

FINANCIAL SERVICES COMMISSION
Private Pension Industry Quarterly Statistics
December 2016

Overview

As at December 30, 2016 there were eight hundred and two (802) pension plans¹ one more than the previous quarter as PROVEN Rock Approved Retirement Scheme commenced operations during the period. There was a marginal decline in plan membership which now covers 9.75 percent of the employed labour force. Nevertheless, total private pension assets increased nominally by three percent to \$453.09 billion quarter over quarter. (See: Table 1).

Table 1: Key Statistics

	December 2016	September 2016	June 2016
Number of Plans	802	801	801
Asset Values (\$'000)	453,094,870	438,066,428	425,172,468
Total Membership	115,138	115,268	113,413

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 arrangement which includes pooled funds and deposit administration contracts are significantly invested in government securities. This indirect investment in government securities accounts for approximately 46 percent of these investment arrangements as at December 2016; a seven percent decrease compared with the previous quarter. Within these investment arrangements, the value of corporate bonds increased by 22 percent quarter over quarter as there was a significant increase in the value of the equities (27.09 percent). Stocks and shares now represent 33 percent of the portfolio of these investment arrangements. A combination of the performances of these asset classes resulted in the appreciation of the values of investment arrangements to \$165.80 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 30 percent of total investments as at December 31, 2016; this reflects the continued reduction in the total quantity held as a percentage of the portfolio mix despite a marginal growth to \$137.81 billion, as shown in Table 2 and Chart 1.

The pension market continues its retreat from direct and indirect investments in repurchase agreements as well, which now represent less than four percent of the pension portfolio; a significant 13 percent reduction in the value held at the end 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.

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

Direct and indirect holdings of real estate reversed its recent upward trajectory and now represent less than five percent of industry assets.

The Jamaica Stock Exchange (“JSE”) main index advanced by 27,794 points during the final quarter of 2016; this represented a growth rate of 14.46 percent. The performance of the stocks listed on the JSE during the quarter is partially reflected in the 9.71 percent appreciation in the value of stocks invested by funds and schemes. The value of this asset class stood at \$76.90 billion, representing 17 percent of total invested assets.

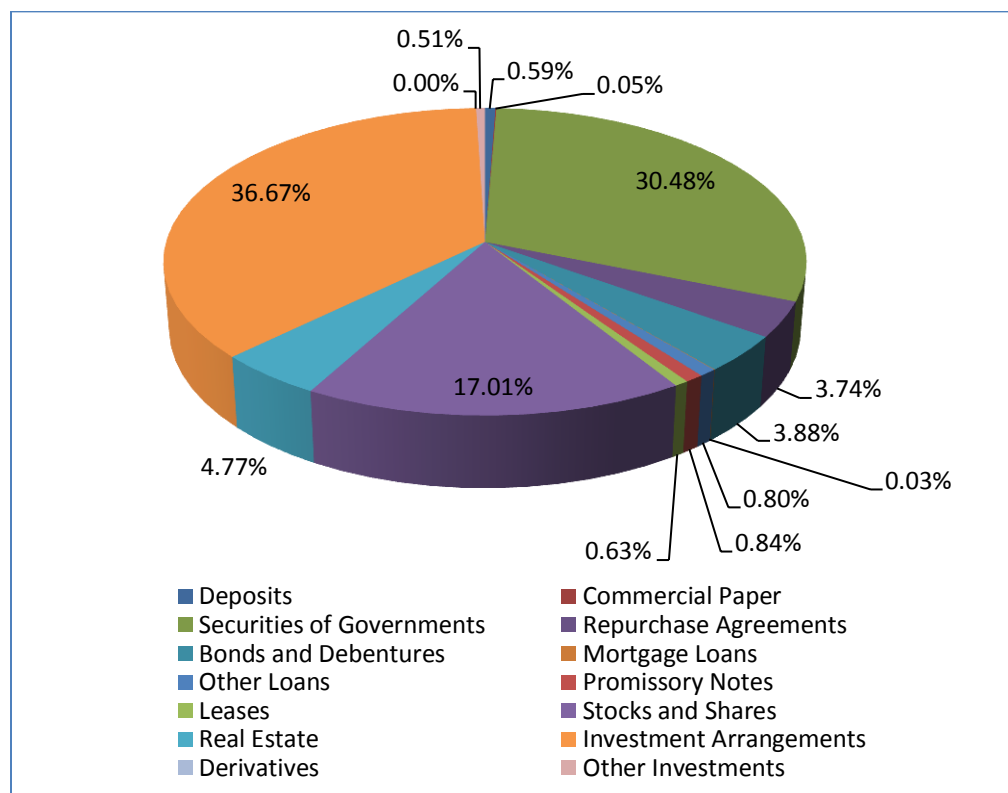
Table 2: Aggregate Investment Mix

Types of Investment	Amount Invested \$'000	% of Total Investments	Amount Invested \$'000	% of Total Investments	Amount Invested \$'000	% of Total Investments
	Dec-16		Sep-16		Jun-16	
Deposits	2,684,736.99	0.59%	3,641,089.73	0.83%	4,077,167.16	0.96%
Commercial Paper	247,395.13	0.05%	222,550.23	0.05%	242,530.94	0.06%
Securities of Governments	137,807,498.82	30.48%	135,875,739.05	31.10%	135,499,153.24	31.99%
Repurchase Agreements	16,907,274.84	3.74%	19,401,586.00	4.44%	24,274,309.42	5.73%
Bonds and Debentures	17,554,630.49	3.88%	14,499,438.92	3.32%	14,023,638.92	3.31%
Mortgage Loans	154,181.00	0.03%	165,232.00	0.04%	172,066.00	0.04%
Other Loans	3,602,847.00	0.80%	2,846,942.00	0.65%	2,978,319.00	0.70%
Promissory Notes	3,806,817.14	0.84%	3,321,462.47	0.76%	3,450,273.00	0.81%
Leases	2,835,682.75	0.63%	2,978,432.91	0.68%	2,937,587.00	0.69%
Stocks and Shares	76,898,310.46	17.01%	70,094,082.79	16.04%	64,975,780.52	15.34%
Real Estate	21,556,366.00	4.77%	21,609,402.00	4.95%	21,339,860.00	5.04%
Investment Arrangements	165,804,859.94	36.67%	160,212,723.84	36.67%	147,623,067.63	34.85%
Derivatives	0.00	0.00%	0.00	0.00%	0.00	0.00%
Other Investments	2,285,725.67	0.51%	2,058,250.56	0.47%	2,007,000.41	0.47%
Total Investments	452,146,326.22	100.00%	436,926,932.48	100.00%	423,600,753.24	100.00%
Other Net Assets	948,543.47		1,139,495.75		1,571,688.16	
Total Assets	453,094,869.69		438,066,428.23		425,172,441.40	

Note: September 2016 has been re-stated.

Note: Investment Arrangements describe Investments in Deposit Administration Contracts and Pooled Funds

Chart 1: Aggregate Investment Mix



Active Pension Plans

The number of active pension plans accounted for 50.50 percent of the total private pension industry. As at December 31, 2016 there were 405 active plans, five less than the previous quarter (See Table 3). During the quarter, six funds initiated winding-up proceedings and as previously mentioned, one retirement scheme began operations. Consequently, there was a decrease in the active membership in private pension arrangements in Jamaica during the quarter.

Membership in active pension plans as at December 31, 2016 covered 9.03 percent of the Jamaican employed labour force², a decrease when compared to the September quarter (See chart 2).

Table 3: Membership

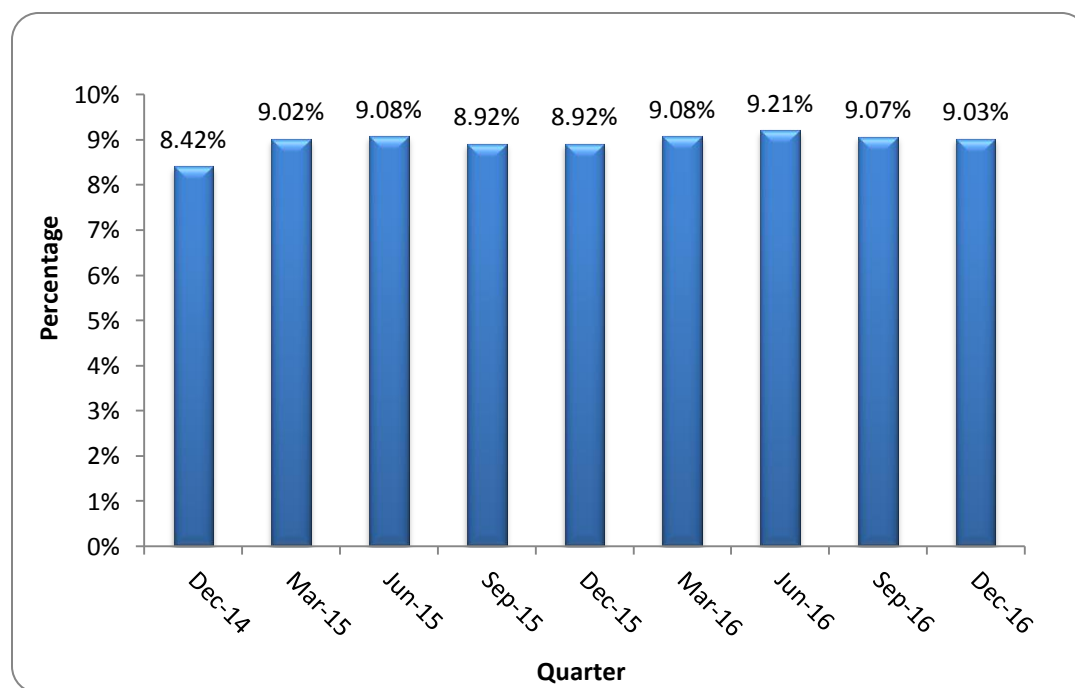
	December 2016	September 2016	June 2016
Number of Active Plans	405	410	412
Active Membership	106,660	107,651	105,832

² The Jamaican employed labour force as at October 31, 2016 was 1,180,800 according to the Planning Institute of Jamaica (pioj.gov.jm).

Table 4: Active Pension Plans by Type

	December 2016	September 2016	June 2016
Number of Plans			
Defined Benefit	105	106	106
Defined Contribution	300	304	306
Total Active Plans	405	410	412
Membership			
Defined Benefit	21,060	21,190	21,201
Defined Contribution	85,610	86,461	84,631
Total Membership	106,660	107,651	105,832
Assets Values			
Defined Benefit (\$'000)	288,511,836	274,182,322	271,531,473
Defined Contribution (\$'000)	154,393,865	153,469,596	145,829,101
Total Asset Values (\$'000)	442,905,701	427,651,918	417,360,574

Chart 2: Private Pension Coverage as a Percentage of 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 94 percent of total assets. During the review quarter the assets of active schemes increased by 11.36 percent to \$24.74 billion,

compared to the 3.14 percent increase recorded by funds (See Charts 3 & 4). The termination of six funds has coincided with a marginal reduction in the membership in active funds during the quarter. The retirement schemes reported no growth of approximately in membership during the quarter.

Table 5: Active Plans by Type as at December 31, 2016

	Number of Active Plans	Percentage of Plans	Number of Members	Percentage of Membership	Asset Value (\$'000)	Percentage of Asset Value
Retirement Schemes	13	3.21	46,295	43.40	24,740,467	5.59
Superannuation Funds	392	96.79	60,365	56.60	418,165,234	94.41
TOTAL	405	100.00	106,815	100.00	442,905,701	100.00

Chart 3: Asset Values for Active Superannuation Funds

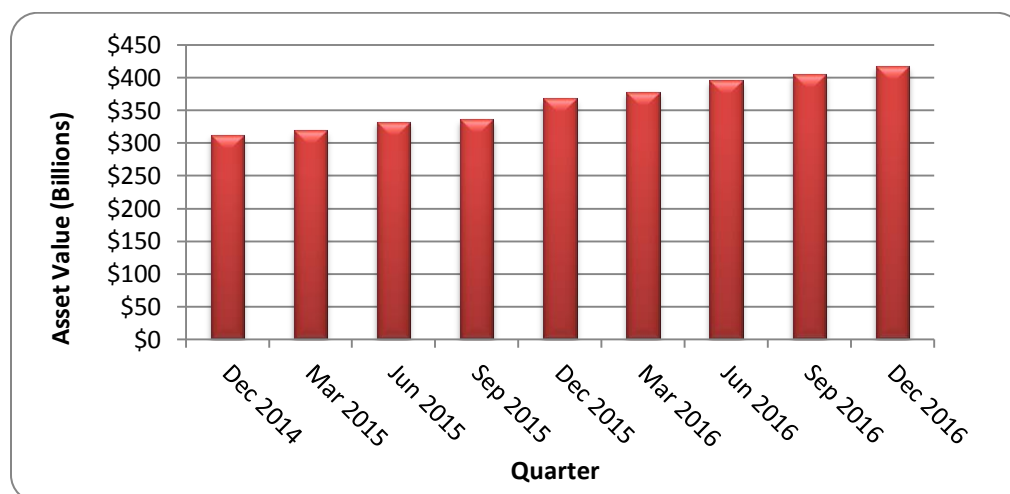
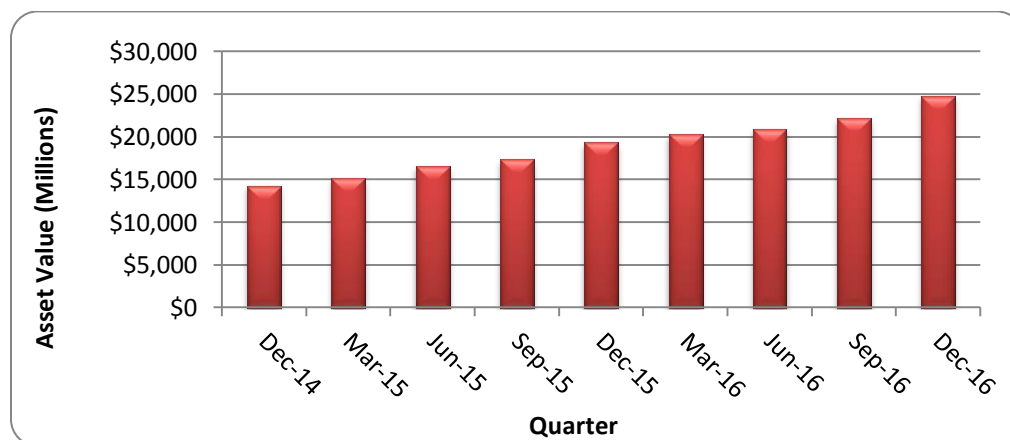


Chart 4: Asset Values for Active Retirement Schemes



Active Plans by Industry

The Commerce and Finance Industry accounted for 54.55 percent of active members and 40.65 percent of the pension industry assets at December 31, 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 19.01 percent of the active members and 16.09 percent of assets of active plans. Charts 5 - 7 illustrate the breakdown of the number of active plans, the membership and the asset values by industry as at December 31, 2016.

Chart 5: Number of Active Plans by Industry

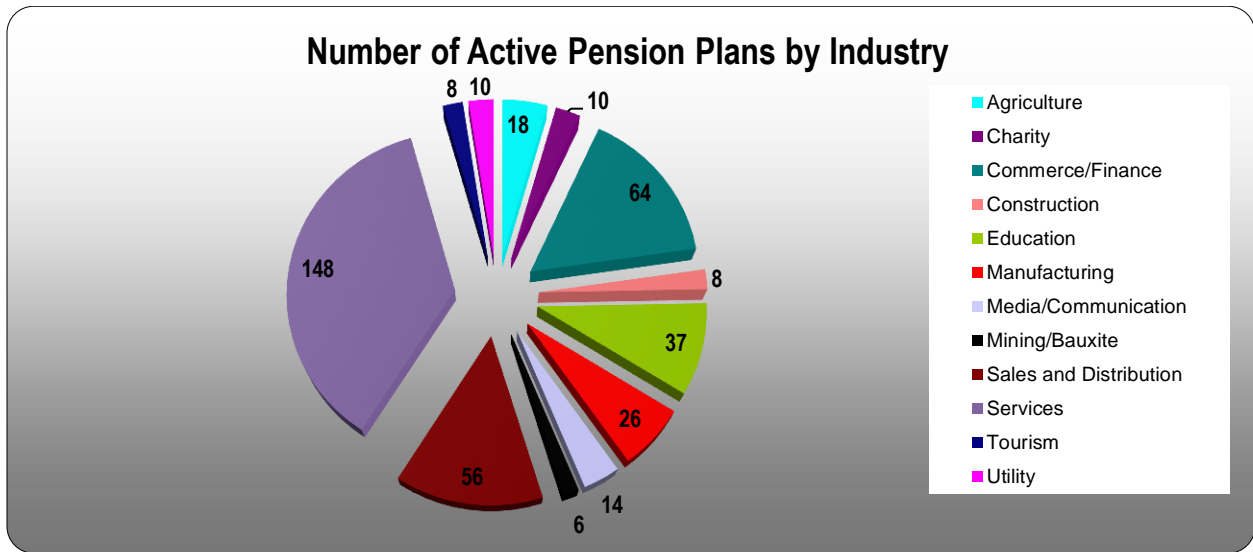


Chart 6: Number of Active Members by Industry

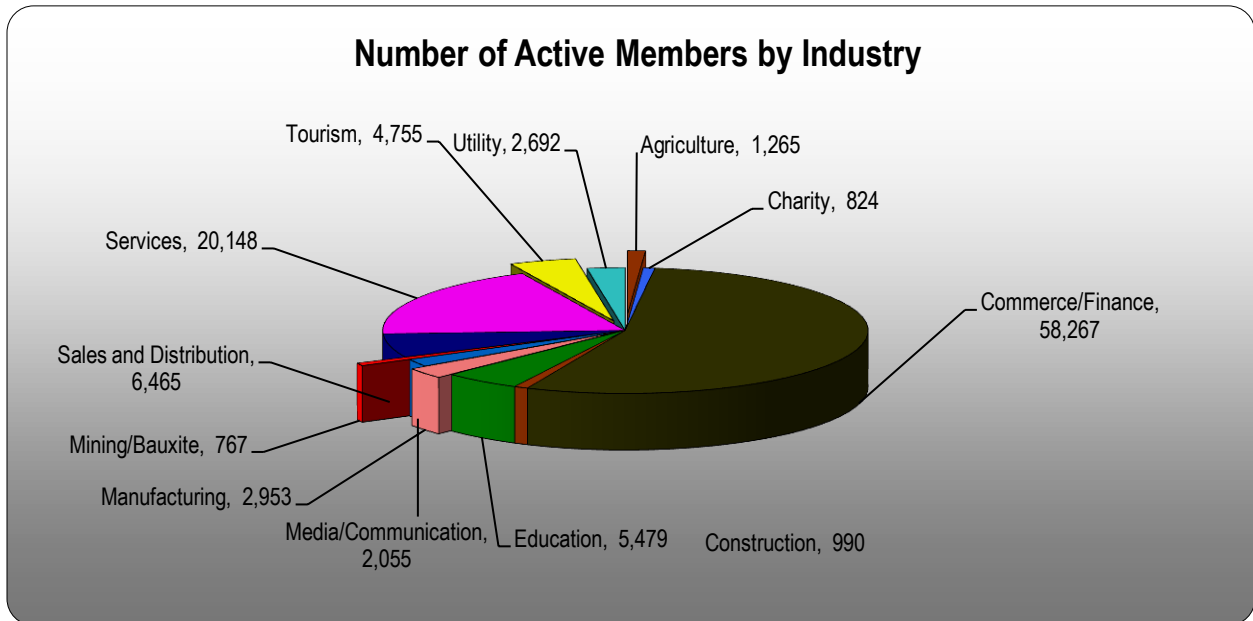
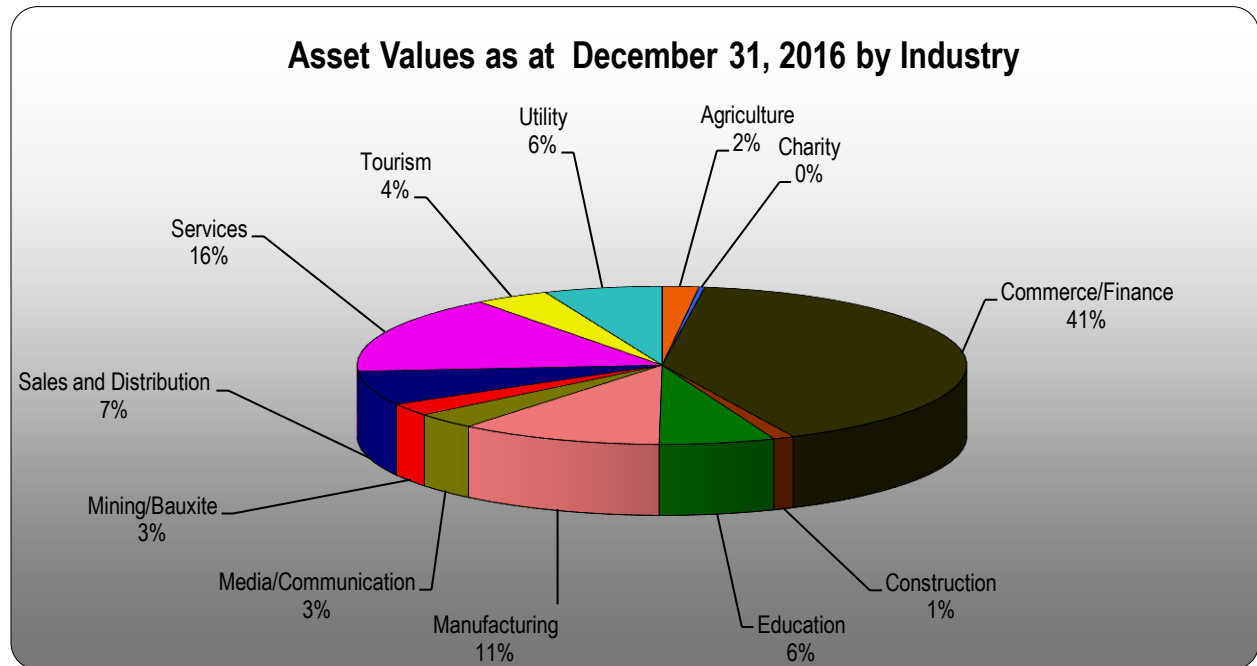


Chart 7: Asset Values by Industry



Solvency of Active Pension Plans

Three hundred and ninety-two (392) plans, representing 97 percent of the 405 active plans have submitted solvency data; analysis of the data shows that as at December 31, 2016, 94 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, 95 percent of defined contribution pension plans were solvent compared to 91 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, 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	103	9	30	27	37	91
Defined Contribution	289	15	190	65	19	95
Total	392	24	220	92	56	94

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

	December 2016	September 2016	June 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)	174,712	168,656	159,700
Defined Contribution (\$'000)	45,724	93,793	42,950
Total Asset Values (\$'000)	220,436	262,449	202,650

Terminating Plans

During the December quarter six superannuation funds initiated termination proceedings increasing the number of terminating plans to 381 or 48 percent of the total pension private plans. The total asset values for the terminating plans stood at \$9.97 billion (See Table 8).

Table 8: Terminating Pension Plans by Type

	December 2016	September 2016	June 2016
Number of Plans			
Defined Benefit	86	85	85
Defined Contribution	295	290	288
Total Terminating Plans	381	375	373
Membership			
Defined Benefit	4,355	4,341	4,341
Defined Contribution	1,845	998	962
Total Membership	6,200	5,339	5,303
Asset Values			
Defined Benefit (\$'000)	3,107,399	3,023,847	3,104,325
Defined Contribution (\$'000)	6,861,334	7,128,214	4,504,918
Total Asset Values (\$'000)	9,968,733	10,152,061	7,609,243

Investment Managers

There was no change in the number of investment managers during the period and there remain 26 licensed investment managers. Life insurance companies represent 12 percent however they account for 53 percent of total private pension assets. Life insurance companies and securities dealers account for 92 percent of the private pension industry assets. Credit unions and building societies with the least amount of licensed entities 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 Dec 2016	Asset Values Dec 2016 ³ (\$'000)	Number of Entities Sep 2016	Asset Values Sep 2016 (\$'000)	Number of Entities Jun 2016	Asset Values Jun 2016 (\$'000)
Insurance Companies	3	239,728,468	3	231,173,340	3	223,191,267
Securities	16	178,496,892	16	168,823,912	17	164,985,607
Credit Unions/ Building Societies	2	364,517	2	349,579	2	333,443
Other	5	34,504,993	5	37,719,597	5	36,662,151
Total	26	453,094,870	26	438,066,428	27	425,172,468

Risk Outlook

The 12-month inflation rate as at December 2016 stood at 1.7 percent, according to Bank of Jamaica (“BOJ”). In addition, the Jamaican economy recorded growth of 1.3 percent, according to the Planning Institute of Jamaica (“PIOJ”). This represents the eighth consecutive quarter of growth. The main sectors of the Jamaican economy experienced growth, led by a 16 percent expansion in the Agriculture, Forestry & Fishing sector. 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 first quarter of 2017.

Unemployment rate stood at 12.9 percent up from the previous quarter as 6,100 exited the workforce. Nevertheless the unemployment rate continues to trend downward when compared with previous years (13.5 percent as at October 2015). There was no 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.

The Budget for the fiscal year 2017-18 included tax measures which continue the government’s path to indirect taxation, thereby widening the tax net, notwithstanding the pending increase in the income tax threshold to \$1.5 million. Individuals will be assessing the effects of the new tax measures on their disposable incomes particularly, those in the lower income brackets. Lowering disposable income levels could stymy growth in the retirement scheme segment as the trade-off between current consumption and retirement saving will have to be contemplated.

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.

There was a 0.6 percent depreciation in the Jamaica dollar during the quarter; a rate that continues to lose pace with a marginal appreciation at the end of 2016 persisting in the first two months of 2017. The BOJ reported that the Jamaica dollar fluctuated during the quarter and encourages market participants to pay more attention to the economic data that is provided. The movement in the Jamaica dollar partially accounted for the three percent reduction in the value of foreign currency denominated assets in the pension industry. Given that foreign currency denominated assets represent approximately nine percent of invested pension assets, significant foreign currency risk exposure continues to exist.

The BOJ has declared that the era of government crowding out has come to an end. In addition the debt to GDP ratio has fallen to 122 percent. Consequently government securities have been upgraded by both Moody's and Fitch rating agencies and the sovereign risk premiums have trended to an all-time low. This economic trend is consistent with the aggregate direct investment in Government of Jamaica securities held by the private pension industry which continued to trend downwards during the year and stood at approximately 30 percent of the total invested assets. 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 14.46 percent in the main market. Seventeen percent of the private pension assets are invested in equities and the performance of the local stock market continues to provide investment opportunities for pension plans which need to diversify their portfolios and reduce counter party risk exposure.

The changes in the economic climate are accompanied by their own emerging risks particularly in a low interest rate environment. Trustees and investment managers will ultimately seek higher yielding assets by investing in alternative investments. This poses a risk for financial stability, in that; it could increase the level of risk-taking by investment manager / trustees. Further, there may be a knowledge gap for trustees, investment manager and the regulator as it relates to new investments products and alternative investments (private equity, infrastructure investments, and derivatives). This will create a need for capacity building.

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 decreased when compared with the September 2016 quarter. In addition, the number of Jamaicans participating in active private pension arrangements declined during the quarter with a corresponding reduction in the Jamaican employed workforce.

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