

FINANCIAL SERVICES COMMISSION
Private Pension Industry Quarterly Statistics
June 2017

Overview

As at June 30, 2017 there were eight hundred and five (805) pension plans¹. There was a marginal decline in plan membership, which now covers 9.54% of the employed labour force. Nevertheless, total private pension assets increased nominally by 2% to \$482.82 billion quarter over quarter. (See: Table 1).

Table 1: Key Statistics

| | June 2017 | March 2017 | December 2016 |
|------------------------------|-------------|-------------|---------------|
| Number of Plans | 805 | 802 | 802 |
| Asset Values (\$'000) | 482,817,081 | 472,923,407 | 453,094,870 |
| Total Membership | 114,968 | 115,059 | 115,138 |

Investment Mix

Investment arrangements continue to be the most popular asset class among superannuation funds (“funds”) and retirement schemes (“schemes”) in Jamaica and comprised approximately 37% of total investments. These 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 44% of these investment arrangements as at June 2017, a decline of one percentage point compared with the previous quarter. Stocks and shares now represent 33% of the portfolio of these investment arrangements, up by one percentage point, and is the second most important asset class within these investment arrangements. The quarter over quarter growth areas within investment arrangements are deposits (18%); promissory notes (17%) and leases (47%). A combination of the performances of these asset classes resulted in the appreciation of the values of investment arrangements to \$179.35 billion.

Investment continues to shift away from direct holdings of securities of governments to investment arrangements within the pension industry. Direct holdings of securities of governments comprised approximately 28% of total investments as at June 30, 2017; this reflects the continued reduction in the total quantity held as a percentage of the portfolio mix, with a corresponding contraction to \$136.67 billion, as shown in Table 2 and Chart 1.

Direct investments in repurchase agreements rebounded slightly, at just over 4% of the pension investment portfolio. Investments in commercial paper as well as 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. There were two new pension plans, as well as a revision by disaggregation of two pension plans with similar names.

Direct holdings of real estate experienced a marginal decline during the quarter and continue to represent less than 5% of industry assets. Direct equity investment is valued at \$89.83 billion, representing 18.6% of total invested assets. This is a 3.7% increase quarter over quarter.

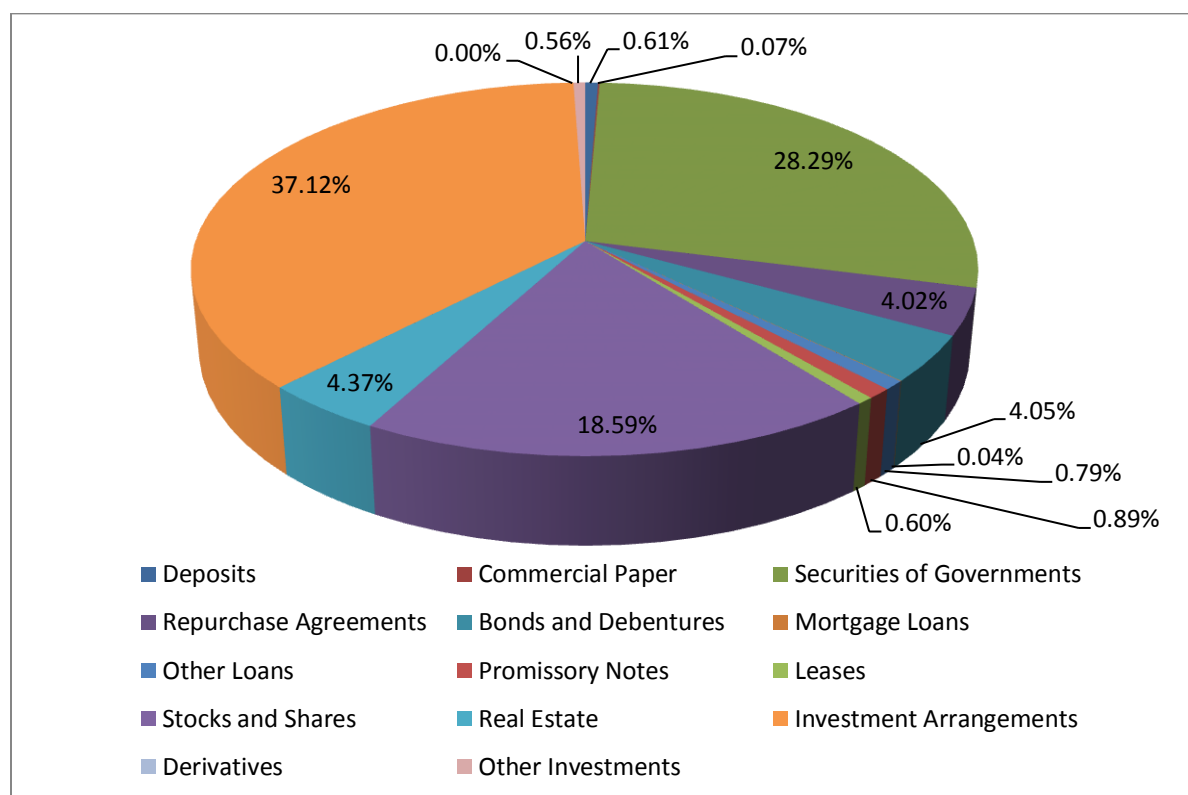
Table 2: Aggregate Investment Mix

| Types of Investment | Amount Invested \$'000 | % of Total Investments | Amount Invested \$'000 | % of Total Investments | Amount Invested \$'000 | % of Total Investments |
|-------------------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| | Jun-17 | | Mar-17 | | Dec-16 | |
| Deposits | 2,929,122.69 | 0.61% | 3,199,719.93 | 0.68% | 2,684,736.99 | 0.59% |
| Commercial Paper | 347,599.00 | 0.07% | 272,461.00 | 0.06% | 247,395.13 | 0.05% |
| Securities of Governments | 136,672,660.00 | 28.29% | 139,864,541.91 | 29.62% | 137,807,498.62 | 30.48% |
| Repurchase Agreements | 19,404,189.90 | 4.02% | 16,319,024.48 | 3.46% | 16,834,327.72 | 3.72% |
| Bonds and Debentures | 19,565,106.92 | 4.05% | 19,310,546.76 | 4.09% | 17,554,630.15 | 3.88% |
| Mortgage Loans | 170,518.00 | 0.04% | 147,471.00 | 0.03% | 154,180.99 | 0.03% |
| Other Loans | 3,806,229.00 | 0.79% | 3,521,351.00 | 0.75% | 3,602,846.84 | 0.80% |
| Promissory Notes | 4,291,645.74 | 0.89% | 3,888,619.34 | 0.82% | 3,806,817.14 | 0.84% |
| Leases | 2,904,361.44 | 0.60% | 2,905,371.87 | 0.62% | 2,835,682.32 | 0.63% |
| Stocks and Shares | 89,825,170.98 | 18.59% | 86,648,747.38 | 18.35% | 76,898,309.98 | 17.01% |
| Real Estate Investment Arrangements | 21,127,662.00 | 4.37% | 21,814,324.00 | 4.62% | 21,556,365.98 | 4.77% |
| Derivatives | 179,350,066.95 | 37.12% | 171,951,494.23 | 36.42% | 165,804,860.15 | 36.68% |
| Other Investments | 0.00 | 0.00% | 0.00 | 0.00% | 0.00 | 0.00% |
| | 2,704,499.16 | 0.56% | 2,346,995.89 | 0.50% | 2,285,725.67 | 0.51% |
| Total Investments | 483,098,831.77 | 100.00% | 472,190,668.79 | 100.00% | 452,073,377.66 | 100.00% |
| Other Net Assets | -281,750.47 | | 732,738.11 | | 1,021,492.03 | |
| Total Assets | 482,817,081.30 | | 472,923,406.90 | | 453,094,869.69 | |

Note: March 2017 has been re-stated.

Investment Arrangements describe Investments in Deposit Administration Contracts and Pooled Funds

Chart 1: Aggregate Investment Mix



Active Pension Plans

As at June 30, 2017, the number of active pension plans accounted for 49.94% of the total private pension industry with assets of \$474.89 billion. There were 402 active plans, one less than the previous quarter (See Table 3). This was the result of the net effect of three active funds initiating winding-up proceedings and the inclusion of two new superannuation funds. In addition, there was a decrease in the active membership in private pension arrangements in Jamaica during the quarter. Membership in active pension plans as at June 30, 2017 covered 9.28% of the Jamaican employed labour force², a decrease when compared to the March quarter attributable to a combination of the decrease in membership in active plans and an increase in the employed labour force (see chart 2).

Table 3: Membership

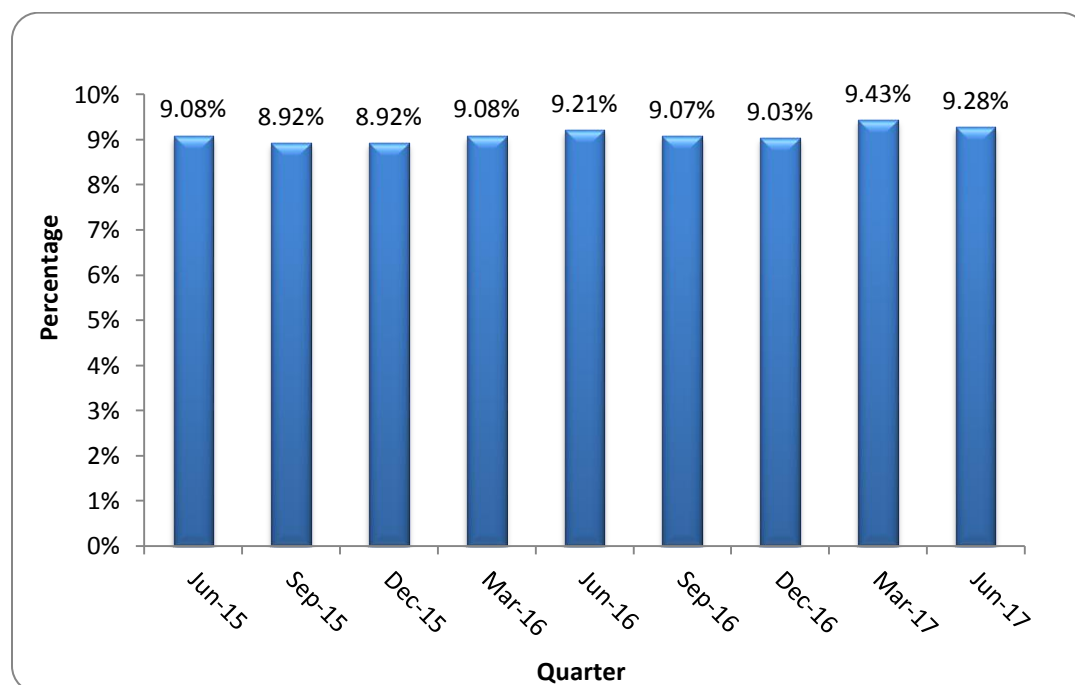
| | June 2017 | March 2017 | December 2016 |
|-------------------------------|-----------|------------|---------------|
| Number of Active Plans | 402 | 403 | 405 |
| Active Membership | 111,761 | 112,048 | 106,660 |

² The Jamaican employed labour force as at April 30, 2017 was 1,204,800 according to the Statistical Institute of Jamaica (statinja.gov.jm).

Table 4: Active Pension Plans by Type

| | June 2017 | March 2017 | December 2016 |
|------------------------------------|--------------------|--------------------|--------------------|
| Number of Plans | | | |
| Defined Benefit | 101 | 104 | 105 |
| Defined Contribution | 301 | 299 | 300 |
| Total Active Plans | 402 | 403 | 405 |
| Membership | | | |
| Defined Benefit | 20,662 | 21,177 | 21,060 |
| Defined Contribution | 91,099 | 90,871 | 85,610 |
| Total Membership | 111,761 | 112,048 | 106,660 |
| Assets Values | | | |
| Defined Benefit (\$'000) | 307,198,676 | 300,783,567 | 288,511,836 |
| Defined Contribution (\$'000) | 167,692,762 | 161,029,689 | 154,393,865 |
| Total Asset Values (\$'000) | 474,891,438 | 461,813,256 | 442,905,701 |

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% of the number of active plans and 94% of total assets. The retirement scheme sub-sector reported marginal membership growth of 0.25% during the quarter versus a decline of 0.66% for membership in funds. The assets of schemes increased by 6.91% to \$26.45 billion; compared to the 4.11% increase recorded by funds (See Charts 3 & 4).

Table 5: Active Plans by Type as at June 30, 2017

| | Number of Active Plans | Percentage of Plans | Number of Members | Percentage of Membership | Asset Value as at June 30, 2017 | Percentage of Asset Value |
|----------------------|------------------------|---------------------|-------------------|--------------------------|---------------------------------|---------------------------|
| Retirement Schemes | 13 | 3.23% | 49,831 | 44.59% | 28,611,284,705 | 6.02% |
| Superannuation Funds | 389 | 96.77% | 61,930 | 55.41% | 446,280,153,538 | 93.98% |
| TOTAL | 402 | 100.00% | 111,761 | 100.00% | 474,891,438,243 | 100.00% |

Chart 3: Asset Values for Active Superannuation Funds

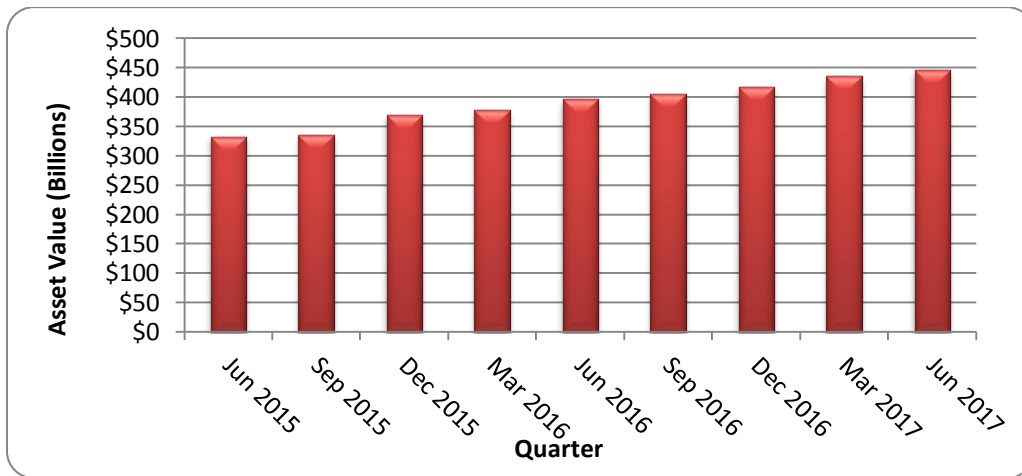
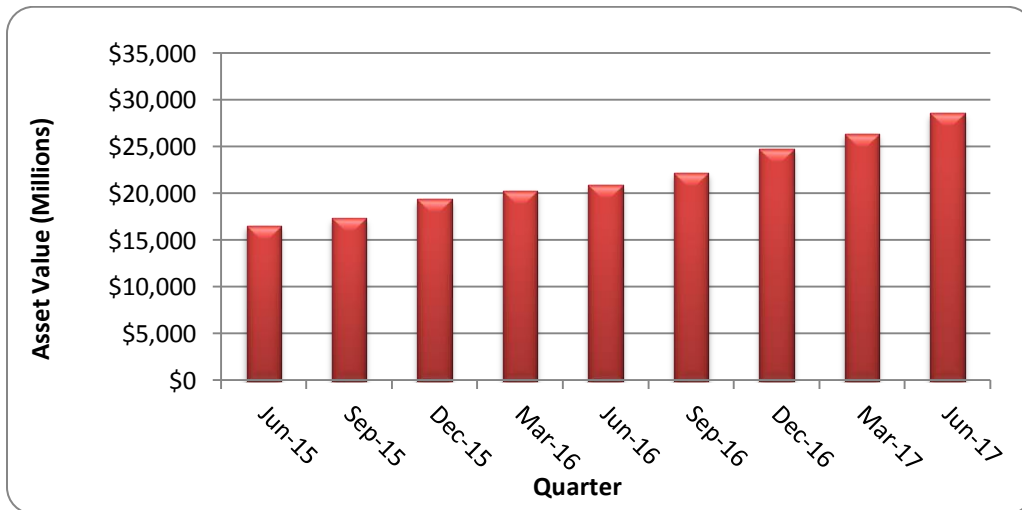


Chart 4: Asset Values for Active Retirement Schemes



Active Superannuation Funds³ by Industry

The Services Industry accounted for 35.37% of active members but only 17.06% of the pension industry assets at June 30, 2017 representing the largest share of active members and second largest share of pension assets for active superannuation funds. Inversely, the Commerce and Finance Industry has the second largest share of membership with 18.41% of the active members, and the largest share of assets with 36.80% of assets of active plans. Charts 5 - 7 illustrate the breakdown of the number of active funds, the membership and the asset values by industry as at June 30, 2017.

Chart 5: Number of Active Superannuation Funds by Industry

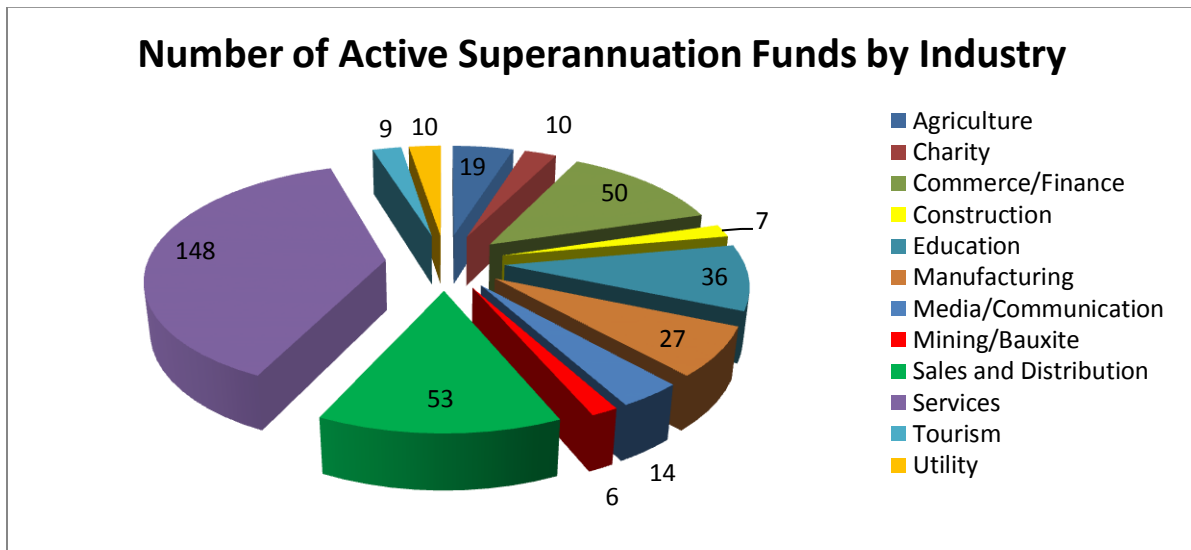
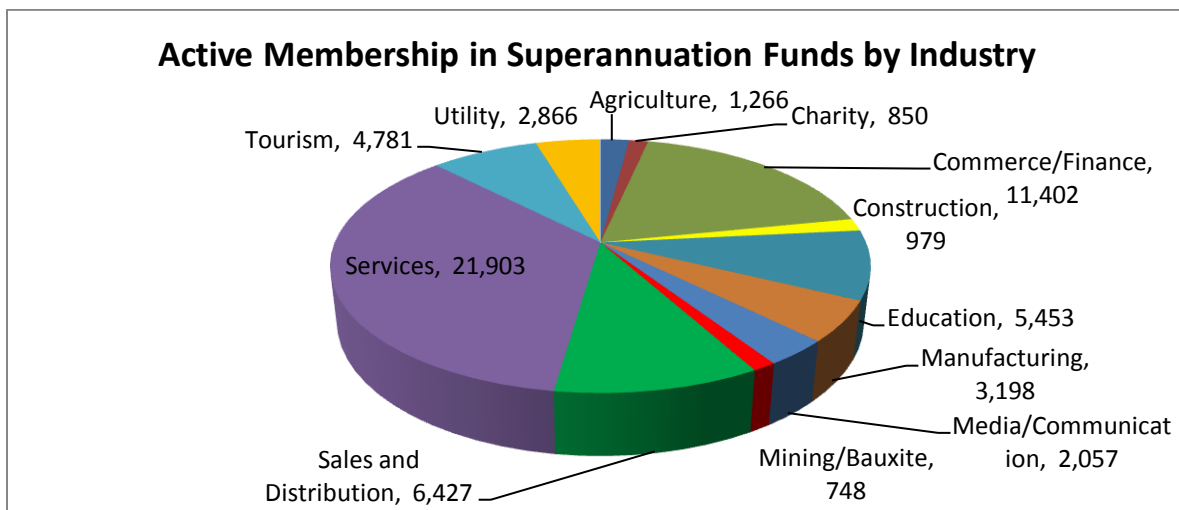
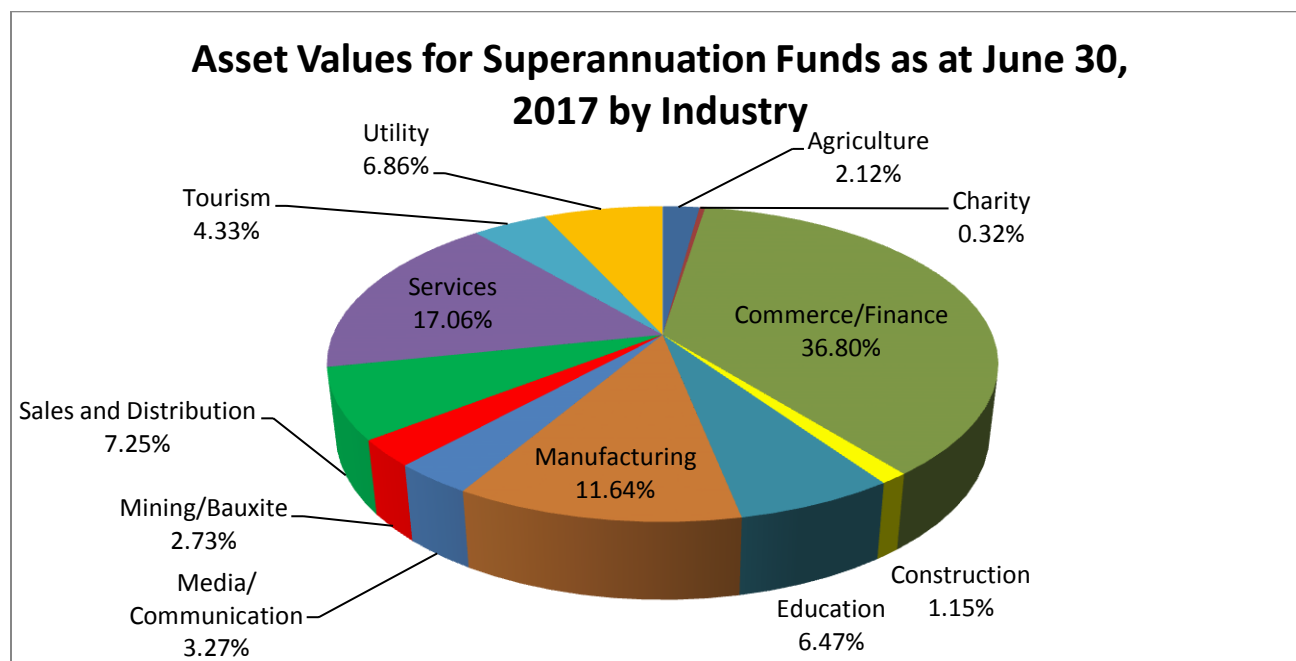


Chart 6: Number of Active Members by Industry



³ Previous reports were based on all active plans – both funds and schemes – with members of schemes designated to the “Commerce/Finance” industry.

Chart 7: Asset Values by Industry



Solvency of Active Pension Plans

Three hundred and eighty-seven (387) plans, representing 96% of the 402 active plans have submitted solvency data; analysis of the data shows that as at June 30, 2017, 93% of all active pension plans, for which there was available data, were solvent. The data also indicated that, for all pension plans for which data were submitted, 94% of defined contribution pension plans were solvent compared to 91% 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, 2017

| | Number of plans | Solvency Level | | | | % of plans which are solvent |
|-----------------------------|-----------------|----------------|---------------------|---------------------|-------------------|------------------------------|
| | | Less than 100% | Between 100% & 120% | Between 120% & 150% | Greater than 150% | |
| Defined Benefit | 99 | 9 | 27 | 27 | 36 | 91 |
| Defined Contribution | 288 | 17 | 194 | 55 | 22 | 94 |
| Total | 387 | 26 | 221 | 82 | 58 | 93 |

Inactive Pension Plans

During the quarter the membership of the inactive plans remained stable, notwithstanding a decrease in the value of the assets of inactive pension plans. (See: Table 7).

Table 7: Inactive Pension Plans by Type

| | June 2017 | March 2017 | December 2016 |
|------------------------------------|----------------|----------------|----------------|
| Number of Plans | | | |
| Defined Benefit | 4 | 4 | 4 |
| Defined Contribution | 12 | 12 | 12 |
| Total Inactive Plans | 16 | 16 | 16 |
| Membership | | | |
| Defined Benefit | 894 | 894 | 2,226 |
| Defined Contribution | 55 | 55 | 52 |
| Total Membership | 949 | 949 | 2,278 |
| Asset Values | | | |
| Defined Benefit (\$'000) | 184,061 | 186,462 | 174,712 |
| Defined Contribution (\$'000) | 47,645 | 46,372 | 45,724 |
| Total Asset Values (\$'000) | 231,705 | 232,834 | 220,436 |

Terminating Plans

During the June quarter, three superannuation funds initiated termination proceedings and a plan previously combined with another was disaggregated and classified as terminating. The result was an increase in the number of terminating plans to 387, standing at approximately 48% of the total pension private plans. The total asset values for the terminating plans declined to \$7.69 billion (See Table 8).

Table 8: Terminating Pension Plans by Type

| | June 2017 | March 2017 | December 2016 |
|------------------------------------|------------------|-------------------|------------------|
| Number of Plans | | | |
| Defined Benefit | 90 | 87 | 86 |
| Defined Contribution | 297 | 296 | 295 |
| Total Terminating Plans | 387 | 383 | 381 |
| Membership | | | |
| Defined Benefit | 1,401 | 965 | 4,355 |
| Defined Contribution | 857 | 1,097 | 1,845 |
| Total Membership | 2,258 | 2,062 | 6,200 |
| Asset Values | | | |
| Defined Benefit (\$'000) | 3,297,733 | 3,931,307 | 3,107,399 |
| Defined Contribution (\$'000) | 4,396,205 | 6,946,010 | 6,861,334 |
| Total Asset Values (\$'000) | 7,693,938 | 10,877,317 | 9,968,733 |

Investment Managers

An investment management licence was approved for Sterling Asset Management Limited during the quarter, increasing the number of licensed investment managers to 27. Life insurance companies represent 11.5% of these entities, however they account for 52.6% of total private pension assets. Life insurance companies and securities dealers account for 92% of the private pension industry assets. Credit unions and building societies, with the smallest number of licensed entities, accounted for the smallest market share with less than 1% of private pension assets (See Table 9).

Table 9: Total Assets Under Management of Investment Managers

| Investment Managers | Number of Entities Jun 2017 | Asset Values Jun 2017 ⁴ (\$'000) | Number of Entities Mar 2017 | Asset Values Mar 2017 (\$'000) | Number of Entities Dec 2016 | Asset Values Dec 2016 (\$'000) |
|-----------------------------------|-----------------------------|---|-----------------------------|--------------------------------|-----------------------------|--------------------------------|
| Insurance Companies | 3 | 254,013,714 | 3 | 248,802,798 | 3 | 239,728,468 |
| Securities | 17 | 191,425,428 | 16 | 187,520,443 | 16 | 178,496,892 |
| Credit Unions/ Building Societies | 1 | 402,884 | 2 | 387,650 | 2 | 364,517 |
| Other | 6 | 36,975,056 | 5 | 36,212,516 | 5 | 34,504,993 |
| Total | 27 | 482,817,081 | 26 | 472,923,407 | 26 | 453,094,870 |

Risk Outlook

According to data from the Statistical Institute of Jamaica, the Jamaican economy recorded a contraction of 0.1% in the June quarter, breaking the trend of nine consecutive quarters of growth, due to unfavourable weather conditions impacting the output of the agriculture and mining sectors. However, projections for the fiscal year remain positive, with an overall forecast of 1.5 – 2.5% growth.

Inflation for the quarter of 1.1% was largely driven by upticks in the price for both agricultural products and fuel.

The unemployment rate stood at 12.2%, slightly down from the previous quarter which had an unemployment rate of 12.7%. This is a continuation of the downward trajectory when compared with previous years (13.7% as at April 2016). There was marginal growth in the retirement scheme segment, with 125 persons reported as joining during the quarter. 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.

Individuals will continue to assess the effects of the new government taxation measures on their disposable incomes, particularly those in the lower income brackets. This will be evaluated in combination with inflationary pressures on basic items such as agricultural goods. Lowering disposable income levels could hinder growth in the retirement scheme segment as the trade-off between current consumption and retirement saving will have to be contemplated. The effects of these measures are expected to be felt in the medium to long term.

The weighted average selling rate of the US dollar versus the Jamaica dollar reflected minor depreciation in the values of the Jamaica dollar of 0.75% for the quarter. The effects of the implementation of the BOJ's Foreign

⁴ The asset values include the assets of one terminating superannuation fund for which the investment manager withdrew its application for licensing with the FSC.

Exchange Intervention Trading Tool (“B-FXITT”) are expected to reverberate in the market in later quarters. B-FXITT will allow for greater transparency and liquidity in the foreign exchange market through the BOJ’s sale of pre-announced amounts of foreign exchange in the market, supplemented by flash interventions in abnormal market conditions. Given that foreign currency denominated assets represent almost 9.5% of invested pension assets, management of foreign currency risks continues to be key.

The BOJ has indicated that Jamaica is experiencing broad economic stability, low inflation, a sustainable current account, and a stable, competitive exchange rate. However, with government crowding out of the equation, it is evident that interest rates, while trending downwards, need to fall more rapidly to spur the expansion of credit to nascent businesses. Nevertheless, both business and personal loans grew by about 14% and 12% respectively.

Nineteen percent of the private pension assets are directly invested in equities, indicating the increasing appetite of the private pension industry for investment in the real economy. The Jamaica Stock Exchange (“JSE”) Main Index advanced by 11,209 points during the second quarter of 2017; this represented a growth rate of 5%. The performance of the local stock market continues to provide investment opportunities for pension plans which need to diversify their portfolios and reduce counterparty risk exposure.

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 benefit from economies of scale and share the investment risks with each other by moving from direct investments to the indirect investment opportunities provided by pooled arrangements. Underlying the assets of these pooled arrangements are significant exposures to Jamaican sovereign debt and stock and shares. These asset classes represent the most significant investment risk exposure for pension plans.

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. An analysis of the potential impact of a further expansion into alternative asset classes is to be undertaken later this year.

The economic stability being experienced by the country could be arrested if the present crime situation is not adequately addressed. In addition to the social effects of criminal activities, there are implications for the growth of the private pension industry; as companies are already increasing capital spending on the security of its employees as opposed to providing for their retirement benefits. For individuals interested in joining a retirement scheme, consumption spending on the security of their families will upset their desire to have consumption smoothing and ultimately save for retirement.

As the FSC continues to work within the Jamaican construct and monitors and supervises 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 Statements of Investment Policies and Principles.

Summary

The private pension industry continues to be stable, in the context of a positive, long-term outlook for macroeconomic indicators. Notwithstanding application for registration of two new pension plans, there was a net decrease in the

number of active pension plans by one between April and June 2017 due to three pension plan wind-ups, with a corresponding decline in participation in active private pension arrangements of 0.26%. This was offset by an addition of 125 persons reported as joining retirement schemes.

The total assets in the private pension industry continues to grow, albeit at a slower rate, and the solvency levels of pension plans remained adequate.