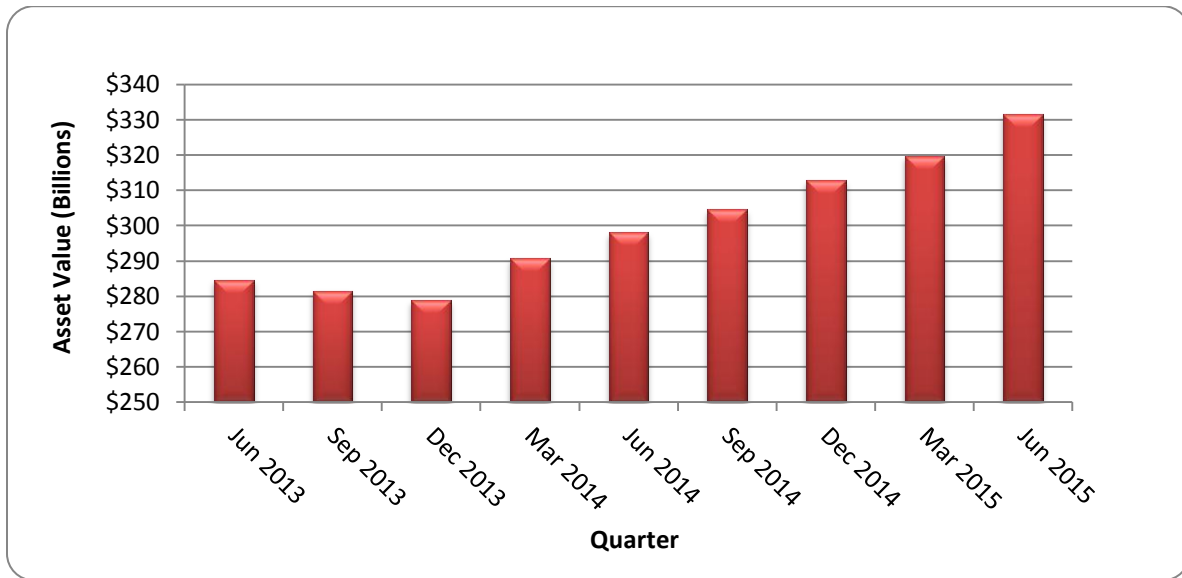
### Active Plans by Type

As illustrated in Table 5, superannuation funds (“funds”) accounted for approximately 97 percent of the number of active plans and 95 percent of total assets. During the review quarter the assets of active retirement schemes (“schemes”) increased by 9.03 percent to \$16.57 billion, relative to an increase of four percent recorded by superannuation funds (See Charts 2 & 3). Whilst membership in active funds increased during the quarter, membership in schemes remained flat.

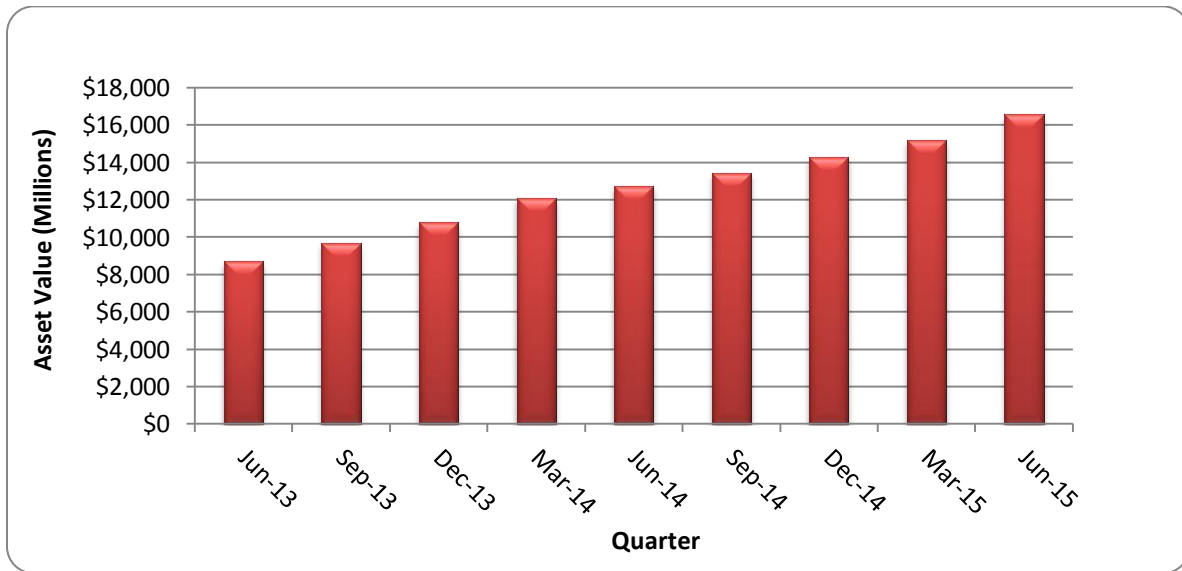
**Table 5: Active Plans by Type as at June 30, 2015**

	Number of Active Plans	Percentage of Plans	Number of Members	Percentage of Membership	Asset Value (\$'000)	Percentage of Asset Value
Retirement Schemes	13	3.10	40,023	39.04	16,565,458	4.76
Superannuation Funds	407	96.90	62,492	60.96	331,635,546	95.24
<b>TOTAL</b>	<b>420</b>	<b>100.00</b>	<b>102,515</b>	<b>100.00</b>	<b>348,201,004</b>	<b>100.00</b>

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



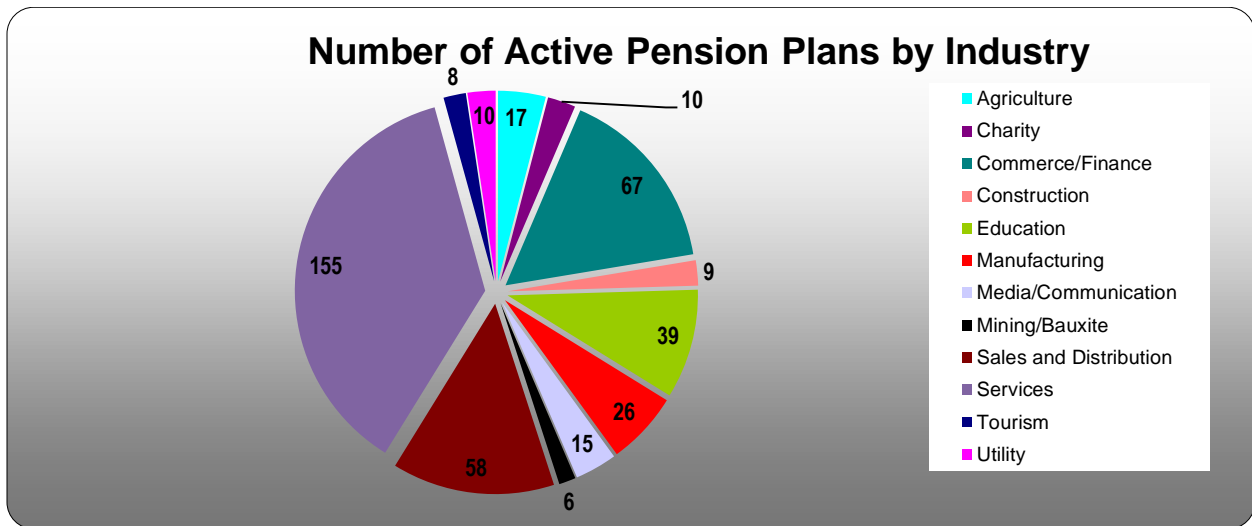
**Chart 3 – Asset Values for Active Retirement Schemes**



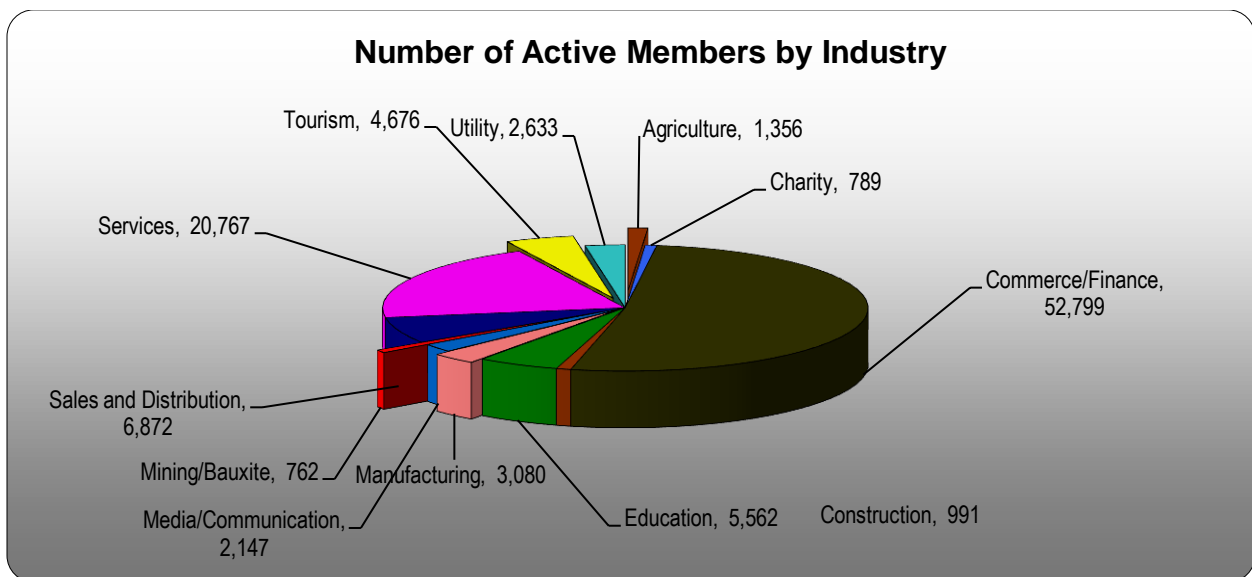
### Active Plans by Industry

The Commerce and Finance Industry accounted for 51.50 percent of active members and 41.03 percent of the pension industry assets at June 30, 2015, 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 20.26 percent of the active members and 16.19 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 June 30, 2015.

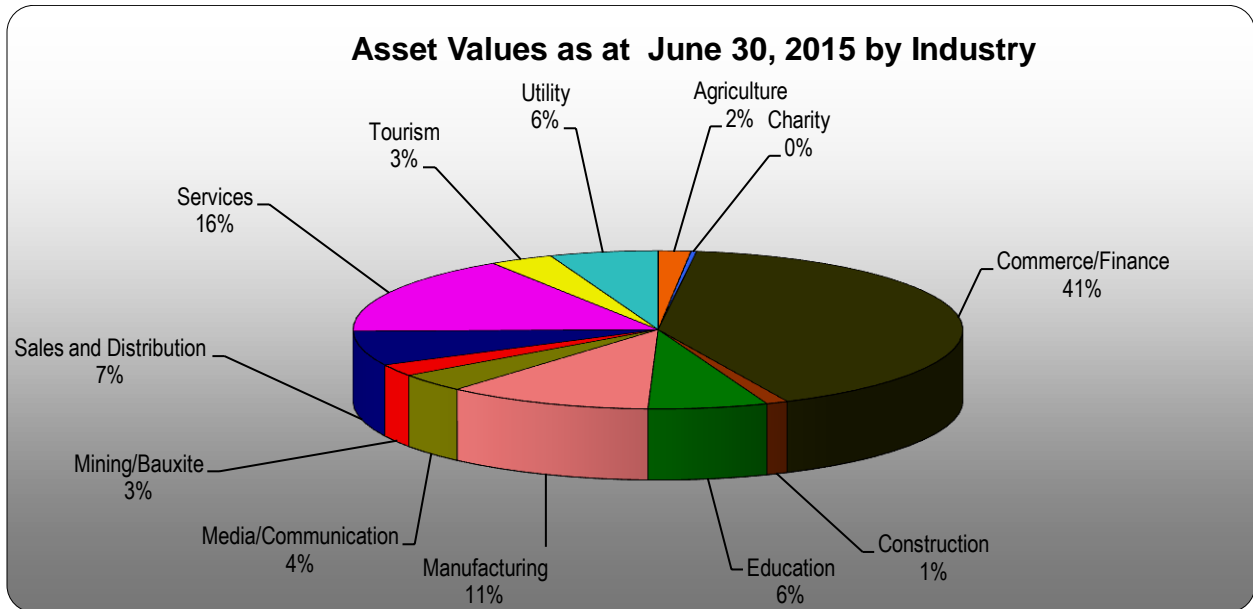
**Chart 4: Number of Active Plans by Industry**



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



**Chart 6: Asset Values by Industry**



**Solvency of Active Pension Plans**

Four hundred and eight (408) plans, representing approximately 97 percent of the 420 active plans have submitted solvency data; analysis of the data shows that as at June 30, 2015, 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 90 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 June 30, 2015**

	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>	107	11	27	33	36	90
<b>Defined Contribution</b>	301	20	187	71	23	93
<b>Total</b>	<b>408</b>	<b>31</b>	<b>214</b>	<b>104</b>	<b>59</b>	<b>92</b>



## **Inactive Pension Plans**

During the quarter one inactive plan resumed the remittance of contributions on behalf of its members and is now deemed active. As a result the number of inactive plans within the private pensions industry decreased by one when compared to the previous quarter (See Table 7).

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

	June 2015	March 2015	December 2014
<b>Number of Plans</b>			
Defined Benefit	5	5	5
Defined Contribution	14	15	15
<b>Total Inactive Plans</b>	<b>19</b>	<b>20</b>	<b>20</b>
<b>Membership</b>			
Defined Benefit	2,243	2,243	2,244
Defined Contribution	84	137	139
<b>Total Membership</b>	<b>2,327</b>	<b>2,380</b>	<b>2,383</b>
<b>Asset Values</b>			
Defined Benefit (\$'000)	349,930	346,434	337,154
Defined Contribution (\$'000)	99,294	105,127	153,012
<b>Total Asset Values (\$'000)</b>	<b>449,224</b>	<b>451,561</b>	<b>490,166</b>

## **Terminating Plans**

During the June quarter four plans initiated termination proceedings. The total asset values for the terminating plans stood at \$14.42 billion (See Table 8).

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

	June 2015	March 2015	December 2014
<b>Number of Plans</b>			
Defined Benefit	83	81	80
Defined Contribution	280	278	273
<b>Total Terminating Plans</b>	<b>363</b>	<b>359</b>	<b>353</b>
<b>Membership</b>			
Defined Benefit	3,573	3,888	4,187
Defined Contribution	1,569	1,551	897
<b>Total Membership</b>	<b>5,142</b>	<b>5,439</b>	<b>5,084</b>
<b>Asset Values</b>			
Defined Benefit (\$'000)	8,464,958	8,179,703	8,231,074
Defined Contribution (\$'000)	5,953,594	5,993,038	5,522,878
<b>Total Asset Values (\$'000)</b>	<b>14,418,552</b>	<b>14,172,741</b>	<b>13,753,952</b>

## Investment Managers

There were no new investment managers participating in the private pensions industry as at June 30, 2015. 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 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 Jun 2015</b>	<b>Asset Values Jun 2015 (\$'000)</b>	<b>Number of Entities Mar 2015</b>	<b>Asset Values Mar 2015 (\$'000)</b>	<b>Number of Entities Dec 2014</b>	<b>Asset Values Dec 2014 (\$'000)</b>
Insurance Companies	3	185,573,691	3	178,604,481	3	173,853,287
Securities	16	142,061,962	16	136,601,185	16	133,647,249
Credit Unions/ Building Societies	2	263,294	2	248,678	2	238,315
Other	5	34,169,833	5	34,107,535	5	33,708,418
<b>Total</b>	<b>26</b>	<b>363,068,780</b>	<b>26</b>	<b>349,561,879</b>	<b>26</b>	<b>341,447,269</b>

## Risk Outlook

The Jamaican economy grew by approximately 0.8 percent during the June 2015 quarter and 12-month inflation stood at four per cent, the lowest rate in 43 years according to Bank of Jamaica (“BOJ”). This has culminated in the BOJ lowering interest rates on its 30-day Certificate of Deposits, as well as the rates used when providing liquidity to deposit taking institutions. There was also evidence of falling market rates, inclusive of the Treasury Bill rates, during the quarter.

The private pension industry continues to be stable even as the local and global economic challenges appear to be easing. Aggregate direct investment in Government of Jamaica securities has been trending downwards and stood at approximately 38 percent of the total invested assets of the pension industry. This continues to represent the single most significant investment risk exposure for pension plans as interest rates remained relatively low. BOJ also indicated that inflationary pressures will exist from increased liquidity in the market when the first National Debt Exchange (“NDX”) payment is made in February 2016.

Notwithstanding the growth in the net international reserves, the Jamaica dollar lost one percent of its value during the quarter. Investment in foreign securities and foreign assets within the aggregate portfolio decreased by approximately 16 percent to \$25 billion, representing seven percent of total invested assets and reversing the recent upward trend. As investment arrangements, which account for 62 percent 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 continued its recent positive out-turn with the four consecutive quarters of growth on the main index. Eleven percent of the private pension assets are invested in equities and the continued 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.

BOJ also indicated that business confidence shows a positive sentiment with employers recording higher profits and indicating that it was a good time to expand business. However, the Planning Institute of Jamaica ("PIOJ") reported that the employed labour force contracted by 3,900 persons compared with the previous year.

The number of Jamaicans participating in private pension arrangements declined during the quarter. Nonetheless, given the contraction in the employed labour force, pension coverage at the end of June 2015 increased marginally when compared with the previous quarter. Sponsoring employers continue to cite economic factors as the main reasons for terminating their pension plans. Some businesses continue to feel the strain of the tight fiscal policies and this poses a risk to the pensions industry. Notwithstanding that there was no growth in the retirement scheme segment during the quarter, it is expected this segment of the pensions market will offset the termination of superannuation funds in the long term. 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 relevant Statement of Investment Policies and Principles.

## **Summary**

The private pension industry continues to be stable with most economic indicators in the country pointing in the right direction. During the review quarter, the number of active pension plans declined when compared with the March 2015 quarter, as a result of the termination of four plans. The number of Jamaicans participating in private pension arrangements declined during quarter. The Jamaican employed workforce also contracted during the quarter resulting in an increase in pension coverage.

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