

FINANCIAL SERVICES COMMISSION

Private Pension Industry Quarterly Statistics

September 2016

Overview

As at September 30, 2016 there were eight hundred and one (801) pension plans¹ covering approximately ten percent of the employed labour force, with assets totaling \$438.07 billion representing a modest three percent increase over the previous quarter. In addition, there was a two percent growth in plan membership for the quarter. (See Table 1).

Table 1 : Key Statistics

	September 2016	June 2016	March 2016
Number of Plans	801	801	801
Asset Values (\$'000)	438,066,469	425,172,468	407,461,578
Total Membership	115,268	113,413	113,219

Investment Mix

Investment arrangements comprised approximately 37 percent of total investments; these investment arrangements continue to be the most popular asset class among superannuation funds (“funds”) and retirement schemes (“schemes”) in Jamaica. Investment arrangements which includes pooled funds and deposit administration contracts are significantly invested in government securities. This indirect investment in government securities accounts for approximately 51 percent of these investment arrangements as at September 2016; a nine percent increase compared with the previous quarter. Within these investment arrangements, the value of corporate bonds increased by 79 percent quarter over quarter as the value of the equities declined marginally, recording a two percent compression. However, within the portfolio of these investment arrangements equities represent approximately 27 percent of the total assets. A combination of the performances of these asset classes resulted in the appreciation of the values of investment arrangements to \$160.21 billion.

Despite the shifting appetite away from direct holdings of securities of governments to investment arrangements within the pension industry, direct holdings of securities of governments comprised approximately 31 percent of total investments as at September 30, 2016; this reflects the continued reduction in the total quantity held to \$135.88 billion, as shown in Table 2.

The pension market continues its retreat from direct investments in repurchase agreements as well, which now represent less than five percent of the pension portfolio; a significant 20 percent reduction in the value held at the end of the third quarter of 2016. Investments in bonds and debentures continue to grow, though funds and schemes are not significantly invested directly in this type of debt financing. As a whole, funds and schemes are not considerably exposed to corporate debt financing.

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

Direct and indirect holdings of real estate continue its upward trajectory and represent approximately five percent of industry assets.

The Jamaica Stock Exchange (“JSE”) main index advanced by 4,765 points during the September quarter; this represented a growth rate of approximately three percent. Despite the moderate performance of the stocks listed on the JSE during the quarter, the value of stocks invested by funds and schemes appreciated by almost eight percent. The value of this asset class stood at \$70.09 billion, representing 16 percent of total invested assets.

Table 2: Aggregate Investment Mix

Types of Investment	Amount Invested \$'000	% of Total Investments	Amount Invested \$'000	% of Total Investments	Amount Invested \$'000	% of Total Investments
	Sep-16		Jun-16		Mar-16	
Deposits	3,641,089.73	0.83%	4,077,167.16	0.96%	3,512,812.88	0.87%
Commercial Paper	222,550.23	0.05%	242,530.94	0.06%	211,219.94	0.05%
Securities of Governments	135,875,739.14	31.10%	135,499,153.24	31.99%	133,120,899.01	32.80%
Repurchase Agreements	19,401,586.16	4.44%	24,274,309.42	5.73%	27,948,296.02	6.89%
Bonds and Debentures	14,499,438.73	3.32%	14,023,638.92	3.31%	12,944,925.06	3.19%
Mortgage Loans	165,230.39	0.04%	172,066.00	0.04%	193,364.44	0.05%
Other Loans	2,846,941.85	0.65%	2,978,319.00	0.70%	3,037,800.00	0.75%
Promissory Notes	3,321,462.00	0.76%	3,450,273.00	0.81%	3,307,227.00	0.81%
Leases	2,978,432.73	0.68%	2,937,587.00	0.69%	2,771,358.92	0.68%
Stocks and Shares	70,094,082.31	16.04%	64,975,780.52	15.34%	58,510,507.34	14.41%
Real Estate	21,609,402.44	4.95%	21,339,860.00	5.04%	21,115,205.09	5.20%
Investment Arrangements	160,212,724.21	36.67%	147,623,067.63	34.85%	137,669,782.74	33.92%
Derivatives	0.00	0.00%	0.00	0.00%	0.00	0.00%
Other Investments	2,058,250.95	0.47%	2,007,000.41	0.47%	1,561,480.50	0.38%
Total Investments	436,926,930.85	100.00%	423,600,753.24	100.00%	405,904,878.95	100.00%
Other Net Assets	1,139,538.60		1,571,688.16		1,556,698.94	
Total Assets	438,066,469.45		425,172,441.40		407,461,577.88	

Note: June 2016 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 51.19 percent of the total private pension industry. As at September 30, 2016 there were 410 active plans, two less than the previous quarter (See Table 3). During the quarter, two funds initiated winding-up proceedings. Notwithstanding, there was an increase in the active membership in private pension arrangements in Jamaica during the quarter.

Table 3: Membership

	September 2016	June 2016	March 2016
Number of Active Plans	410	412	413
Active Membership	107,651	105,832	105,650

Three hundred and four (304) of the 410 active plans are defined contribution (“DC”) plans. Despite the greater number and larger membership pool of DC plans reported, defined benefit plans continue to account for the majority of the pension industry assets (See Table 4).

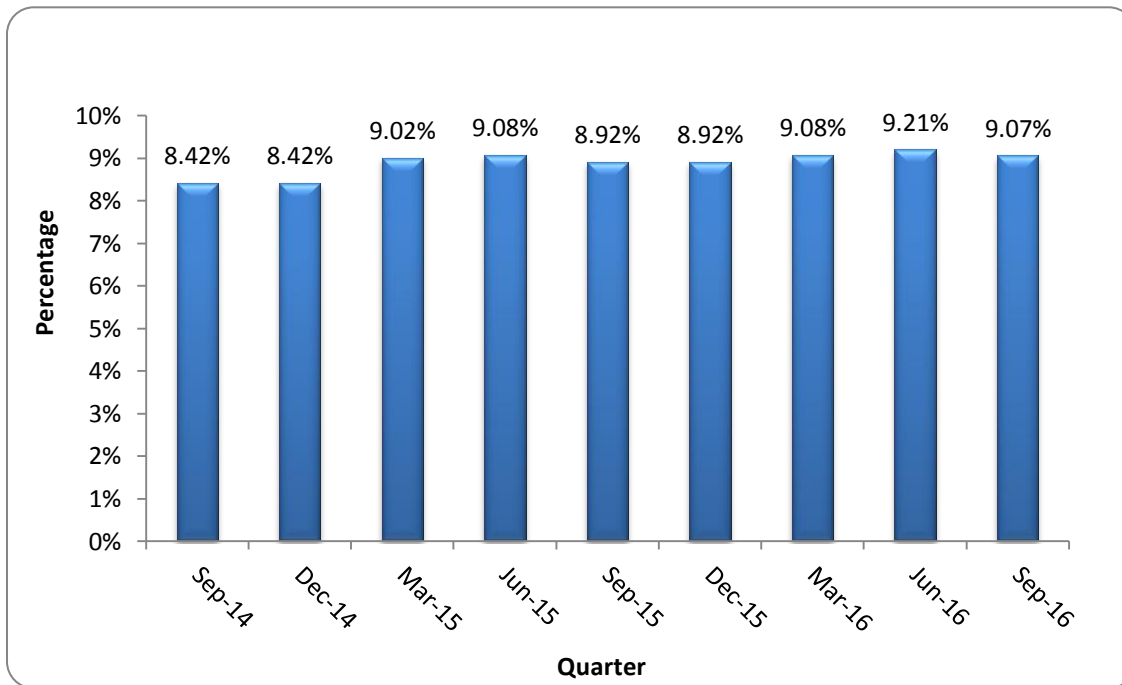
Table 4: Active Pension Plans by Type

	September 2016	June 2016	March 2016
Number of Plans			
Defined Benefit	106	106	106
Defined Contribution	304	306	307
Total Active Plans	410	412	413
Membership			
Defined Benefit	21,190	21,201	21,322
Defined Contribution	86,461	84,631	84,328
Total Membership	107,651	105,832	105,650
Assets Values			
Defined Benefit (\$'000)	274,182,322	271,531,473	260,021,538
Defined Contribution (\$'000)	153,469,637	145,829,101	139,195,373
Total Asset Values (\$'000)	427,651,959	417,360,574	399,216,911

Membership in active pension plans as at September 30, 2016 covered 9.07 percent of the Jamaican employed labour force², a decrease when compared to the June quarter (See chart 1).

² The Jamaican employed labour force as at July 31, 2016 was 1,186,900 according to the Planning Institute of Jamaica (pioj.gov.jm).

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



Active Plans by Type

As illustrated in Table 5, 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 schemes increased by 6.05 percent to \$22.22 billion, compared to the 2.28 percent increase recorded by funds (See Charts 2 & 3). Despite the termination of two funds, the membership in active funds increased marginally during the quarter. The retirement schemes reported moderate growth of approximately four percent in membership during the quarter and remain the main growth area within the industry.

Table 5: Active Plans by Type as at September 30, 2016

	Number of Active Plans	Percentage of Plans	Number of Members	Percentage of Membership	Asset Value (\$'000)	Percentage of Asset Value
Retirement Schemes	12	2.93	46,295	43.00	22,216,989	5.20
Superannuation Funds	398	97.07	61,356	57.00	405,434,970	94.80
TOTAL	410	100.00	107,651	100.00	427,651,959	100.00

Chart 2 – Asset Values for Active Superannuation Funds

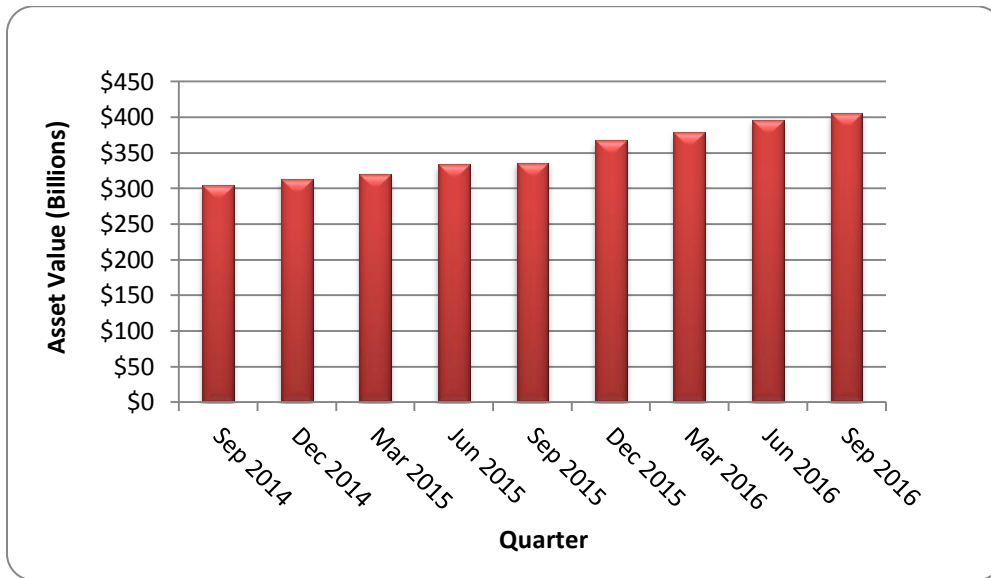
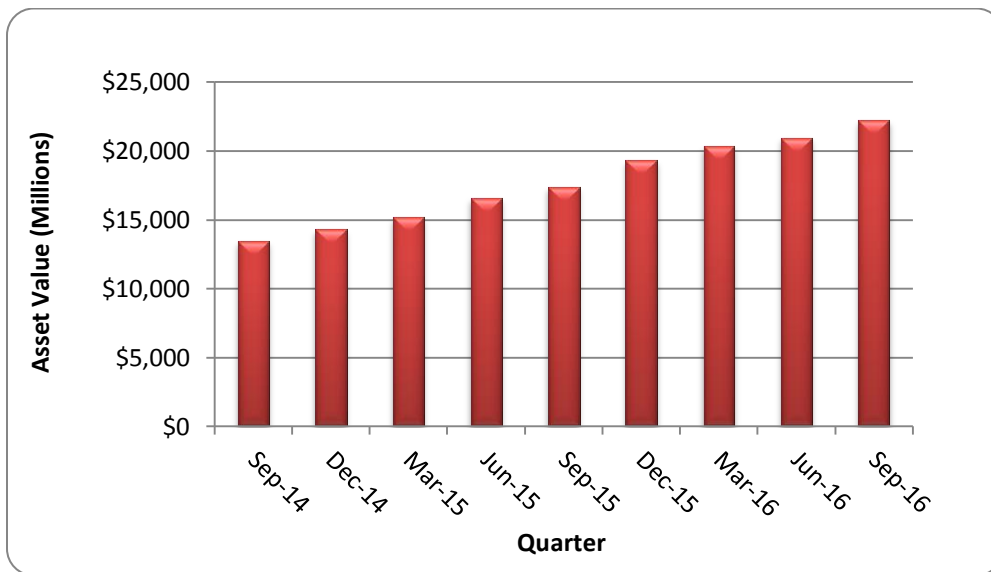


Chart 3 – Asset Values for Active Retirement Schemes



Active Plans by Industry

The Commerce and Finance Industry accounted for 54.26 percent of active members and 40.50 percent of the pension industry assets at September 30, 2016 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 19.49 percent of the active members and 16.60 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 September 30, 2016.

Chart 4: Number of Active Plans by Industry

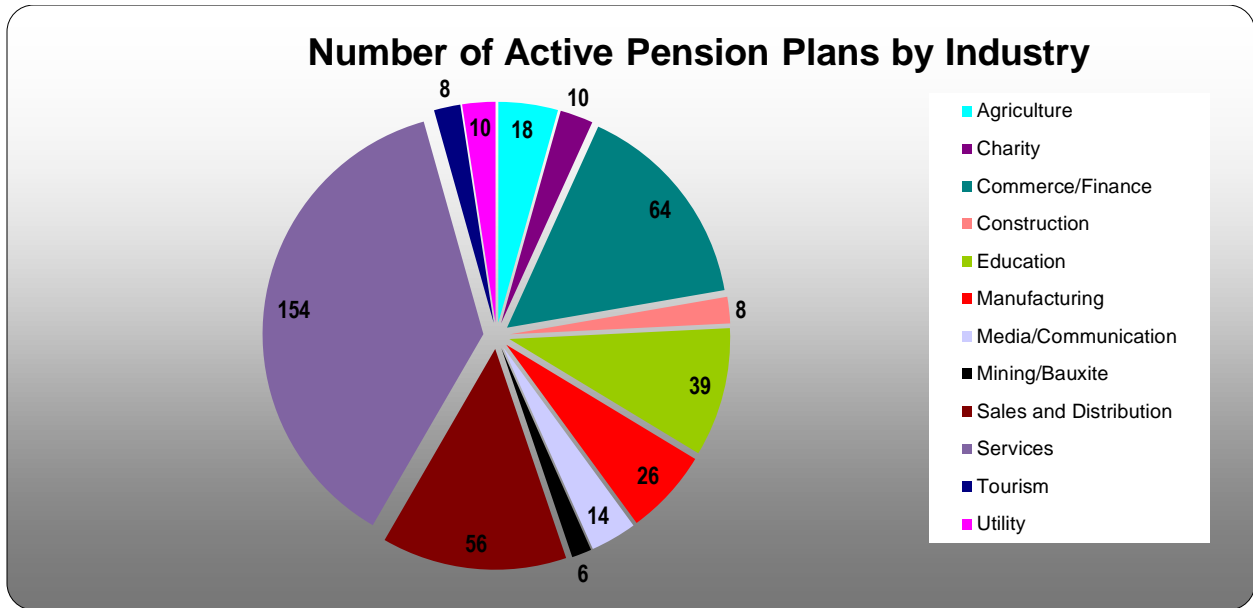


Chart 5: Number of Active Members by Industry

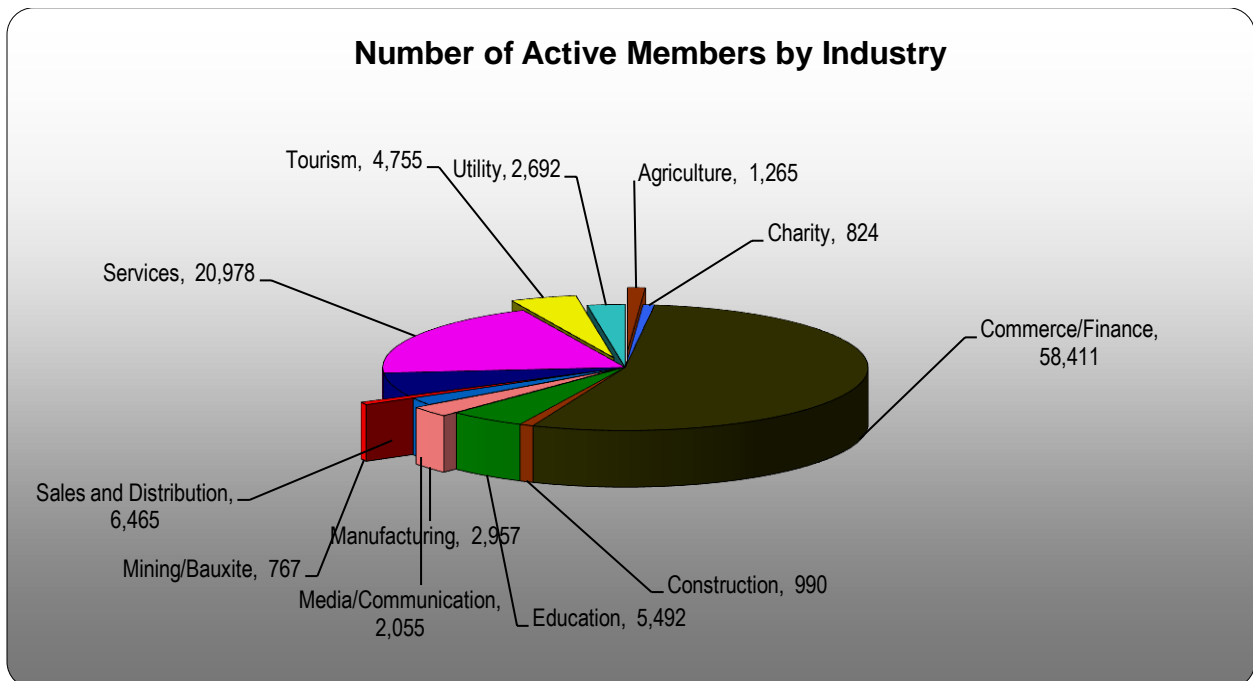
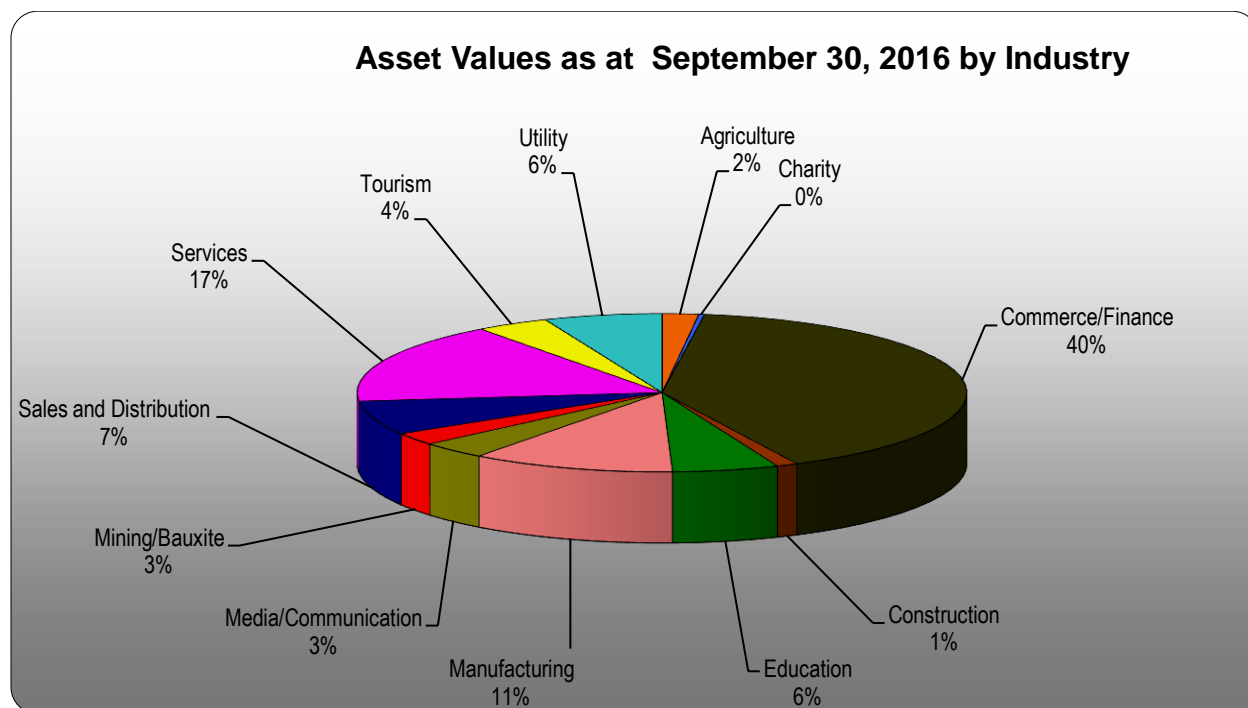


Chart 6: Asset Values by Industry



Solvency of Active Pension Plans

Three hundred and ninety-eight (398) plans, representing 97 percent of the 410 active plans have submitted solvency data; analysis of the data shows that as at September 30, 2016, 93 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, 94 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 September 30, 2016

	Number of plans	Solvency Level				% of plans which are solvent
		Less than 100%	Between 100% & 120%	Between 120% & 150%	Greater than 150%	
Defined Benefit	104	10	30	27	37	90
Defined Contribution	294	18	193	63	20	94
Total	398	28	223	90	57	93

Inactive Pension Plans

During the quarter there was no change in the membership of the inactive plans. (See Table 7).

Table 7: Inactive Pension Plans by Type

	September 2016	June 2016	March 2016
Number of Plans			
Defined Benefit	4	4	4
Defined Contribution	12	12	12
Total Inactive Plans	16	16	16
Membership			
Defined Benefit	2,226	2,226	2,226
Defined Contribution	52	52	52
Total Membership	2,278	2,278	2,278
Asset Values			
Defined Benefit (\$'000)	168,656	159,700	171,678
Defined Contribution (\$'000)	93,793	42,950	42,091
Total Asset Values (\$'000)	262,449	202,650	213,769

Terminating Plans

During the September quarter two superannuation funds initiated termination proceedings increasing the number of terminating plans to 375. The total asset values for the terminating plans stood at \$10.52 billion (See Table 8).

Table 8: Terminating Pension Plans by Type

	September 2016	June 2016	March 2016
Number of Plans			
Defined Benefit	85	85	85
Defined Contribution	290	288	287
Total Terminating Plans	375	373	372
Membership			
Defined Benefit	4,341	4,341	4,341
Defined Contribution	998	962	950
Total Membership	5,339	5,303	5,291
Asset Values			
Defined Benefit (\$'000)	3,023,847	3,104,325	3,450,548
Defined Contribution (\$'000)	7,128,214	4,504,918	4,580,349
Total Asset Values (\$'000)	10,152,061	7,609,243	8,030,897

Investment Managers

One investment manager surrendered its license during the review quarter. Of the remaining 26 licensed investment managers, life insurance companies represent 11.11 percent however they account for 53 percent of total private pension assets. Life insurance companies and securities dealers account for 91 percent of the private pension industry assets. Credit unions and building societies with the least amount of licensed entities within its category accounted for the smallest market share with less than one percent of private pension assets (See Table 9).

Table 9: Total Assets Under Management of Investment Managers

Investment Managers	Number of Entities Sep 2016	Asset Values Sep 2016 ³ (\$'000)	Number of Entities Jun 2016	Asset Values Jun 2016 (\$'000)	Number of Entities Mar 2016	Asset Values Mar 2016 (\$'000)
Insurance Companies	3	231,173,340	3	223,191,267	3	213,465,544
Securities	16	168,823,953	17	164,985,607	17	159,108,298
Credit Unions/ Building Societies	2	349,579	2	333,443	2	314,790
Other	5	37,719,597	5	36,662,151	5	34,572,946
Total	26	438,066,469	27	425,172,468	27	407,461,578

Risk Outlook

The Jamaican economy grew in real terms by an estimated 2.2 percent during the September 2016 quarter, according to the Planning Institute of Jamaica (“PIOJ”). This represents the seventh consecutive quarterly expansion. In addition, the 12-month inflation rate stood at 1.9 percent, down from 2.5 percent in June 2016, according to Bank of Jamaica (“BOJ”).

Unemployment rate stood at 12.9 percent compared with 13.7 percent in April 2016 and represents the highest level of employment ever for a single month in Jamaica’s history according to the PIOJ. Eighteen thousand, three hundred persons entered the workforce during the quarter as there was growth in most of the sectors of the Jamaican economy. Should this increase in labour force continue in the medium to long term, it is anticipated that there will be a corresponding growth in the pension market as well. The number of persons participating in pension arrangements also increased during the quarter with the addition of 1,819 individuals. The main economic sectors recorded growth during the quarter and the growth outlook for the Jamaican economy remains positive as the PIOJ forecasts that the economy will grow by 1.0 – 2.0 percent during the final quarter of 2016.

There was moderate growth in the retirement scheme segment during the quarter and 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.

There was a 1.5 percent depreciation in the Jamaica dollar during the quarter; a rate that has lost pace in the subsequent months with a marginal appreciation at the end of 2016. The BOJ has indicated that it is of the view that

³ The asset values include the assets of one terminating superannuation fund for which the investment manager withdrew its application for licensing with the FSC.

the dollar is fairly valued. Notwithstanding the Minister of Finance and the Public Service has commissioned a foreign exchange market working group to address the depreciation of the Jamaica dollar, chaired by the Governor of BOJ. This working group had its inaugural meeting and the pension market anticipates the outputs from this group. The depreciation in the Jamaica dollar partially accounted for the 13 percent growth in the value of foreign currency denominated assets in the pension industry. Given that foreign currency denominated assets represent approximately 10 percent of invested pension assets there exists a significant foreign currency risk exposure.

Aggregate direct investment in Government of Jamaica securities continued to trend downwards during the year and stood at approximately 31 percent of the total invested assets of the pension industry. Pooled arrangements are the most important asset class in which pension plans are invested and it is expected that this growth will continue as the pension plans share the investment risks with each other by moving from direct investments to the indirect investment opportunities provided by pooled arrangements. These asset classes represent the most significant investment risk exposure for pension plans.

The local stock market continued its recent positive out-turn on the main index, with a quarterly increase of 2.98 percent in the main market. Sixteen percent of the private pension assets are invested in equities and the performance of the local stock market continues to provide opportunities for pension plans which need to diversify their portfolios and reduce counter party risk exposure. The Junior stock market provides even more investment opportunities for plans to invest in equities; in fact, the growth in the Junior stock exchange outstripped that of the main market with an expansion of 8.23 percent during the review quarter.

As the FSC continues to monitor and supervise the conduct and governance practices of investment managers and administrators, 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 increased when compared with the June 2016 quarter. In addition, the number of Jamaicans participating in active private pension arrangements increased during the quarter with a corresponding increase in the Jamaican employed workforce.

The total assets in the private pension industry increased during the quarter and the solvency levels of pension plans remained adequate.