



FINANCIAL SERVICES COMMISSION
Private Pension Industry Quarterly Statistics
June 2018

Overview

The quarter ended June 30, 2018 reflected a 3% increase in total private pension assets, resulting in an industry value of \$552.7 billion. Membership growth was marginal with the addition of one new pension plan to the Jamaican pension industry. Pension coverage in Jamaica currently stands at approximately 9.6% in terms of all plans; there were no significant changes in pension coverage as the Jamaican employed labour force¹ also experienced comparable growth over the period. (See: Table 1). There was no change in the pension coverage for active plans during the quarter as the pension coverage remained approximately 9.5%.

Table 1: Key Statistics

	June 2018	March 2018	December 2017
Number of Plans ²	807	806	805
Asset Values (\$'000)	552,723,825	534,595,768 ³	528,341,454
Total Membership	117,388	116,454	116,171

Investment Mix

The industry continues to see pension investments shift from direct holdings of Government of Jamaica ("GOJ") securities into more of these pooled arrangements. Pooled investment arrangements have become the preferred choice of investment options for pension plans, particularly smaller pension arrangements and retirement schemes, with assets of \$205.6 billion. Pooled investment arrangements account for the largest percentage (37%) of total pension assets as at June 30, 2018. The assets within the pension investment arrangements portfolio, which consist of a mixture of type I pooled funds and deposit administration contracts which grew by approximately 2% during the quarter.

These pooled investment arrangements consist of stocks and shares which accounted for 37%; a slight decrease from the previous quarter; as well as investments in GOJ securities which accounted for 33% of invested assets. Significant increases in other assets classes such as repurchase agreements, which grew by 19% over the quarter and now represents approximately 7% of total investment arrangements.

Real estate assets suffered a decline of 4% to account for just over 13% of total investment arrangements portfolio, while corporate bonds continue to account for 6%.

¹ The Jamaican employed labour force as at April 30, 2018 was 1,217,300 according to the Planning Institute of Jamaica (pioj.gov.jm).

² This number includes pension plans which are active, terminating and those that are inactive.

³ March 2018 has been restated.

Direct holdings of GOJ securities grew by 4% and currently stand at around \$145 billion, contributing to 26% of the pension investment portfolio. Direct holdings in equity within the pension industry grew by 6%, and presently represent approximately 22% (\$120 billion) of total investments.

Bonds and debentures within the aggregate pension portfolio recorded a significant increase over the previous quarter, reflecting a heightened interest of private pension arrangements in the bond market. These assets grew by 9%, boasting values of \$23 billion. Direct holdings in repurchase agreements experienced a decline of 6% to represent 3% of total investments. (See: Table 2 and Chart 1).

Investments in commercial paper and promissory notes both grew by 16%. Although these asset classes account for the least percentage value of total investments, increases in their values reflect the increased efforts of pension plans to diversify their investment portfolios.

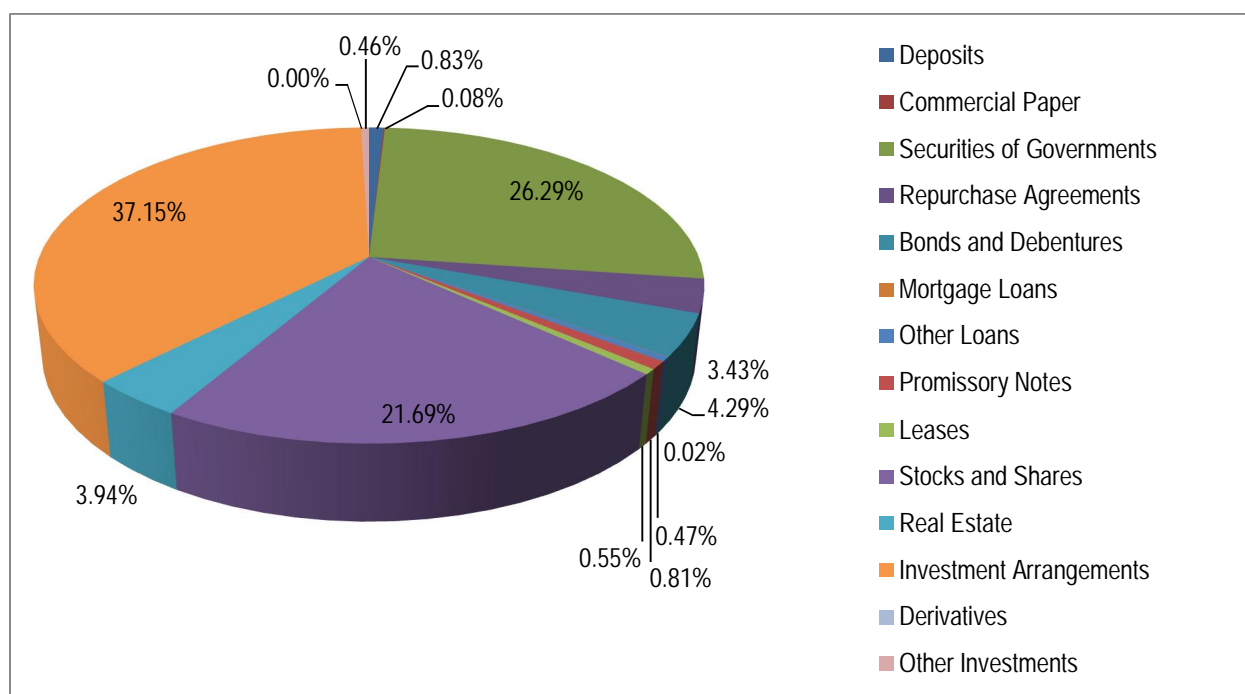
Table 2: Aggregate Investment Mix

Types of Investment	Amount Invested \$'000	% of Total Investments	Amount Invested \$'000	% of Total Investments	Amount Invested \$'000	% of Total Investments
	Jun-18		Mar-18		Dec-17	
Deposits	4,604,568.77	0.83%	4,082,545.61	0.74%	5,075,711.49	0.95%
Commercial Paper	430,322.38	0.08%	370,469.31	0.07%	339,436.01	0.06%
Securities of Governments	145,499,179.83	26.29%	139,403,716.95	25.19%	138,340,990.77	25.86%
Repurchase Agreements	19,004,382.64	3.43%	20,299,979.19	3.67%	16,802,507.46	3.14%
Bonds and Debentures	23,764,684.55	4.29%	21,769,420.08	3.93%	21,441,282.70	4.01%
Mortgage Loans	117,177.94	0.02%	133,952.73	0.02%	149,075.82	0.03%
Other Loans	2,578,670.55	0.47%	3,114,897.40	0.56%	3,853,113.51	0.72%
Promissory Notes	4,494,436.20	0.81%	3,873,770.02	0.70%	3,788,177.26	0.71%
Leases	3,027,954.71	0.55%	3,086,489.66	0.56%	3,007,336.40	0.56%
Stocks and Shares	120,032,488.38	21.69%	113,297,597.15	20.47%	110,264,403.57	20.61%
Real Estate	21,793,157.31	3.94%	21,367,390.88	3.86%	21,103,428.59	3.94%
Investment Arrangements	205,624,583.54	37.15%	202,146,815.01	36.52%	199,563,625.00	37.30%
Derivatives	0.00	0.00%	0.00	0.00%	0.00	0.00%
Other Investments	2,528,240.20	0.46%	2,042,553.79	0.37%	2,122,863.11	0.40%
Total Investments	553,499,847.02	100.00%	534,989,597.77	96.66%	525,851,951.68	98.29%
Other Net Assets	-776,022.23		-393,829.77		2,489,502.25	
Total Assets	552,723,824.79		534,595,768.00		528,341,453.93	

Note: Mar 2018 has been re-stated.

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

Chart 1: Aggregate Investment Mix



Active Pension Plans

As at June 30, 2018, the number of active pension plans accounted for 49% of the total private pension industry as there were 397 active plans, one more than the previous quarter. Active pension plans reported assets of \$545.9 billion representing 99% of total pension assets. The active pension plans experienced negligible growth in membership over the quarter. Further observations showed that both defined contribution ("DC") plans and defined benefit (DB) plans realized marginal increases in membership. (See: Tables 3 & 4).

In addition to the growth in the number of members in the pension industry, the total number of employed Jamaicans also grew. Given that there was no change in pension coverage for active plans the growth in membership in plans is similar to the growth in the employed labour force for the quarter. (See: Chart 2).

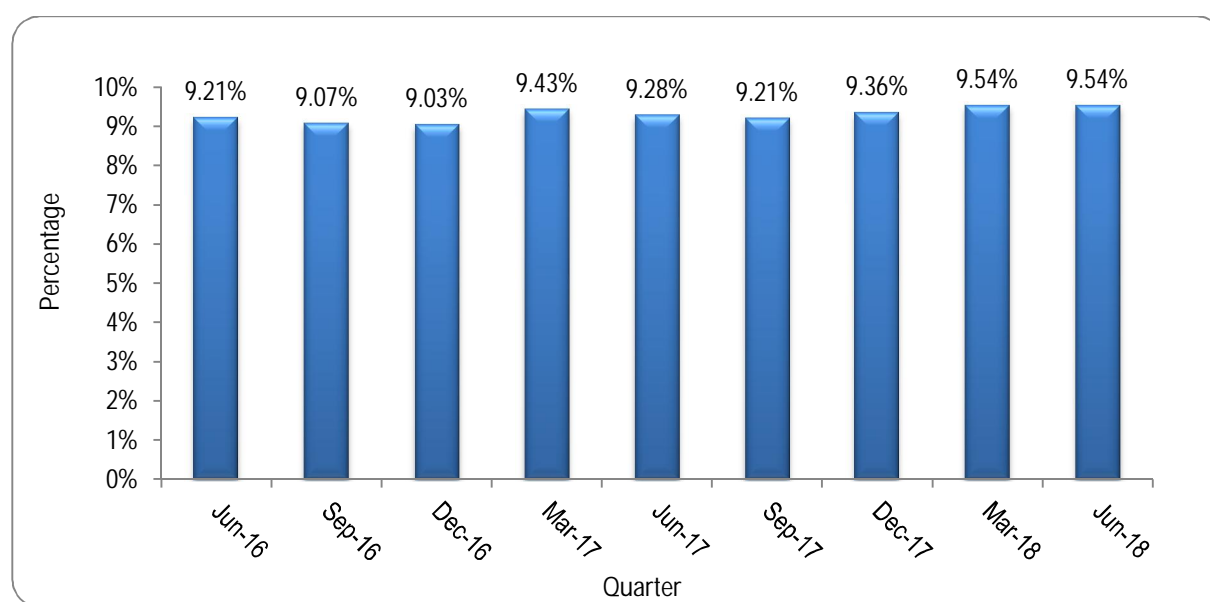
Table 3: Membership

	June 2018	March 2018	December 2017
Number of Active Plans	397	396	399
Active Membership	116,073	115,139	112,920

Table 4: Active Pension Plans by Type

	June 2018	March 2018	December 2017
Number of Plans			
Defined Benefit	98	98	99
Defined Contribution	299	298	300
Total Active Plans	397	396	399
Membership			
Defined Benefit	20,891	20,918	21,103
Defined Contribution	95,182	94,221	91,817
Total Membership	116,073	115,139	112,920
Assets Values			
Defined Benefit (\$'000)	344,116,990	327,710,091	325,253,662
Defined Contribution (\$'000)	201,781,982	199,562,668	195,373,551
Total Asset Values (\$'000)	545,898,972	527,272,759	520,627,213

Chart 2: Active Membership in Private Pension Arrangements as a Percentage of Employed Labour Force



Active Plans by Type

As at June 30, 2018, superannuation funds accounted for approximately 97% of the total number of active plans with asset values of \$509.5 billion. Retirement schemes covered the remaining 3% of total active plans and 7% of total assets (\$36.4 billion). Both the superannuation and retirement scheme sub-sectors of the pension industry

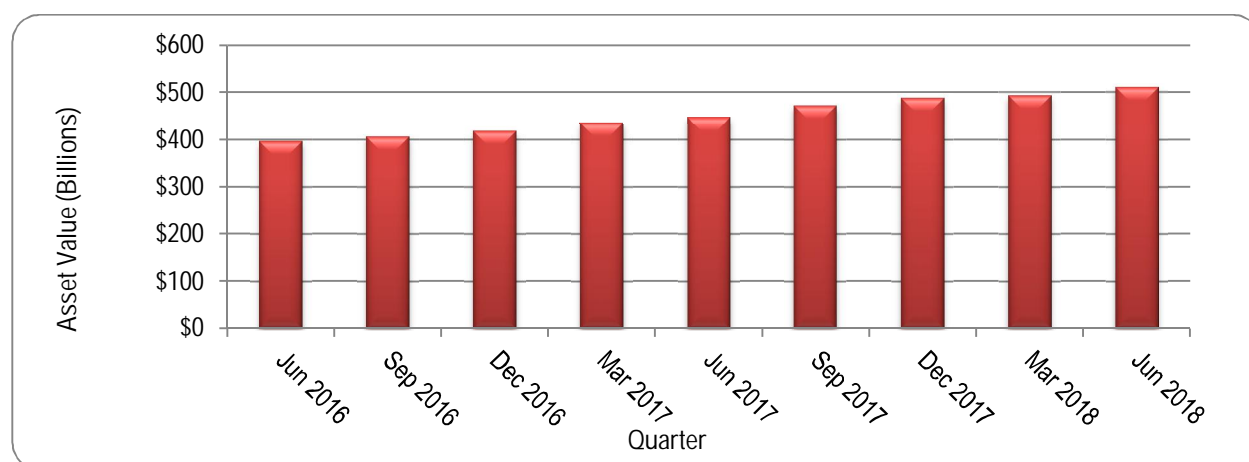
experienced negligible growths during the quarter with the addition of 934 new members during the quarter. (See illustration in Table 5 and Charts 3 & 4).

The retirement scheme sub-sector, notwithstanding its size, continues to be the growth leader outpacing the growth of superannuation funds measured both by membership and assets.

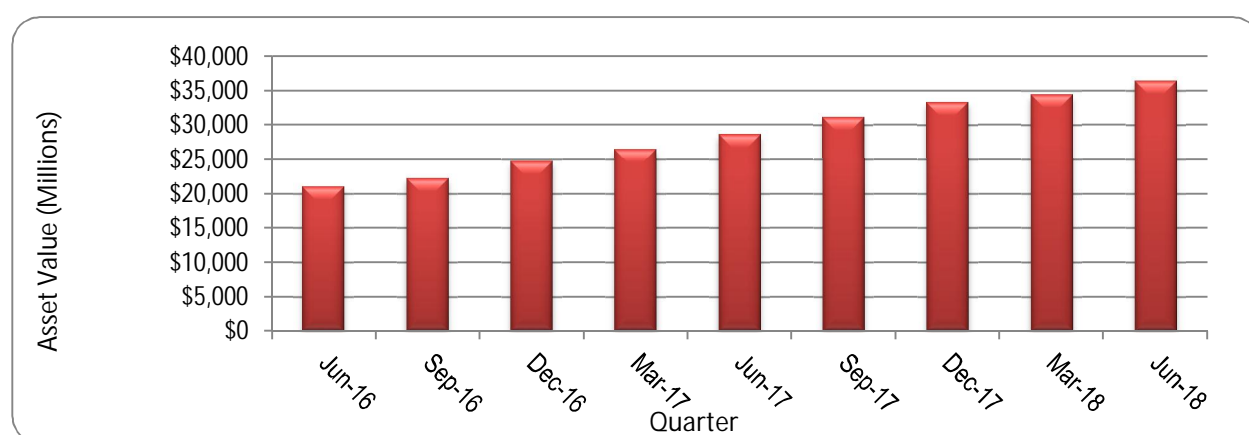
[Table 5: Active Plans by Type as at June 30, 2018](#)

	Number of Active Plans	Percentage of Plans	Number of Members	Percentage of Membership	Asset Value as at Jun 30, 2018	Percentage of Asset Value
Retirement Schemes	13	3.27%	52,567	45.29%	36,391,689,750	6.67%
Superannuation Funds	384	96.73%	63,506	54.71%	509,507,281,903	93.33%
TOTAL	397	100.00%	116,073	100.00%	545,898,971,654	100.00%

[Chart 3: Asset Values for Active Superannuation Funds](#)



[Chart 4: Asset Values for Active Retirement Schemes](#)



Active Superannuation Funds⁴ by Industry

Within the Jamaican private pension sector, the leading industry segments with superannuation funds are the Services and the Commerce and Finance industries. The largest share of active membership belongs to the Services industry at 35%. This segment holds asset valuing around \$88 billion, which is just over 17% of total active pension assets. The Commerce and Finance Industry dominates in terms of the largest share of assets at 37% for active plans, and accounts for the second largest share of active membership at 19%.

Illustrated in Charts 5 - 7 are the breakdown of the number of active plans, membership and the asset values by industry as at June 30, 2018.

Chart 5: Number of Active Funds by Industry

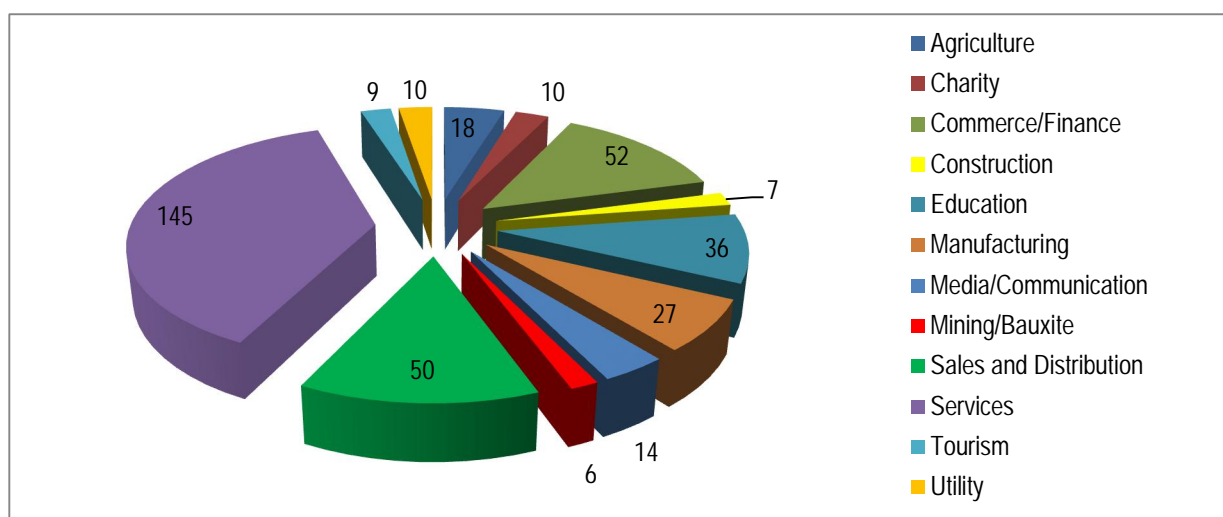
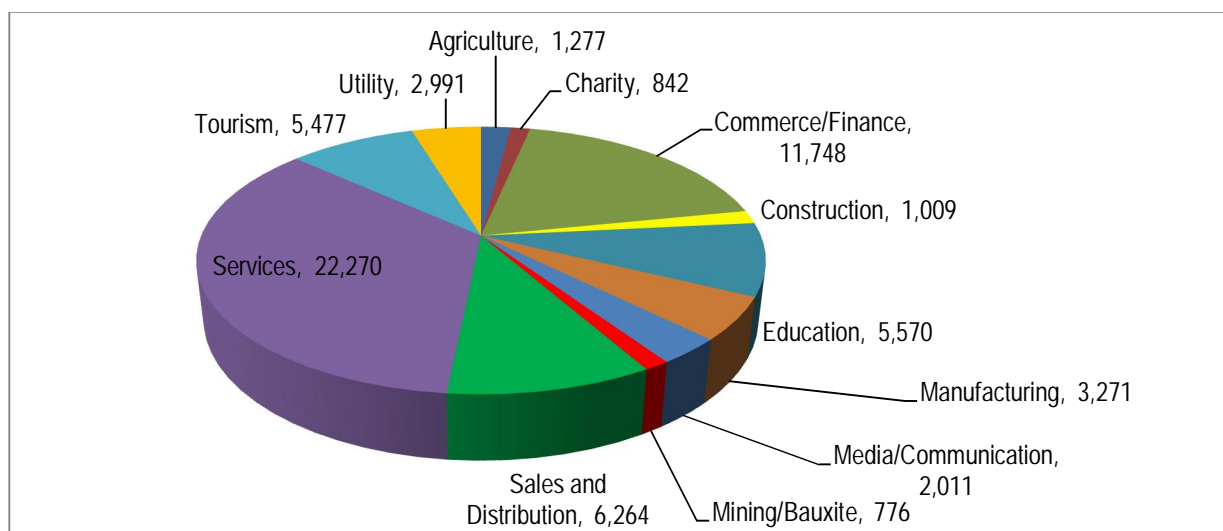
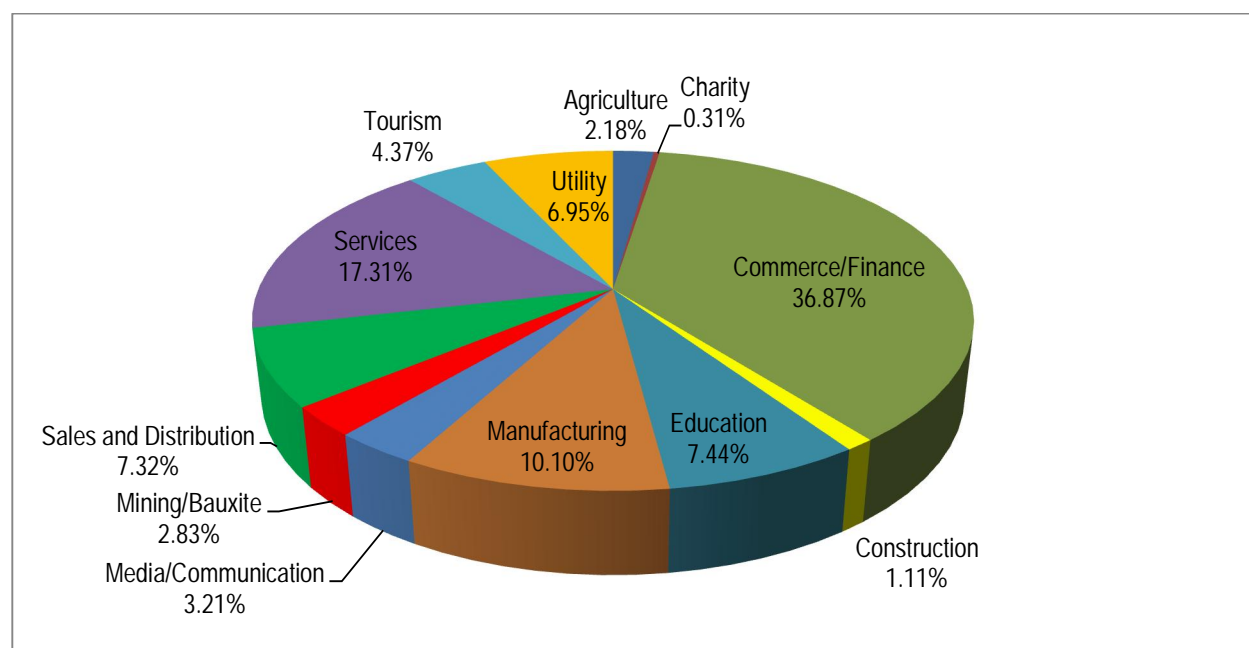


Chart 6: Number of Active Members by Industry



⁴ 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

As at June 30, 2018, three hundred and eighty-two (382) plans or 96% of total active plans have submitted solvency data; 94% of which were all solvent. This demonstrates the stability of the majority of pension plans within the industry. For the pension plans that are not solvent, in the case of an active DB type, the sponsors have an obligation to fund any shortfall when the time arises.

[Table 6: Solvency Levels of Active Plans as at June 30, 2018](#)

	Number of plans	Solvency Level				% of plans which are solvent
		Less than 100%	Between 100% & 120%	Between 120% & 150%	Greater than 150%	
Defined Benefit	96	6	26	29	35	94
Defined Contribution	286	17	193	52	24	94
Total	382	23	219	81	59	94

Inactive Pension Plans

The number of inactive plans remained the same over the quarter. Membership levels also did not change; however there was an increase in the value of the assets at the end of the quarter. (See: Table 7).

[Table 7: Inactive Pension Plans by Type](#)

	June 2018	March 2018	December 2017
Number of Plans			
Defined Benefit	4	4	4
Defined Contribution	13	13	13
Total Inactive Plans	17	17	17
Membership			
Defined Benefit	894	894	894
Defined Contribution	52	52	58
Total Membership	946	946	952
Asset Values			
Defined Benefit (\$'000)	194,339	129,832	129,891
Defined Contribution (\$'000)	61,076	60,958	60,372
Total Asset Values (\$'000)	255,415	190,790	190,263

Terminating Plans

During the June 2018 quarter, there were no changes in the number of terminating plans and neither were there any changes in the membership. The total asset values for the terminating plans declined to \$6.57 billion. (See: Table 8).

[Table 8: Terminating Pension Plans by Type](#)

	June 2018	March 2018	December 2017
Number of Plans			
Defined Benefit	92	92	91
Defined Contribution	301	301	299
Total Terminating Plans	393	393	390
Membership			
Defined Benefit	67	67	1,429
Defined Contribution	302	302	870
Total Membership	369	369	2,299
Asset Values			
Defined Benefit (\$'000)	2,950,165	2,996,312	3,323,170
Defined Contribution (\$'000)	3,619,273	4,134,933	4,200,808
Total Asset Values (\$'000)	6,569,438	7,131,245	7,523,978

Investment Managers

One investment manager surrendered its license and exited the pension industry during the review quarter. Of the remaining 25 licensed investment managers, life insurance companies and securities dealers accounted for 92% of the private pension industry assets. At approximately 58%, securities dealers account for the bulk of the total number of licensees within the industry. While the largest market share of private pension assets is managed by life insurance companies. As at June 30, 2018, the three life insurance companies managed assets of \$292 billion. Credit Unions and other entities, accounted for the smallest market share with 8% of private pension assets (See Table 9).

Table 9: Total Assets Under Management of Investment Managers

Investment Managers	Number of Entities Jun 2018	Asset Values Jun 2018 (\$'000)	Number of Entities Mar 2018	Asset Values Mar 2018 ⁵ (\$'000)	Number of Entities Dec 2017	Asset Values Dec 2017 (\$'000)
Insurance Companies	3	292,134,446	3	286,152,413	3	283,072,283
Securities Dealers	15	218,322,027	16	208,853,896	16	206,920,087
Credit Unions	1	458,263	1	441,625	1	433,583
Other	7	41,809,089	7	39,146,860	7	37,915,500
Total	26	552,723,825	27	534,594,795	27	528,341,454

Risk Outlook

The Planning Institute of Jamaica ("PIOJ") reported a 1.8% growth in the Jamaican economy for the period April to June 2018, the strongest quarterly growth in approximately two years. Some of the main contributing factors to the positive outturn were further recovery of the agricultural sector coupled with improvements in the performances of the Goods Producing and the Services industries. This expansion of the economy is complemented by a 2.8% inflation rate which is outside the Bank of Jamaica ("BOJ") inflation target of 4.0% to 6.0%. The BOJ attributes this to the impact of unanticipated declines in food prices since the start of this year and lower than forecasted imported inflation.

The improved economic condition for Jamaica is partially reflected in the increase in the employed labour force over the quarter. It is anticipated that as the labour force expands and with improved investor education that the pension industry will see medium to long term improvement in membership numbers. The PIOJ revealed that youth unemployment rate declined by 3.2% this provides opportunities for the promoters of retirement schemes to tap into this segment of the population.

The Jamaican economy has entered a paradigm of low interest rates and single digit inflationary levels. Investors have taken advantage of the new financial climate and this can be seen through the growth of Jamaica Stock Exchange ("JSE"). The JSE main index grew by 3.8% during the June 2018 quarter; a 2.1% and 5.0% increase from the previous quarter and the year-ended June 2017, respectively. Investments in the equity market have increased as the local junior market expanded and now boasts 36 listed entities. Growth in the junior exchange has been mainly due to new issues that have attracted investors and increased trading activities. As pension plans continue to

⁵ The asset values include the assets of one terminating superannuation fund for which the investment manager withdrew its application for licensing with the FSC. Also, Mar 2018 assets values were restated.

seek better opportunities provided by investing in the local stock market, careful consideration must be given to the monitoring of the quality and sufficiency of stocks and shares being invested for pension funds and schemes. Trustees are being encouraged to implement proper prudential risk management that are in accordance with the relevant Statement of Investment Policies and Principles and the regulations, as they approve the investment of members' monies.

The exposure of pension assets to foreign currency risk remains as foreign currency denominated assets now represents approximately 9% of invested pension assets. Notwithstanding that this is a decrease from the previous quarter; the risk associated with these assets can significantly impact pension investments. Trustees and investment managers must exercise proper strategies for the management of pension investment portfolios to effectively mitigate foreign currency risk.

Other risk concerns of the pension industry are the ageing Jamaican population due to persons living longer coupled with lowered fertility rates. Longevity risk exists as it is anticipated that some pensioners may outlive their pension savings. In addition, this issue is exacerbated by the low pension coverage in Jamaica particularly among the self-employed persons and within the significant informal sector. This has resulted in some persons having to rely on the meagre stipend available through the National Insurance Scheme or the goodwill of men. Pension plans will also be affected by the downsides of a low interest rate environment. The scarcity of high yielding assets poses a risk to the long-term financial viability of pension plans. Trustees of funds and schemes will seek real returns, possibly in riskier investments, in order to secure sufficient returns to satisfy future obligations.

Further withdrawal of the GOJ from the local debt market has reduced the quantity and quality of assets left available for pension investments. The pervading low interest rate environment has forced pension plans to search for investment yields in higher risk assets. As a result, the prudent practices surrounding the administration and management of the pension arrangements by trustees are challenged now more so than ever.

Summary

The private pension industry is stable with most economic indicators in the country pointing in a positive direction and the solvency levels of most pension plans are adequate. The total number of active plans and assets in the industry increased during the quarter. The number of persons participating in these plans also increased. However, due to a similar increase in the Jamaican employed workforce, no notable change in pension coverage was recorded throughout this quarter.