

Private Pension Industry Quarterly Statistics

March 2019



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Table 1 : Key Statistics

	March 2019	December 2018	September 2018
Number of Plans ¹	807	807	807
Asset Values (\$' Millions)	607,239	601,834	595,135
Total Membership	119,514	117,981	117,753

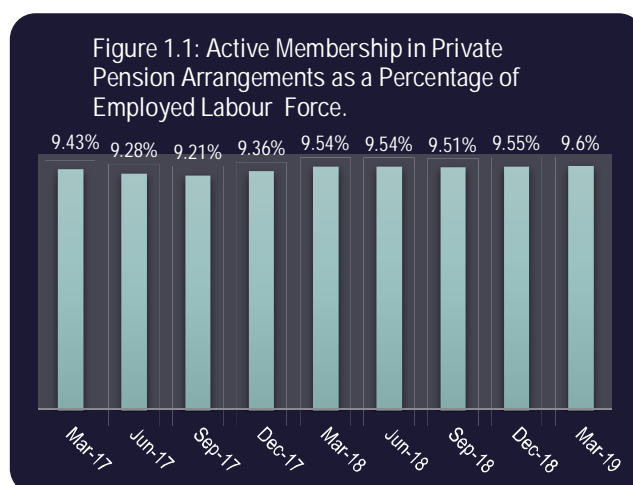
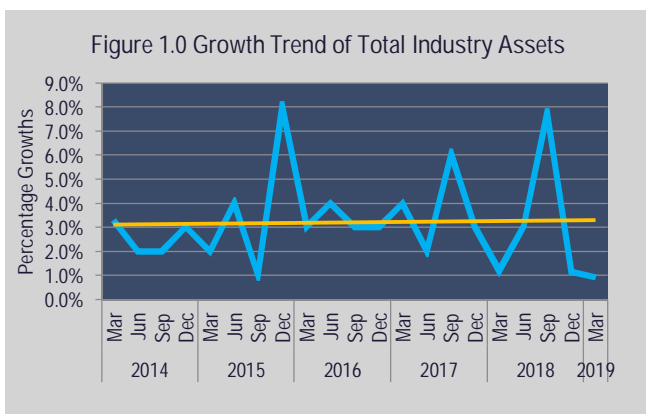
Private Pension Industry Overview

As at March 31, 2019, the Jamaican private pension industry was valued at \$607.2 billion. Over the past five years (20 quarters) the private pension sector grew by 3% on average, every quarter. (See: Table 1 & Figure 1.0)

Further assessment of the growth trends for the industry over the past five years, revealed that total membership moved steadily on an upward trajectory. Growth in membership closely mimicked the growth experienced by the Jamaican employed labour force² over the period. This led to a slight increase in private pension coverage, as follows:

- 9.8%; in terms of all plans for the employed labour force
- 9.6%; in terms of active plans for the employed labour force

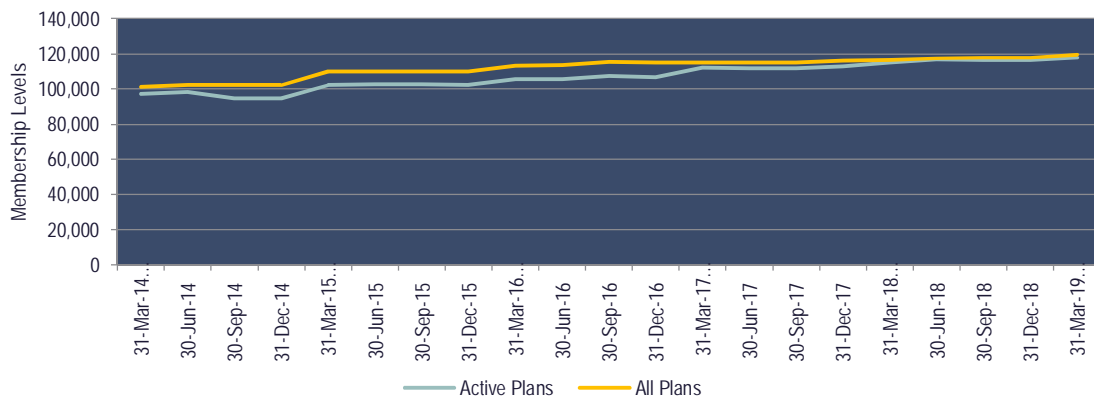
(See: Figures 1.1 & 1.2)



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

² The Jamaican employed labour force as at January 31, 2019 was 1,232,700 according to the Planning Institute of Jamaica (pioj.gov.jm).

Figure 1.2: Growth Trends: Membership Levels of Active Pension Plans vs All Pension Plans



Investment Mix

Private Pensions Investments

Over the March 2019 quarter there was slight growth in asset values observed in direct holdings of stocks and shares, Government of Jamaica (“GOJ”) securities and Pooled Investment Arrangements. While, fixed income assets, such as commercial paper, promissory notes, and bonds & debentures, all experienced significant growths of 46.12%, 34.06% and 9.18%, respectively. This reflects the lack of GOJ securities for investment and the desire of industry stakeholders to seek higher yielding investment opportunities.

At the end of the quarter the value of direct holdings of stocks and shares within the aggregate investment portfolio stood at approximately \$140.2 billion and direct holdings of GOJ securities at \$146.2 billion. GOJ securities continue to encompass the second largest portion of the aggregate investment portfolio at approximately 24% and investment arrangements accounts for the largest portion of total pension assets at 37% or \$224 billion. (See: Chart 1 & Table 2)

Chart 1

Allocation of Total Private Pension Assets

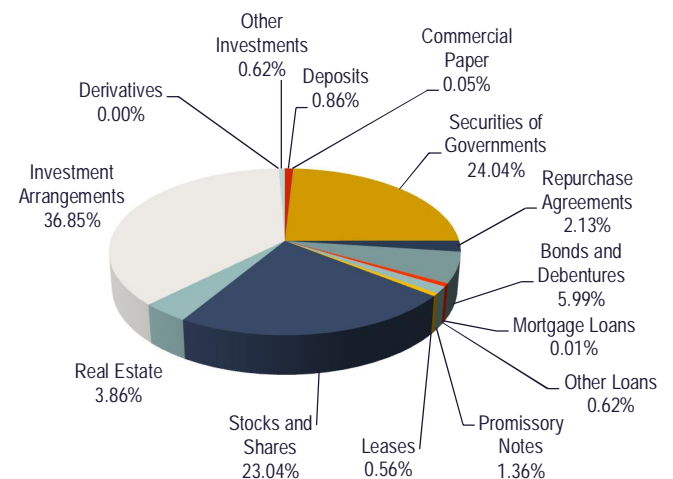


Table 2: Aggregate Investment Mix

Types of Investment	Amount Invested \$' Millions	% of Total Investments	Amount Invested \$' Millions	% of Total Investments	Amount Invested \$' Millions	% of Total Investments
	Mar-19		Dec-18		Sep-18	
Deposits	5,256.87	0.86%	5,044.74	0.84%	5,907.09	0.99%
Commercial Paper	291.42	0.05%	199.45	0.03%	204.49	0.03%
Securities of Governments	146,289.01	24.04%	144,329.70	23.96%	148,869.50	24.95%
Repurchase Agreements	12,951.65	2.13%	13,588.60	2.26%	16,104.01	2.70%
Bonds and Debentures	36,457.37	5.99%	33,391.29	5.54%	25,132.38	4.21%
Mortgage Loans	88.31	0.01%	96.85	0.02%	108.72	0.02%
Other Loans	3,802.80	0.62%	3,813.79	0.63%	3,776.98	0.63%
Promissory Notes	8,250.63	1.36%	6,154.47	1.02%	6,232.51	1.04%
Leases	3,428.74	0.56%	3,496.76	0.58%	3,887.19	0.65%
Stocks and Shares	140,218.10	23.04%	139,872.55	23.22%	141,637.66	23.74%
Real Estate	23,516.08	3.86%	24,227.69	4.02%	22,440.28	3.76%
Investment Arrangements	224,245.07	36.85%	224,099.57	37.20%	219,634.61	36.82%
Derivatives	0.00	0.00%	0.00	0.00%	0.00	0.00%
Other Investments	3,753.45	0.62%	4,052.43	0.67%	2,638.30	0.44%
Total Investments	608,549.49	100.00%	602,367.86	100.00%	596,573.73	100.00%
Other Net Assets	-1,310.46		-533.72		-1,439.15	
Total Assets	607,239.04		601,834.14		595,134.57	

Pooled Investment Arrangements

As at March 31, 2019, the assets within pooled investment arrangements stood at \$224 billion³. Increased investment in fixed income assets were also observed in the Pooled Investment Arrangements portfolio. Indirect investments of deposits and bonds and debentures recognized increases of 23% and 22%, respectively. However, greater advance was observed in the indirect holdings of repurchase agreements (“Repos”) within the pooled arrangements. Repos increased by 84% during the quarter. (See: Table 3).

Indirect holdings of assets, such as stocks and shares and GOJ securities suffered declines in asset values during the review period. Stocks and shares (40%) and GOJ securities (31%) both represent the largest asset classes within these pooled investment arrangements. (See: Chart 2)

Real estate assets which represent 13% of total investments within this group grew by 5%.

Chart 2

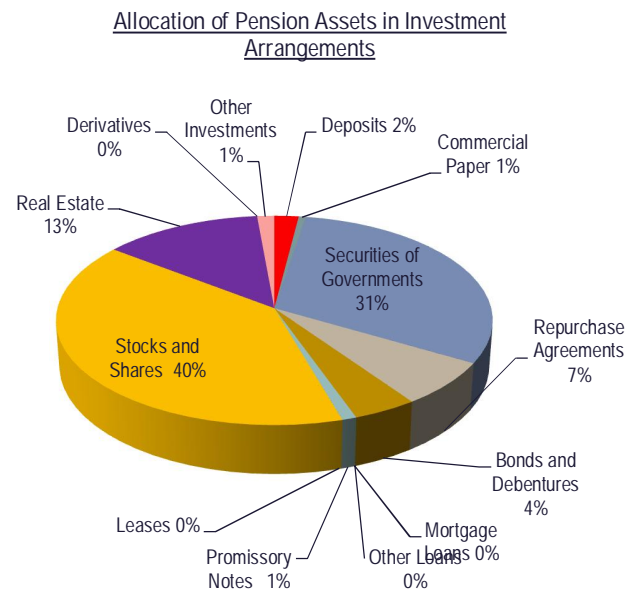


Table 3: Pooled Investment Arrangements Portfolio Mix

Types of Investment	Amount Invested (\$' Millions)	% of Total Investments	Amount Invested (\$' Millions)	% of Total Investments
	Mar-19		Dec-18	
Deposits	4,388.77	2.01%	3,562.40	1.63%
Commercial Paper	1,254.82	0.57%	917.53	0.42%
Securities of Governments	67,261.10	30.80%	74,302.20	34.09%
Repurchase Agreements	15,049.77	6.89%	8,153.31	3.74%
Bonds and Debentures	9,324.39	4.27%	7,630.74	3.50%
Mortgage Loans	0.07	0.00%	0.07	0.00%
Other Loans	0.00	0.00%	44.63	0.02%
Promissory Notes	2,107.52	0.96%	2,000.53	0.92%
Leases	700.61	0.32%	673.90	0.31%
Stocks and Shares	86,484.18	39.60%	89,674.64	41.14%
Real Estate	28,747.64	13.16%	27,286.69	12.52%
Derivatives	0.00	0.00%	0.00	0.00%
Other Investments	3,092.32	1.42%	3,739.28	1.72%
Total Pooled Investments	218,411.18	100.00%	217,985.92	100.00%
Other Net Assets	1,202.90		1,304.20	
Deposit Administration	4,630.99		4,809.44	
Total Assets	224,245.07		224,099.57	

Operating Statistics

Active Pension Plans

Within the Jamaican private pensions industry, approximately 48% of the pension arrangements are active. Over the March 2019 quarter, six funds initiated winding-up proceedings, bringing the number of active pension arrangements to 383. Despite the reduction in the number of active funds, active membership did not decrease. (See: Table 4).

Table 4: Membership

	March 2019	December 2018	September 2018
Number of Active Plans	383	389	393
Active Membership	117,746	116,403	116,369

³ In Jamaica, pooled investment arrangements consists of a combination of type I pooled funds and deposit administration contracts

As March 31, 2019, the asset value of active plans accounted for approximately 99% of total private pension assets at \$598 billion. Defined contribution (“DC”) arrangements outweigh defined benefit (“DB”) arrangements in terms of actual number of plans and active membership level. Irrespective of this fact, DB plans account for the larger percentage of total active pension assets. The total asset value of DB and DC plans stood at \$370 billion and \$227 billion respectively. (See: Table 5).

Active Plans by Type

The private pension industry continues to experience reductions in the number of active plans. Nevertheless, active membership of both funds and schemes increased marginally over the quarter. No new retirement schemes entered the pension market during the quarter.

The assets of retirement schemes grew by 4%, outperforming the growth of superannuation funds. Notwithstanding, active funds still account for majority of total asset value at approximately 93% or \$556 billion. (See illustration in Table 6 - Parts A & Charts 3 - 4).

Table 5: Active Pension Plans by Type

	Mar 2019	Dec 2018	Sep 2018
Number of Plans			
Defined Benefit	94	97	98
Defined Contribution	289	292	295
Total Active Plans	383	389	393
Membership			
Defined Benefit	20,554	20,681	20,891
Defined Contribution	97,192	95,722	95,478
Total Membership	117,746	116,403	116,369
Assets Values			
Defined Benefit (\$' Millions)	370,878	369,930	365,669
Defined Contribution (\$' Millions)	227,580	223,722	218,489
Total Asset Values (\$' Millions)	598,459	593,651	584,158

Table 6: Active Plans by Type as at March 31, 2019

Part A				
	Number of Active Plans	Percentage of Plans	Number of Members	Percentage of Membership
Retirement Schemes	13	3.39%	54,719	46.47%
Superannuation Funds	370	96.61%	63,027	53.53%
TOTAL	383	100.00%	117,746	100.00%

Part B		
	Asset Value as at Mar 31, 2019 (\$' Millions)	Percentage of Asset Value
Retirement Schemes	42,192	7.05%
Superannuation Funds	556,267	92.95%
TOTAL	598,459	100.00%

Chart 3

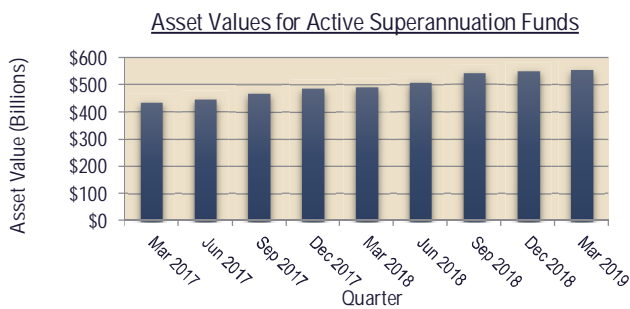
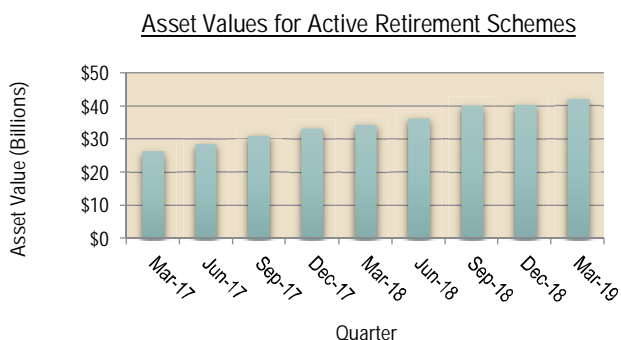


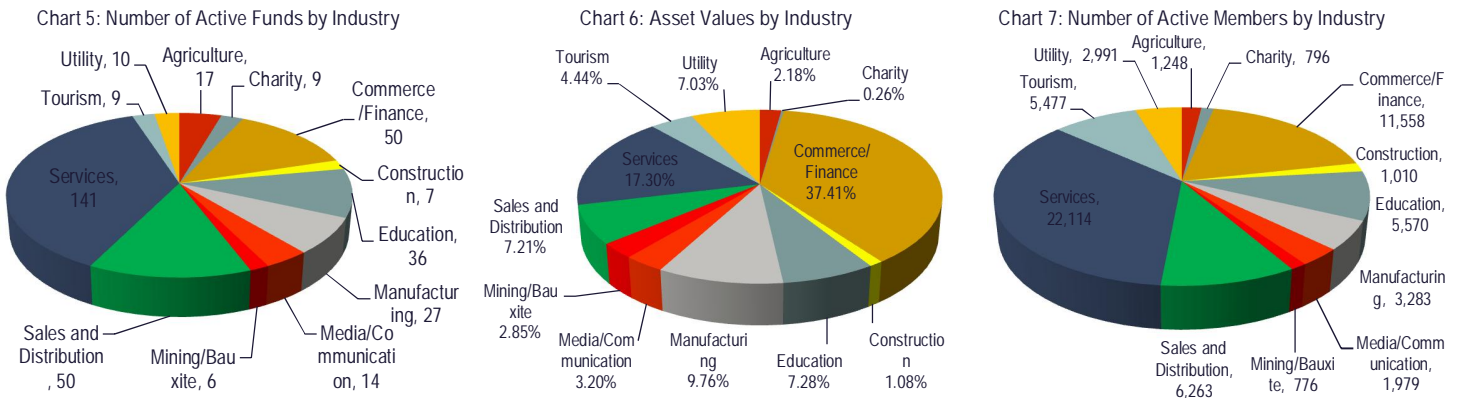
Chart 4



Active Superannuation Funds⁴ by Industry

The Jamaican Services as well as the Commerce and Finance industries continue to account for the highest volume of active private pension plan members in Jamaica with membership representation of the industry of 35% and 18% respectively. Despite a reduction in the number of active pension plans within the Services industry over the quarter, active membership of this sector increased. However, the total pension assets held in the Services industry fell marginally to \$95 billion by the end of the quarter. On the other hand, the Commerce and Finance Industry experienced a slight increase in asset value and now stands at \$209 billion; this industry segment still accounts for the largest share of total active pension assets at 37%.

Charts 5 - 7 illustrate the breakdown of the number of active plans, membership and the asset values by industry as at March 31, 2019.



Solvency of Active Pension Plans

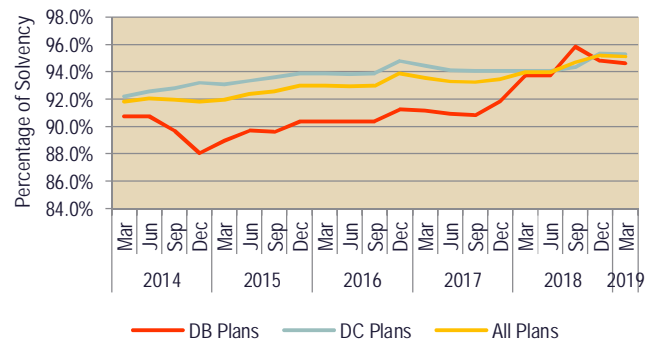
Three sixty-eight (368) funds and schemes or 95% of total active private pension arrangements submitted solvency data; analysis of the data provided showed that as at March 31, 2019, 95% of all active pension plans within the industry, remained solvent. (See: Table 7)

Trustees of funds and schemes are responsible for ensuring the health and longevity of the pension plan, in order to provide pension benefits as they fall due. DC plan members have to bear the burden of a deficit associated with their plan becoming insolvent. For insolvent DB plans; the sponsors have the obligation to fund the shortfall. Figure 3 illustrates the trend in solvency of funds and schemes between 2014 and 2019.

Table 7: Solvency Levels of Active Plans as at March 31, 2019

	#.of. plans	Solvency Level				% of plans which are solvent
		Less than 100%	Between 100% & 120%	Between 120% & 150%	Greater than 150%	
Defined Benefit	92	5	20	29	38	95
Defined Contribution	276	13	190	48	25	95
Total	370	18	210	77	63	95

Figure 2: Quarterly View of the Percentage of Solvent of Pension Plans



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

Inactive Pension Plans

There was a negligible increase in the asset values of inactive pension plans within the industry over the March 2019 quarter. This group of now stands at a value of \$296 million. In terms of actual number of plans and membership levels of inactive pension plans, the quarter reflected no change in these figures. (See: Table 8).

Table 8: Inactive Pension Plans by Type

	Mar 2019	Dec 2018	Sep 2018
Number of Plans			
Defined Benefit	4	4	4
Defined Contribution	13	13	13
Total Terminating Plans	17	17	17
Membership			
Defined Benefit	894	894	894
Defined Contribution	52	52	52
Total Membership	946	946	946
Asset Values			
Defined Benefit (\$ Millions)	233	224	224
Defined Contribution (\$ Millions)	63	64	64
Total Asset Values (\$ Millions)	296	288	287

Terminating Plans

During the March 2019 quarter, half the total pension private plans within the industry are terminating. Following six superannuation funds initiating termination proceedings over the quarter, the total number of terminating plans increased to 407. The total assets in these plans stood at approximately \$8.5 billion. (See: Table 9).

Table 9: Terminating Pension Plans by Type

	Mar 2019	Dec 2018	Sep 2018
Number of Plans			
Defined Benefit	96	93	92
Defined Contribution	311	308	305
Total Terminating Plans	407	401	397
Membership			
Defined Benefit	204	78	67
Defined Contribution	618	554	371
Total Membership	822	632	438
Asset Values			
Defined Benefit (\$ Millions)	3,801	3,082	2,982
Defined Contribution (\$ Millions)	4,683	4,813	7,707
Total Asset Values (\$ Millions)	8,484	7,895	10,690

Investment Managers

As at March 31, 2019, there still remain 26 licensed investment managers ("IMs") in Jamaica. Of this number, Securities Dealers represent the largest number of licensees (15). These entities manage assets over \$242.6 billion. The second largest numbers of pension licensees are Life Insurance companies (3), which manage the largest amount of private pension assets at \$316.6 billion. In terms of market share, these companies, collectively, manage 92% of \$559 billion of the total private pension industry assets. The sole credit union and seven other entities are responsible for the management of the remaining 8%. (See Table 10)

Table 10: Total Assets Under Management of Investment Managers

Investment Managers	Number of Entities Mar 2019	Asset Values Mar 2019 (\$'Millions)	Number of Entities Dec 2018	Asset Values Dec 2018 (\$'Millions)	Number of Entities Sep 2018	Asset Values Sep 2018 (\$'Millions)
Insurance Companies	3	316,649	3	315,818	3	313,866
Securities Dealers	15	242,624	15	238,874	15	234,939
Credit Unions	1	496	1	483	1	479
Other	7	47,470	7	46,659	7	45,851
Total	26	607,239	26	601,834	26	595,135

Risk Outlook

The March 2019 quarter marked the first quarter of the "post IMF⁵" era for Jamaica. There has been improved fiscal performance as the country's overall fiscal debt has been reduced, market interest rates are declining and the unemployment rate remains relatively low. Annual inflation for March 2019 increased to 3.4% from 2.4% at December 2018, however remained below the lower limit of the target band of 4% - 6%. The Bank of Jamaica reported that inflation is projected to average 4.5% over the next eight quarters. The economy grew in real terms by an estimated 1.5% over the review quarter, according to the Planning Institute of Jamaica ("PIOJ"). The mining and quarrying operations, hotel and restaurant sectors and the construction industry in Jamaica, continue to be the main economic drivers of growth. The PIOJ attributes the positive out-turn of the economy over the quarter to the collective performance of these industries. More contractual workers and self-employed individuals are being provided with earning opportunities as these sectors continue to expand. The retirement scheme segment of the private pension industry may grow if these individuals, who can better secure pension coverage by participating in a retirement scheme, get enrolled.

During the quarter, the 30-day moving average exchange rates fluctuated from a high of \$133 to a low of \$126. As the Jamaica dollar continues to fluctuate, investments of pension funds are more exposed to foreign currency risk. The FSC encourages trustees and investment managers to employ prudent risk mitigating strategies for the management of pension investment portfolios.

Over the review period, the industry experienced an uptick in the value of pension fund assets being invested in fixed income instruments. As interest rates continue to fall, investment managers and trustees are expected to seek higher investment yields that may lie within riskier alternative assets. It will become even more important that adequate due diligence be done to ensure the risk profile of these securities are in line with the risk profile of the fund.

The Jamaica Stock Exchange ("JSE") Main Market Index grew by 8,486 points or 2.2% when compared to the previous quarter. The JSE sites increased investor activity as a few companies issued Initial Public Offerings that were oversubscribed during the quarter. Private pension plans may continue to look to the local stock market for growth opportunities.

In efforts to further drive economic growth and job creation, the government has implement two special projects, namely the Logistics Hub Initiative and the creation of Special Economic Zones. According to the PIOJ, these two initiatives alone are projected to provide over 200,000 jobs when in full operations by year 2020⁶. Pension funds and schemes have the monetary capacities to take advantage of the investment opportunities that lie in these two projects coming on stream. Additionally, pension business providers can look to the new block of workers or entities that may arise from these ventures to offer their products and services. The Jamaican business process outsourcing sector continues to expand, moving from 12,000 to 36,000 employees in the last five years and currently stands at a value of US\$620 million. However, this sector still remains as an area of business left relatively untapped by pension funds or schemes.

⁵ IMF - The International Monetary Fund

⁶ The PIOJ provides research papers and presentations on key sectorial developments and overall economic performance. (<https://www.pioj.gov.jm/ResearchandData/PapersandPresentations/tabid/128/Default.aspx>)

Given the characteristics of the current economic conditions, the FSC encourages portfolio diversification, however, trustees of funds and schemes must ensure that the measures they take in diversifying their portfolios do not become a source of risk and is in line with the plan's risk appetite, as they venture into hitherto unknown asset classes or markets. Additionally, the information and training gap of trustees must be narrowed in order to ensure prudent oversight of pension fund management.

The following are other risk concerns of the pension industry:

- Interest rate risk - As there is notable exposure to fixed income assets among the portfolio of the business. The low interest rate environment in Jamaica continues to impact investment returns for pension plans and trustees and investment managers are expected to seek higher investment yields.
- Crowding-in – There has been a reduction in the quantity and quality of assets left available for pension investments due to the gradual withdrawal of the GOJ from the local debt market.
- An ageing population and lowered fertility rates - Longevity risk exists because it is anticipated that some pensioners could outlast their pension savings. This issue is exacerbated by the low pension coverage in Jamaica: chiefly among freelance persons and people of the informal sector. Persons could become wards of the state or can have to be compelled to place confidence in the entirety on the social insurance theme or the goodwill of men.

Summary

The industry has seen the gradual reduction of the total number of active private pension plans existing in Jamaica. Private pension coverage remains in the single digit realm, reflecting slow growth of pension coverage among the employed Jamaican population as active membership levels continue to steadily increase over the past four quarters and total private pension assets remain on an upward trajectory. Solvency levels of most active pension plans remained adequate. With continued economic reform and prudent practices by trustees and other pension stakeholders, the industry is expected to remain on a steady path of growth.