

## Private Pension Industry Quarterly Statistics

September 2018

### Overview

For the September 2018 quarter, the Jamaican private pension industry realized growth of 7.7%, bringing the industry value to \$595 billion. The number of pension plans remained the same while membership grew marginally over the period. The percentage of private pension coverage for Jamaicans remains around 9.6% in terms of all plans and 9.5% in terms of active plans. There were no significant changes in pension coverage as the Jamaican employed labour force<sup>1</sup> also experienced similar growth over the quarter. (See: Table 1).

Table 1: Key Statistics

	September 2018	June 2018	March 2018
Number of Plans <sup>2</sup>	807	807	806
Asset Values (\$'000)	595,134,570	552,723,198 <sup>3</sup>	534,595,768
Total Membership	117,753	117,388	116,454

### Investment Mix

#### Pooled Arrangements

Pooled investment arrangements offer pension plans indirect investments to varying investment instruments, such as equities, bonds and real estate. These investment vehicles allow pension plans to further diversify their investment portfolios, increase returns and spread risk. In Jamaica, the assets within the private pension investment arrangements portfolio consist of an amalgamation of type I pooled funds and deposit administration contracts and constitute the largest share of total private pension assets at 37%. As at September 30, 2018, total pooled investment arrangements grew by approximately 7%, reflecting a total of \$219.6 billion. Stocks and shares grew by 17% and accounted for 40% of total pooled investment arrangements. Bonds and debentures and promissory notes experienced increases of 9% and 10%, respectively for the quarter.

#### Direct Investments

Direct holdings of stocks and shares increased by 18% for the quarter, reflecting a value of \$142 billion or approximately 24% of total pension assets. Direct holdings of Government of Jamaica ("GOJ") securities grew marginally by 2.2%; however, this represents the second largest share of total pension assets.

Real estate assets recorded increases of approximately 3% while bonds and debentures recorded a 6% increase in asset value over the quarter. This represents continued interest of private pension arrangements in the bond market. However, both real estate and bonds and debentures account for less than 5% of total pension assets.

<sup>1</sup> The Jamaican employed labour force as at July 31, 2018 was 1,226,400 according to the Planning Institute of Jamaica (pioj.gov.jm).

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

<sup>3</sup> June 2018 has been re-stated



Direct investments in repurchase agreements and commercial paper experienced significant declines of 15% and 52%, respectively. (See: Table 2 and Chart 1).

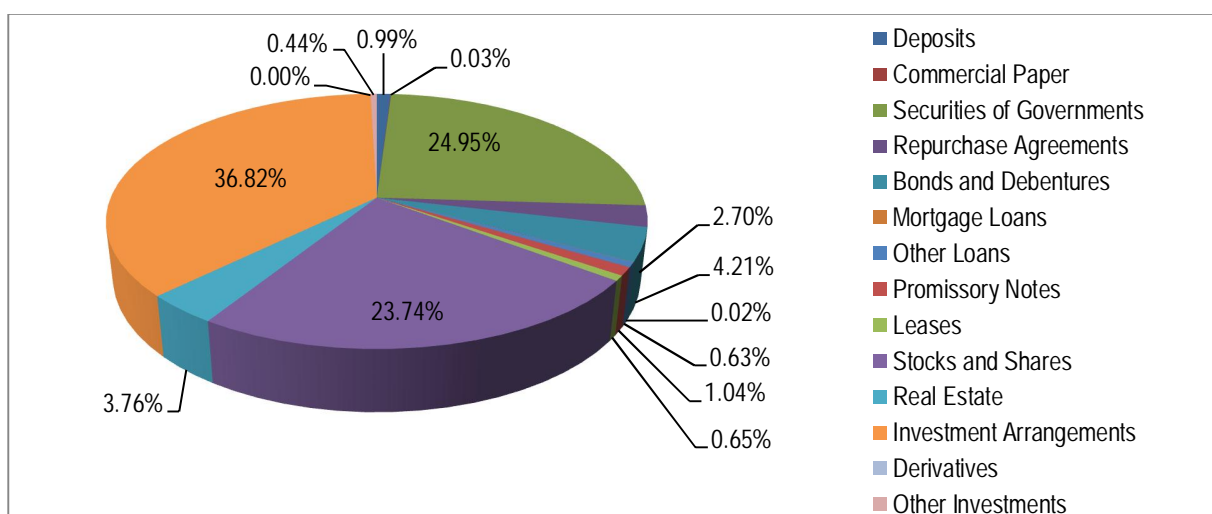
**Table 2: Aggregate Investment Mix**

Types of Investment	Amount Invested \$'000	% of Total Investments	Amount Invested \$'000	% of Total Investments	Amount Invested \$'000	% of Total Investments
	Sep-18		Jun-18		Mar-18	
Deposits	5,907,094.78	0.99%	4,604,568.52	0.83%	4,082,545.61	0.76%
Commercial Paper	204,492.72	0.03%	430,322.40	0.08%	370,469.31	0.07%
Securities of Governments	148,869,499.37	24.95%	145,499,180.54	26.29%	139,403,716.95	26.06%
Repurchase Agreements	16,104,010.47	2.70%	19,004,382.05	3.43%	20,299,979.19	3.79%
Bonds and Debentures	25,132,380.67	4.21%	23,764,684.67	4.29%	21,769,420.08	4.07%
Mortgage Loans	108,719.00	0.02%	117,178.00	0.02%	133,952.73	0.03%
Other Loans	3,776,976.00	0.63%	2,578,671.00	0.47%	3,114,897.40	0.58%
Promissory Notes	6,232,505.00	1.04%	4,494,436.00	0.81%	3,873,770.02	0.72%
Leases	3,887,194.00	0.65%	3,027,955.00	0.55%	3,086,489.66	0.58%
Stocks and Shares	141,637,662.80	23.74%	120,032,488.02	21.69%	113,297,597.15	21.18%
Real Estate	22,440,284.00	3.76%	21,793,158.00	3.94%	21,367,390.88	3.99%
Investment Arrangements	219,634,608.30	36.82%	205,624,583.25	37.15%	202,146,815.01	37.79%
Derivatives	0.00	0.00%	0.00	0.00%	0.00	0.00%
Other Investments	2,638,298.99	0.44%	2,528,239.71	0.46%	2,042,553.79	0.38%
<b>Total Investments</b>	<b>596,573,726.09</b>	<b>100.00%</b>	<b>553,499,847.16</b>	<b>100.00%</b>	<b>534,989,597.77</b>	<b>100.00%</b>
Other Net Assets	-1,439,155.99		-776,649.05		-393,829.77	
<b>Total Assets</b>	<b>595,134,570.11</b>		<b>552,723,198.11</b>		<b>534,595,768.00</b>	

Note: Jun 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

There are 393 active pension plans constituting 49% of the total private pension industry. The number of active pension plans declined as four pension plans commenced winding-up proceedings during the September 2018 quarter. The asset value of the active plans is currently \$584 billion which represent 98% of total private pension assets in Jamaica. Growth in membership of these active plans was negligible for the period and only defined contribution plans realized an increase in membership. There were no changes in the number of persons enrolled in defined benefit ("DB") pension plans. (See: Tables 3 & 4). It must be noted that DB plans account for the larger percentage of total active pension assets at 63% or \$366 billion; this represents a growth of 6% in the asset value of active DB plans over the quarter.

Additionally, growth in the number of members in the private pension industry almost mirrored the growth in the employed labour force for the quarter. As a result, there was negligible change in pension coverage for active plans. (See: Chart 2).

Table 3: Membership

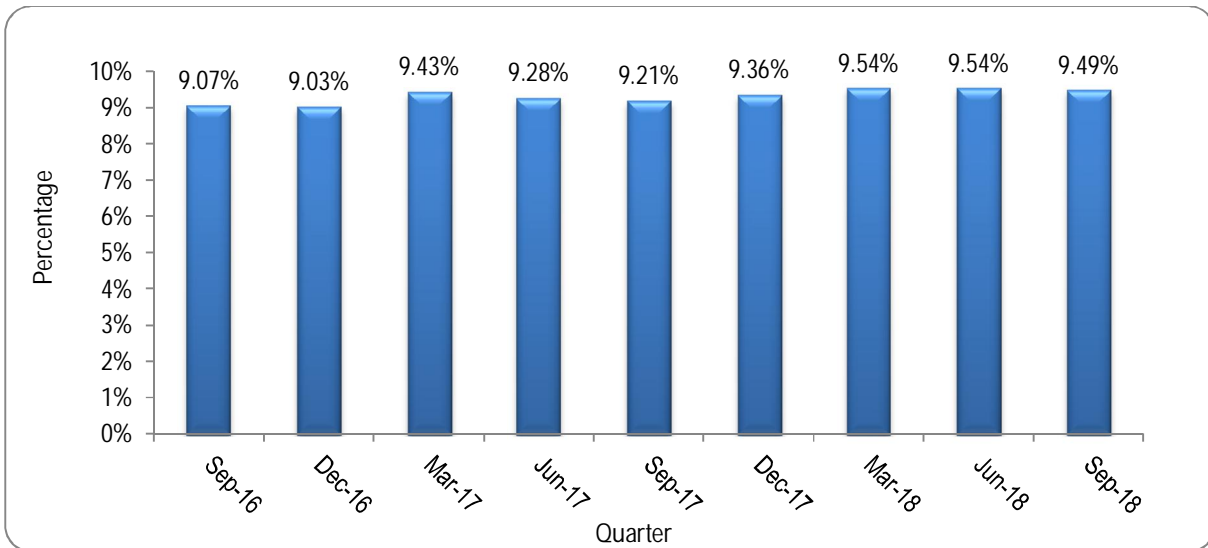
	September 2018	June 2018	March 2018
Number of Active Plans	393	397	396
Active Membership	116,369	116,073	115,139

Table 4: Active Pension Plans by Type

	September 2018	June 2018	March 2018
<b>Number of Plans</b>			
Defined Benefit	98	98	98
Defined Contribution	295	299	298
Total Active Plans	393	397	396
<b>Membership</b>			
Defined Benefit	20,891	20,891	20,918
Defined Contribution	95,478	95,182	94,221
Total Membership	116,369	116,073	115,139
<b>Assets Values</b>			
Defined Benefit (\$'000)	365,668,896	344,116,990	327,710,091
Defined Contribution (\$'000)	218,488,841	201,781,982	199,562,668
Total Asset Values (\$'000)	584,157,737	545,898,972	527,272,759



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



**Active Plans by Type**

As at September 30, 2018, the number of active superannuation funds was reduced to 380, while the number of active retirement schemes remained at 13. As it currently stands, total asset value of active superannuation funds is \$543.9 billion; which is approximately 93% of the total number of active plans. The remaining 7% is attributable to active schemes that now boast asset value of \$40.2 billion.

The industry added 296 members during the quarter. The retirement scheme sub-sector of the pension industry realized negligible growth in membership, while superannuation funds recorded a minute decline. This may be attributable to the winding-up proceedings of a few funds over the quarter. (See illustration in Table 5 and Charts 3 & 4).

**Table 5: Active Plans by Type as at September 30, 2018**

	Number of Active Plans	Percentage of Plans	Number of Members	Percentage of Membership	Asset Value as at Sep 30, 2018	Percentage of Asset Value
Retirement Schemes	13	3.31%	52,930	45.48%	40,206,417	6.88%
Superannuation Funds	380	96.69%	63,439	54.52%	543,951,321	93.12%
<b>TOTAL</b>	<b>393</b>	<b>100.00%</b>	<b>116,369</b>	<b>100.00%</b>	<b>584,157,738</b>	<b>100.00%</b>



Chart 3: Asset Values for Active Superannuation Funds

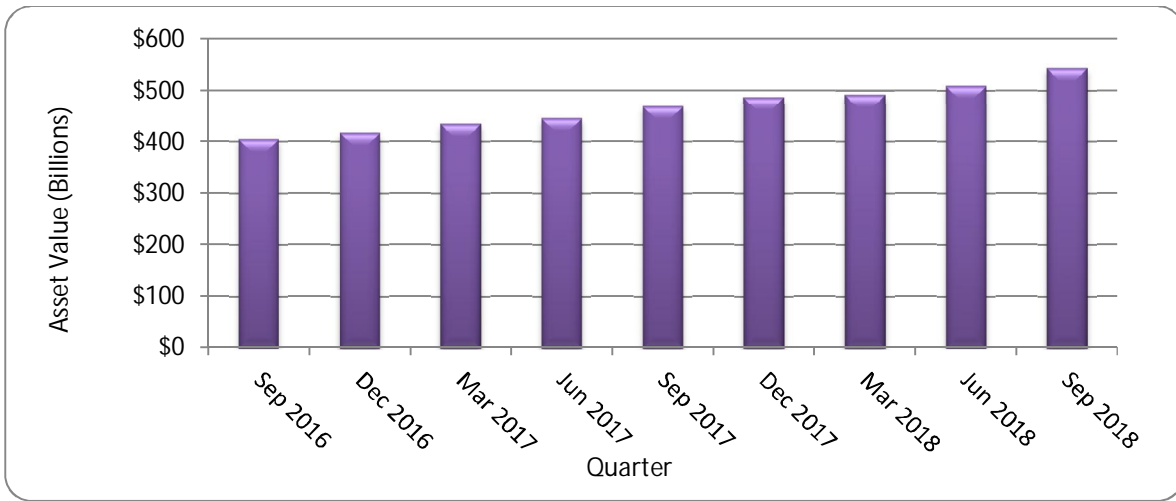
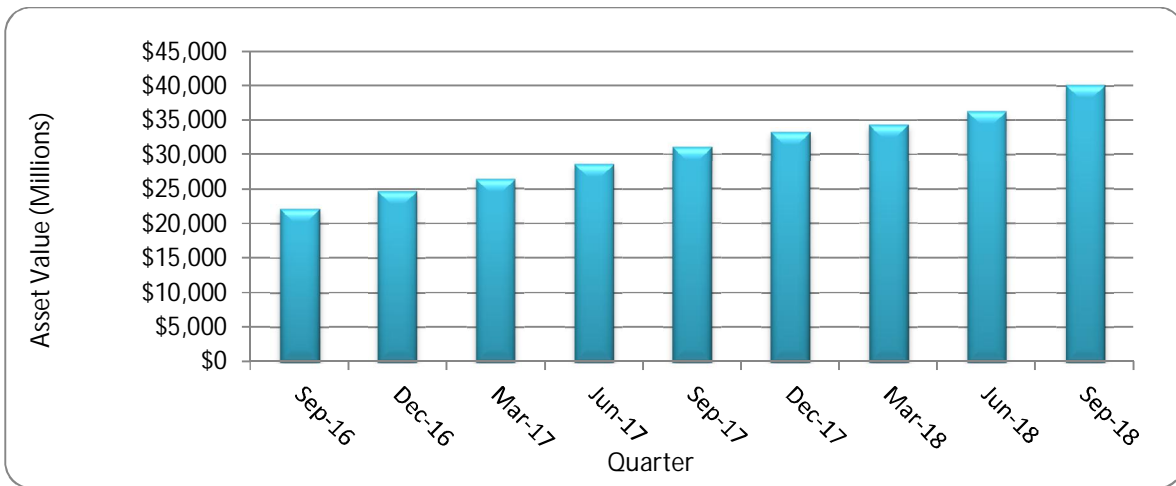


Chart 4: Asset Values for Active Retirement Schemes



#### *Active Superannuation Funds<sup>4</sup> by Industry*

The largest numbers of superannuation funds within the Jamaican private pension industry are from sponsors operating within the Services and the Commerce and Finance sectors. The Services segment constitutes the largest share of active membership at 35% and represents \$94.7 billion or 17% of total active superannuation fund assets. Whereas, the Commerce and Finance Industry holds the largest share of superannuation fund assets for active plans at \$203 billion or 37% and accounts for the second largest share of active membership at approximately 19%.

The breakdown of the number of active plans, membership and the asset values by industry as at September 30, 2018, can be seen illustrated in Charts 5 - 7.

<sup>4</sup> Previous reports were based on all active plans – both funds and schemes – with members of schemes designated to the “Commerce/Finance” industry.



Chart 5: Number of Active Funds by Industry

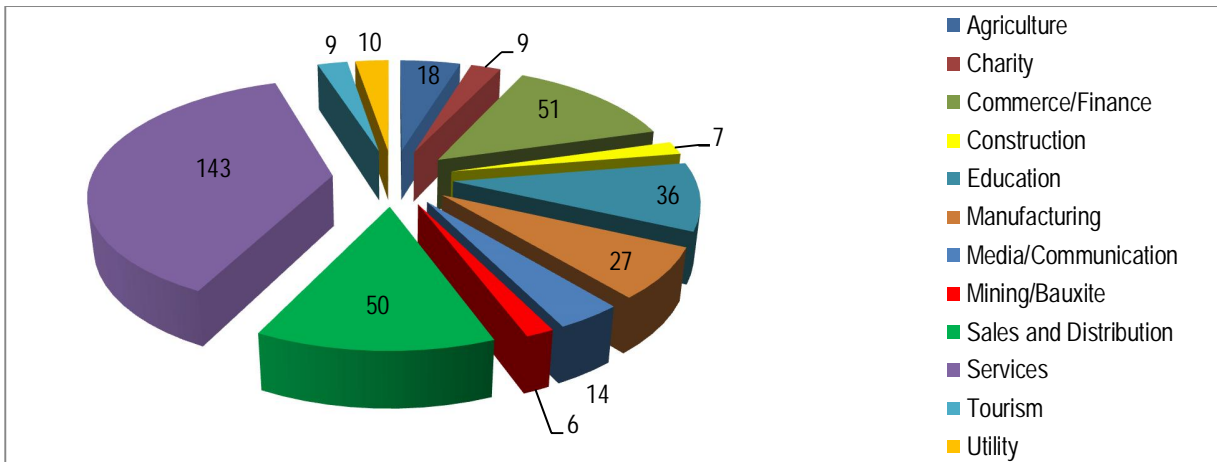


Chart 6: Number of Active Members by Industry

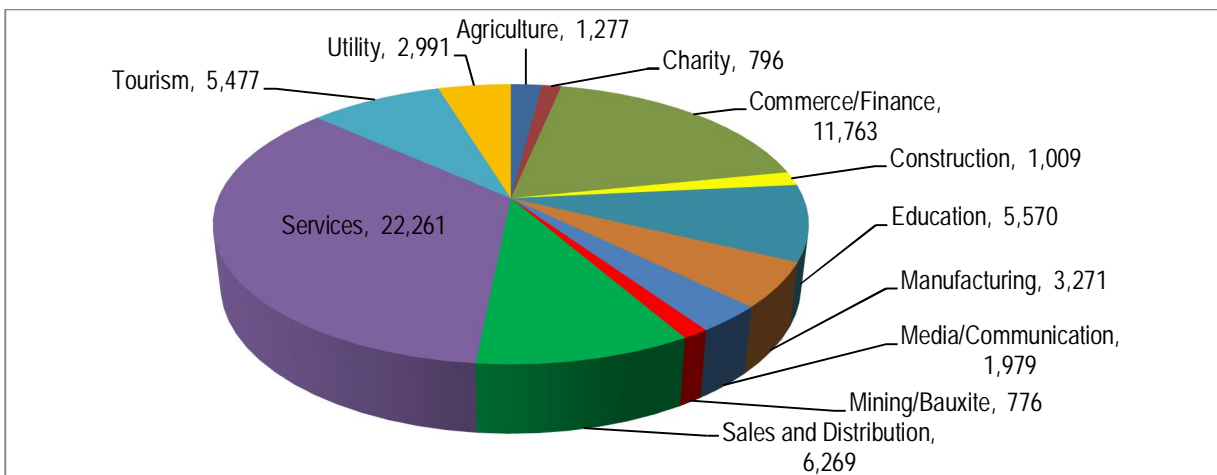
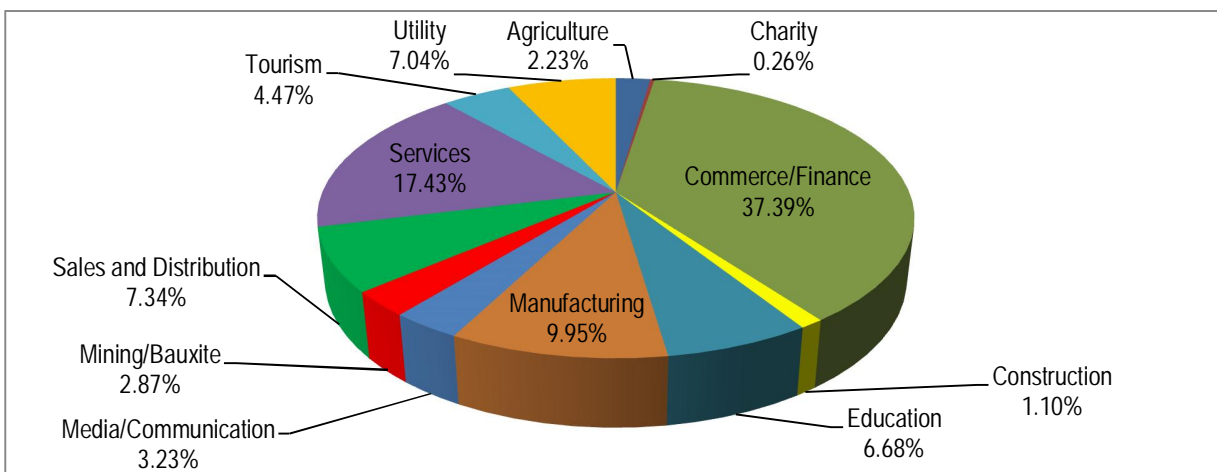


Chart 7: Asset Values by Industry





### Solvency of Active Pension Plans

For the quarter, three hundred and seventy-eight (378) plans or 96% of total active plans submitted solvency data. Analysis of the data revealed that 95% of these plans were solvent; no change when compared with the previous quarter. Trustees have a responsibility to ensure the financial health of their funds and schemes; this includes maintaining a solvent position throughout the life of the plans. In the case of DB type pension plans that are not solvent, the sponsors have an obligation to fund any shortfall when the time arises for promised benefits to be paid.

[Table 6: Solvency Levels of Active Plans as at September 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	4	26	28	38	96
Defined Contribution	282	16	191	52	23	94
Total	378	20	217	80	61	95

### Inactive Pension Plans

Quarter over quarter, the number of inactive pension plans, as well as the membership levels, remained the same. However, the asset values increased by 12% to close out the quarter at a value of \$287 million. (See: Table 7).

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

	September 2018	June 2018	March 2018
<b>Number of Plans</b>			
Defined Benefit	4	4	4
Defined Contribution	13	13	13
Total Inactive Plans	17	17	17
<b>Membership</b>			
Defined Benefit	894	894	894
Defined Contribution	52	52	58
Total Membership	946	946	952
<b>Asset Values</b>			
Defined Benefit (\$'000)	223,534	194,339	129,832
Defined Contribution (\$'000)	63,634	61,076	60,958
Total Asset Values (\$'000)	287,168	255,415	190,790



### Terminating Plans

As at September 30, 2018, the number of terminating pension plans increased by four. This resulted in a slight rise in membership and total asset value. By the end of the quarter, terminating plans stood at a value of \$10.6 billion. (See: Table 8).

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

	September 2018	June 2018	March 2018
<b>Number of Plans</b>			
Defined Benefit	92	92	92
Defined Contribution	305	301	301
Total Terminating Plans	397	393	393
<b>Membership</b>			
Defined Benefit	67	67	67
Defined Contribution	371	302	302
Total Membership	438	369	369
<b>Asset Values</b>			
Defined Benefit (\$'000)	2,982,224	2,950,165	2,996,312
Defined Contribution (\$'000)	7,707,440	3,619,273	4,134,933
Total Asset Values (\$'000)	10,689,664	6,569,438	7,131,245

### Investment Managers

There are currently 26 licensed investment managers within the private pension industry. Securities dealers account for the largest number of licensees within the industry at approximately 58%. Life insurance companies and securities dealers continue to be the industry leaders in terms of assets under management. These entities collectively manage funds amounting to \$548.8 billion or 92% of the total private pension industry assets. As at September 30, 2018, assets managed by the three life insurance companies, stood at \$313.8 billion. Credit Unions and other entities, accounted for the smallest market share with approximately 8% of private pension assets (See Table 9).

[Table 9: Total Assets Under Management of Investment Managers](#)

Investment Managers	Number of Entities Sep 2018	Asset Values Sep 2018 (\$'000)	Number of Entities Jun 2018	Asset Values Jun 2018 <sup>5</sup> (\$'000)	Number of Entities Mar 2018	Asset Values Mar 2018 (\$'000)
Insurance Companies	3	313,865,733	3	292,134,446	3	286,152,413
Securities Dealers	15	234,938,755	15	218,322,027	16	208,853,896
Credit Unions	1	479,011	1	458,263	1	441,625
Other	7	45,851,071	7	41,809,089	7	39,146,860
Total	26	595,134,570	26	552,723,825	27	534,594,795

<sup>5</sup> 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, Jun 2018 assets values were restated.





## *Risk Outlook*

Jamaica has entered a phase of economic reform which will effectively adjust the structure of many business sectors island-wide. A partial reflection of the benefits of such reforms was further growth of the economy over the September 2018 quarter. According to the Planning Institute of Jamaica (“PIOJ”) the economy grew by 1.9%; a reduction compared with the 2.2% growth recorded in the June 2018 quarter. This positive outcome of the economy, the PIOJ attributes to macroeconomic growth factors such as, increased domestic demand, upsurge in employment levels and expansion of the mining and quarrying industry. Further growth in infrastructure was evident over the quarter with the building of new hotel rooms and other commercial buildings and an increase in construction activities for road networks and water supply systems. A consequence of the growth in these areas of the economy, are increases in construction and services jobs. Persons employed in these types of jobs can benefit from participating in retirement schemes.

The Statistical Institute of Jamaica reported that the unemployment rate is at its lowest since 1968 at 8.4%, youth unemployment (ages 14-24), is down by 5.3% and the employed labour force has increased over the quarter. These statistics support the argument that there is a trend of record levels of employment in Jamaica since 2016. The PIOJ stated that the largest increases in employment were recorded in the Construction, Real Estate, Renting and Business Activities and Health and Social Work. Stakeholders of pension business, particularly retirement scheme providers, should take this opportunity to direct their strategic efforts in engaging persons employed in these areas of business.

According to the investment and trade promotions agency JAMPRO, the business process outsourcing (BPO) industry is on an upward trajectory and currently injects US\$323 million annually into the local economy. This leaves a realm of money and membership relatively untapped by pension funds. JAMPRO further reported that there are currently 50 companies operating within the BPO sector with more than 30,000 employees and the industry is expected to continue growing as more companies and investors come on stream. Opportunities exist for investment managers and administrators to offer pension related products to these firms.

The economy continues to record low interest rates and single digit inflationary levels. As at September 30, 2018, annual inflation stood at 4.3%; an increase from 2.8% recorded for the June 2018 quarter. This spurt in inflation, the Bank of Jamaica (“BOJ”) stated is due mainly to the impact of higher non-processed food prices that were as a result of greater-than-seasonal reduction in agricultural supplies and the heightening of energy prices throughout the quarter. The BOJ inflation target remains at a range of 4% to 6% and inflation is projected to trend towards the upper end of this target over the medium term.

For the September 2018 quarter, foreign currency denominated assets encompassed 9% of total invested pension assets. The risk exposure of pension assets to foreign currency risk remain a significant concern for pension plans and their service providers, as downside risks associated with foreign assets can significantly impact the pension assets used to back pension liabilities. Trustees and investment managers are required to apply prudent risk mitigating strategies for the management of pension investment portfolios to lower foreign currency risk.

The Jamaica Stock Exchange (“JSE”) experienced increased activity in investment trading during the September 2018 quarter, as the main index grew by 17.2%; a growth of 52,584 points compared to the previous quarter. This growth is consistent with the 18% growth in equity values within the private pension sector. The increased value and volume trading in listed equity reflect increased interest in the JSE and all new issues listing up to September 30, 2018 have been oversubscribed as investors continue to chase higher yields. While investing in the local stock



market provides better opportunities in terms of returns, close monitoring of the quality and appropriateness of stocks and shares within pension portfolios is a major prerequisite.

The following still remains as other risk concerns of the pension industry:

- The ageing Jamaican population and lowered fertility rates - Longevity risk exists as it is anticipated that some pensioners may outlive their pension savings. This issue is exacerbated by the low pension coverage in Jamaica particularly: mainly among self-employed persons and those of the informal sector. Persons may become wards of the state or will have to rely on the meager stipend available through the National Insurance Scheme or the goodwill of men.
- 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.
- Risks of Crowding-in - The 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*

Despite the reduction in the number of pension plans, membership levels still experienced an increase over the quarter. The solvency levels of most active plans also remained adequate. Total pensions assets increased, pushing industry value further above half a trillion dollars. There was no notable change in pension coverage for this quarter as growth in the employed labour force was similar to the growth of membership in the industry. In light of continued macroeconomic stability and with most macroeconomic indicators pointing in a positive direction, the private pension industry is expected to remain on a stable path for the medium term.