

Private Pension Industry Quarterly Statistics

June 2019



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Table 1 : Key Statistics

	June 2019	March 2019	December 2018
Number of Plans ¹	808	807	807
Asset Values (\$' Millions)	654,278	607,235	601,834
Total Membership	126,560	119,514	117,981

Private Pension Industry Overview

The Jamaican private pension industry grew quite significantly over the June 2019 quarter. Total industry value increased by approximately 8%, resulting in an end of quarter asset value of \$654 billion. This is the largest industry growth since the September 2018 quarter. The five year (20 quarters) review revealed that the private pension sector's average growth is 3%. (See: Table 1 & Figure 1.0)

The quarter in review saw the registration of one pension plan, bringing the industry total to 808. Membership growth has been on a steady upward trajectory mirroring the growth of the Jamaican employed labour force². This resulted in a slight rise in coverage for private pensions, as follows:

- 9.9% in terms of all plans
- 10.1% in terms of active plans

(See: Figures 1.1 & 1.2)

Figure 1.0 Growth Trend of Total Industry Assets

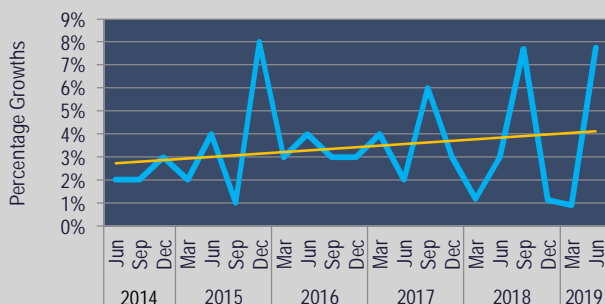
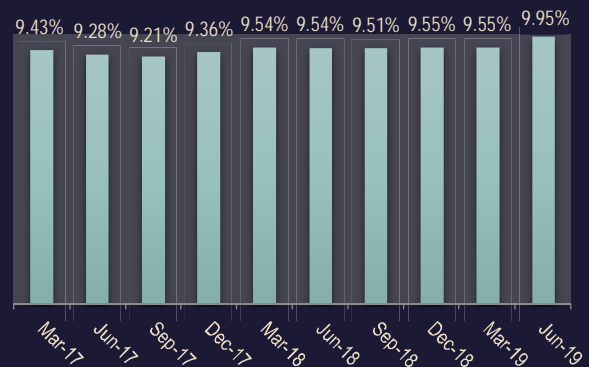


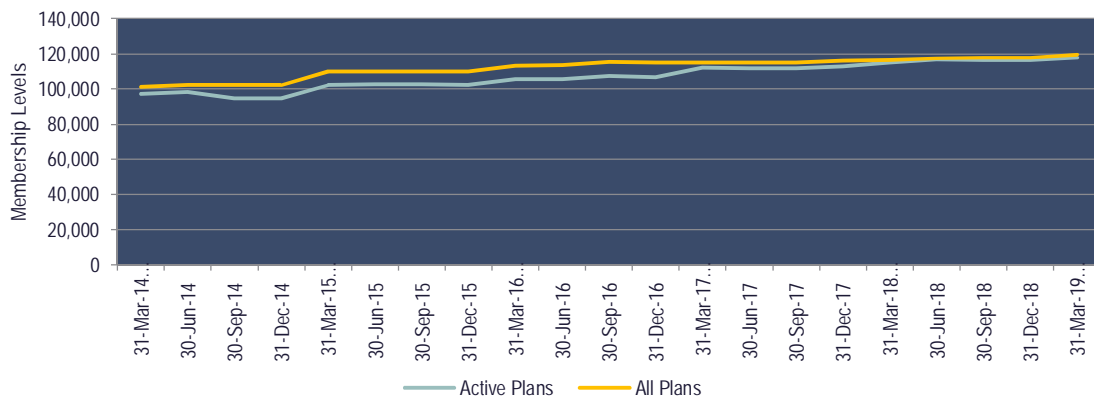
Figure 1.1: Active Membership in Private Pension Arrangements as a %age of Employed Labour Force.



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

² The Jamaican employed labour force as at April 30, 2019 was 1,244,500 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

The main asset classes of the private pension portfolio as at June 2019 were direct investments of stocks and shares, repurchase agreements ("Repos") and pooled investment arrangements. Holdings in these asset classes grew by 17%, 20% and 8% respectively. Majority of all other asset classes declined. This is partially driven by increased equity prices as well as bond price appreciation resulting from lower interest rates.

At the end of the quarter the value of direct holdings of stocks and shares within the aggregate investment portfolio stood at approximately \$165 billion as the value of Government of Jamaica ("GOJ") securities declined to \$145 billion. As a result, stocks and shares now represent the second largest portion of the aggregate investment portfolio at approximately 25%. Investment arrangements continue to account for the largest portion of total pension assets at 37% or \$243 billion. (See: Chart 1 & Table 2)

Chart 1

Allocation of Total Private Pension Assets

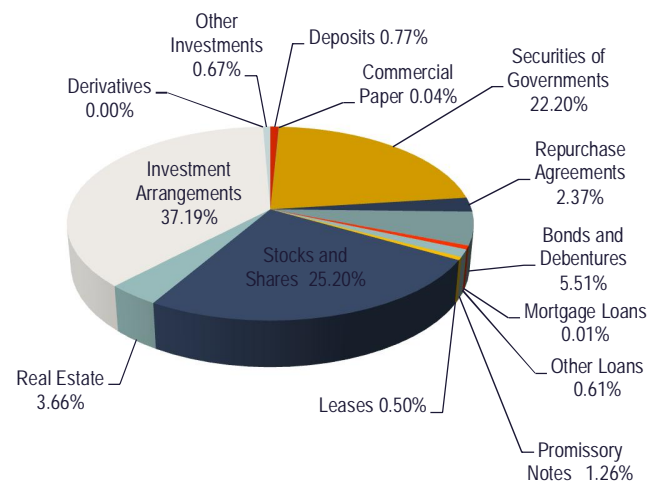


Table 2: Aggregate Investment Mix

Types of Investment	Amount Invested \$' Millions	% of Total Investments	Amount Invested \$' Millions	% of Total Investments	Amount Invested \$' Millions	% of Total Investments
	Jun-19		Mar-19		Dec-18	
Deposits	5,017.47	0.77%	5,256.87	0.86%	5,044.74	0.84%
Commercial Paper	288.81	0.04%	291.42	0.05%	199.45	0.03%
Securities of Governments	145,558.31	22.20%	146,272.53	24.04%	144,329.70	23.96%
Repurchase Agreements	15,558.37	2.37%	12,952.27	2.13%	13,588.60	2.26%
Bonds and Debentures	36,121.53	5.51%	36,457.37	5.99%	33,391.29	5.54%
Mortgage Loans	82.71	0.01%	88.31	0.01%	96.85	0.02%
Other Loans	4,008.97	0.61%	3,802.80	0.62%	3,813.79	0.63%
Promissory Notes	8,242.83	1.26%	8,250.63	1.36%	6,154.47	1.02%
Leases	3,300.79	0.50%	3,428.74	0.56%	3,496.76	0.58%
Stocks and Shares	165,231.42	25.20%	140,218.10	23.04%	139,872.55	23.22%
Real Estate	24,018.30	3.66%	23,527.58	3.87%	24,227.69	4.02%
Investment Arrangements	243,866.48	37.19%	224,245.07	36.85%	224,099.57	37.20%
Derivatives	0.00	0.00%	0.00	0.00%	0.00	0.00%
Other Investments	4,384.68	0.67%	3,753.45	0.62%	4,052.43	0.67%
Total Investments	655,680.69	100.00%	608,545.13	100.00%	602,367.86	100.00%
Other Net Assets	-1,402.96		-1,310.47		-533.72	
Total Assets	654,277.73		607,234.67		601,834.14	

Note: Mar 2019 has been re-stated.

Pooled Investment Arrangements

The assets within pooled investment arrangements portfolio closed out the June 2019 quarter at \$243 billion³, an 8.7% growth when compared to the previous quarter. This increase in asset value was due to significant gains in fixed income securities and equities over the period. Indirect investments of bonds and debentures and commercial paper continued to increase; recording growths of 35% and 15%, respectively

Stocks and shares (42%) grew by 16% and continue to represent the largest asset class within this portfolio, reflecting increased investment in equity based pooled investment arrangements by pension plans. The second largest portion of the portfolio is encompassed by GOJ securities which grew by 9%. (See: Chart 2 & Table 3)

Declines for the quarter were recorded for indirect holdings of assets, such as Repos and real estate. Within the group of assets real estate represent 11% of total investments and repos approximately 5%. (See: Table 3).

Chart 2

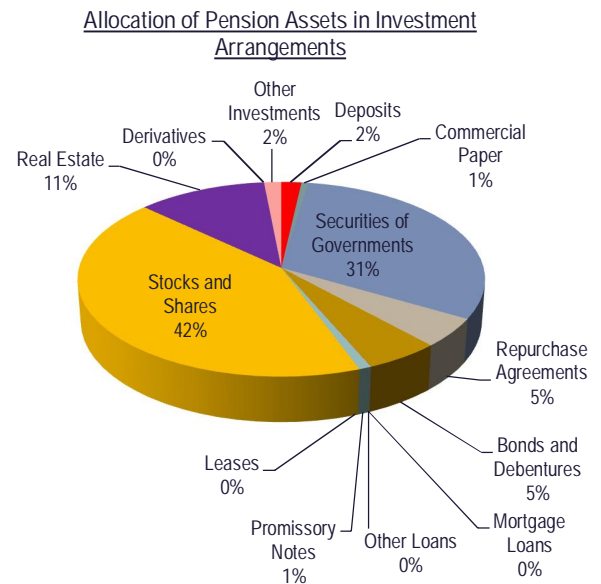


Table 3: Pooled Investment Arrangements Portfolio Mix

Types of Investment	Amount Invested (\$' Millions)	% of Total Investments	Amount Invested (\$' Millions)	% of Total Investments
	Jun-19		Mar-19	
Deposits	4,228.05	1.78%	4,388.77	2.01%
Commercial Paper	1,441.95	0.61%	1,254.82	0.57%
Securities of Governments	73,563.11	30.96%	67,261.10	30.80%
Repurchase Agreements	11,520.31	4.85%	15,049.77	6.89%
Bonds and Debentures	12,611.50	5.31%	9,324.39	4.27%
Mortgage Loans	0.07	0.00%	0.07	0.00%
Other Loans	38.76	0.02%	0.00	0.00%
Promissory Notes	2,128.03	0.90%	2,107.52	0.96%
Leases	643.67	0.27%	700.61	0.32%
Stocks and Shares	100,417.47	42.27%	86,484.18	39.60%
Real Estate	27,370.91	11.52%	28,747.64	13.16%
Derivatives	0.00	0.00%	0.00	0.00%
Other Investments	3,625.23	1.53%	3,092.32	1.42%
Total Pooled Investments	237,589.07	100.00%	218,411.18	100.00%
Other Net Assets	1,116.84		1,205.96	
Deposit Administration	5,160.58		4,627.93	
Total Assets	243,866.48		224,245.07	

Note: Mar 2019 has been re-stated.

Operating Statistics

Active Pension Plans

Approximately 48% of the pension plans in the Jamaican private pension sector are active. One new pension plan entered the sector during the June 2019 quarter, while three funds initiated winding-up proceedings, bringing the amount of active pension plans to 381. Despite the decreasing amount of active pension plans, there has been an increase in active membership. (See: Table 4).

Table 4: Active Pension Plan Membership

	Jun 2019	Mar 2019	Dec 2018
Number of Active Plans	381	383	389
Active Membership	123,880	117,746	116,403

³ In Jamaica, pooled investment arrangements consists of a combination of Type I Pooled Funds and Deposit Administration contracts

As of June 30, 2019, at \$639 billion, the asset value of active plans accounted for about 97% of total private pension assets. Defined contribution pension plans ("DC") outweighed defined benefit pension plans ("DB") in terms of number of plans and membership. Table 5, compares the growth trends between DB and DC plans for the last three quarters.

Active Plans by Type

A marginal rise in the active membership of both funds and schemes occurred during the quarter. The industry currently now has just under 123,000 active members. Of this amount, 48% are enrolled in retirement schemes and 52% are participating in superannuation funds.

There were no changes in the number of retirement schemes in the pension market notwithstanding, asset values increased by 7%, marginally outperforming the 6% growth in asset value of superannuation funds. Nevertheless, active funds still account for approximately 93% or \$593 billion of total asset value. (See illustration in Table 6 - Parts A & Charts 3 - 4).

Table 5: Active Pension Plans by Type

	Jun 2019	Mar 2019	Dec 2018
Number of Plans			
Defined Benefit	94	94	97
Defined Contribution	287	289	292
Total Active Plans	381	383	389
Membership			
Defined Benefit	20,641	20,554	20,681
Defined Contribution	103,239	97,192	95,722
Total Membership	123,880	117,746	116,403
Assets Values			
Defined Benefit (\$' Millions)	398,477	370,878	369,930
Defined Contribution (\$' Millions)	240,604	227,581	223,722
Total Asset Values (\$' Millions)	639,081	598,459	593,651

Chart 3 Asset Values for Active Superannuation Funds

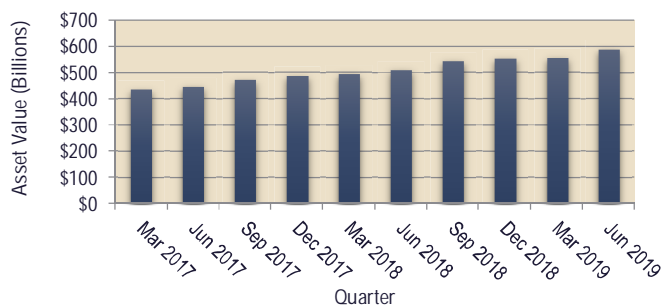


Chart 4 Asset Values for Active Retirement Schemes

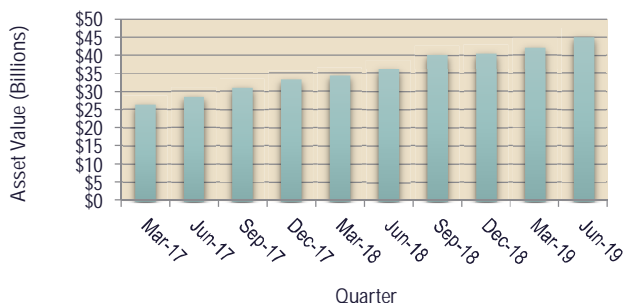


Table 6: Active Plans by Type as at June 30, 2019

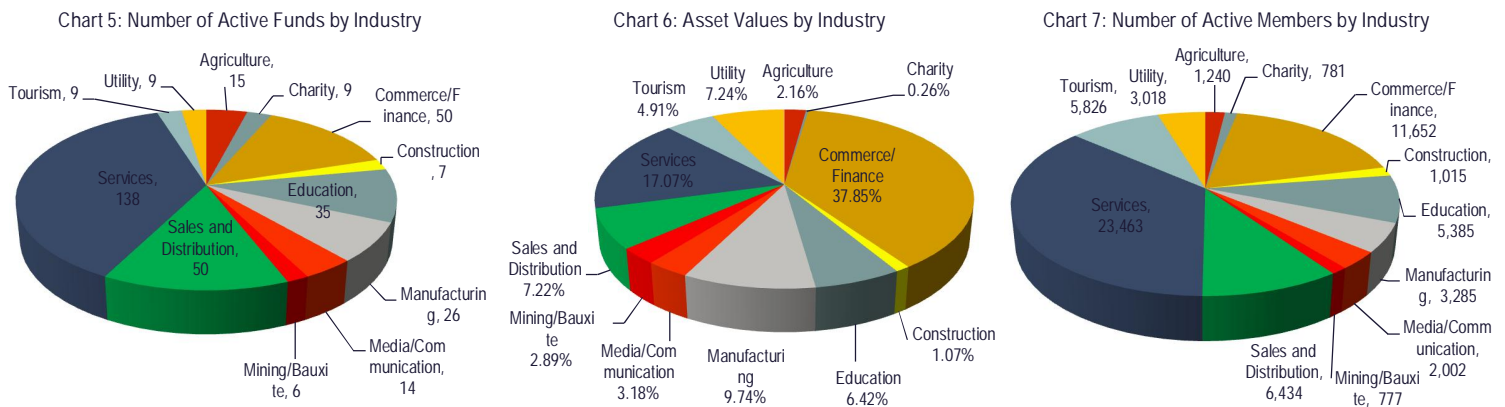
<i>Part A</i>				
	Number of Active Plans	Percentage of Plans	Number of Members	Percentage of Membership
Retirement Schemes	13	3.4%	59,002	47.63%
Superannuation Funds	368	96.6%	64,878	52.37%
TOTAL	381	100.00%	123,880	100.00%

<i>Part B</i>		
	Asset Value as at Jun 30, 2019 (\$' Millions)	Percentage of Asset Value
Retirement Schemes	45,243	7.1%
Superannuation Funds	593,838	92.9%
TOTAL	639,081	100.00%

Active Superannuation Funds⁴ by Industry

The Jamaican Services and the Commerce and Finance sectors continue to account for the largest amount of active private pension plan participants, with sector membership representation of 36% and 18% respectively. Despite a quarterly decrease in the number of active pension plans in the service industry, this sector's active membership and asset value increased. Total pension assets held in the Services sector were \$101 billion by the end of the quarter, an increase of 6% compared to the previous quarter. The Commerce and Finance Industry has experienced an asset value growth of 7% and now stands at \$224 billion, while its membership has grown marginally over the quarter. This sector still accounts for largest percentage of total active pension assets at approximately 38%.

Charts 5 - 7 illustrate the breakdown of the number of active plans, membership and the asset values by industry as at June 30, 2019.



Solvency of Active Pension Plans

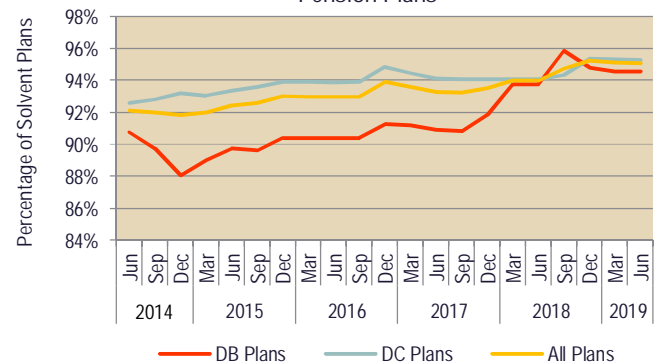
As at 30 June 2019, the solvency information presented to the FSC for 365 pension plans illustrated that 95% of those pension arrangements were solvent. (See: Table 7)

The FSC continues to encourage fund and scheme trustees to monitor the pension plan's health and longevity. In the case of a DB plan, it is the sponsor who has the obligation to finance any shortfall. While for DC plans, it is the members who have to bear the investment risks. Figure 3 illustrates the trend in solvency of funds and schemes between 2014 and 2019.

Table 7: Solvency Levels of Active Plans as at June 30, 2019

	# of plans	Solvency Level				% of plans which are solvent
		Less than 100%	Between 100% & 120%	Between 120% & 150%	Greater than 150%	
DB	92	5	20	29	38	95
DC	273	13	188	47	25	95
Total	365	18	208	76	63	95

Figure 3: 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

In the Jamaican private pension industry, asset values of dormant pension plans rose by 9% over the June 2019 quarter. This subsection of the industry currently amounts to \$326 million.

In terms of membership or actual number of plans; there were no changes during the quarter. (See: Table 8).

Table 8: Inactive Pension Plans by Type

	Jun 2019	Mar 2019	Dec 2018
Number of Plans			
Defined Benefit	4	4	4
Defined Contribution	13	13	13
Total Terminating Plans	17	17	17
Membership			
Defined Benefit	1,827	894	894
Defined Contribution	55	52	52
Total Membership	1,882	946	946
Asset Values			
Defined Benefit (\$ Millions)	260	224	224
Defined Contribution (\$ Millions)	66	64	64
Total Asset Values (\$ Millions)	326	288	287

Terminating Plans

The total number of terminating plans within the industry continues to increase, as three superannuation funds initiated termination proceedings during the review quarter, bringing the group total to 410. For this group of plans, the total asset value stood at \$14.8 billion. (See: Table 9).

Table 9: Terminating Pension Plans by Type

	Jun 2019	Mar 2019	Dec 2018
Number of Plans			
Defined Benefit	96	96	93
Defined Contribution	314	311	308
Total Terminating Plans	410	407	401
Membership			
Defined Benefit	200	204	78
Defined Contribution	598	618	554
Total Membership	798	822	632
Asset Values			
Defined Benefit (\$ Millions)	4,630	3,801	3,082
Defined Contribution (\$ Millions)	10,240	4,683	4,813
Total Asset Values (\$ Millions)	14,870	8,484	7,895

Investment Managers

The June 2019 quarter saw no new entrant to the market. There still remain 26 licensed investment managers (“IMs”) in Jamaica. Securities Dealers (“SD”) represent the largest number of licensees (15) and Life Insurance companies (“LIC”) (3) account for the second largest numbers of pension licensees. During the review quarter the amount of assets under management by SD increased by 7% to \$260 billion. The three LIC licensees experienced a 7% growth in managed assets and are now overseeing total pension assets of \$341 billion. These IMs collectively, manage approximately 92% or \$601 billion of the total private pension industry assets. The remaining 8% is managed by the sole credit union and seven other entities. (See Table 10)

Table 10: Total Assets Under Management of Investment Managers

Investment Managers	Number of Entities Jun 2019	Asset Values Jun 2019 (\$Millions)	Number of Entities Mar 2019	Asset Values Mar 2019 (\$Millions)	Number of Entities Dec 2018	Asset Values Dec 2018 (\$Millions)
Insurance Companies	3	341,083	3	316,649	3	315,818
Securities Dealers	15	260,812	15	242,636	15	238,874
Credit Unions	1	514	1	496	1	483
Other	7	51,868	7	47,454	7	46,659
Total	26	654,278	26	607,235	26	601,834

Risk Outlook

For the first quarter of the Jamaican financial year, there was a positive growth outturn for the economy. The Government of Jamaica’s initiative to maintain a more accommodative monetary stance, sustain a targeted inflationary regime and continue lowering fiscal debt has proven to be beneficial for the country. As infrastructural expansions continued throughout the private and public sectors, increased activities were recognized in the manufacturing, construction and the hotel and restaurant industries. The Planning Institute of Jamaica reported that these industries in particular were the main drivers of the economy’s growth over the quarter. Further growth in the retirement scheme segment is possible if the number of persons within these business sectors, such as contractual workers and self-employed individuals, are more ready and willing to participate in securing their own pension.

Due to increased job creation, Jamaica has been experiencing record low unemployment rates. During the quarter, the unemployment rate dipped to 7.8%, a 1.9% decline year-on-year. Moreover, youth employment opportunities have been boosted, given the quarter’s 6% reduction in unemployment levels among persons ages 14 – 24. Youth unemployment rate as at the end of the quarter was 19%. Providers of pension products and services should develop strategies and campaigns to attract businesses from this demographic of the population.

Market interest rates continue to decline as annual inflation remains within the Bank of Jamaica’s 4 - 6% target band. This appeared to have boded well for fixed rate investments within the pension investment portfolio as significant fair value increases in these securities were reported over the quarter. Compared to the previous quarter, the main market index of the Jamaica Stock Exchange rose significantly by 79,619 points or 21% percent. This was reflective of increased activity bolstered by new listings during the quarter which were oversubscribed.

As at June 30, 2019, the foreign currency exposure of the private pension industry was approximately 9%. Strengthening of the Jamaica Dollar could lead to capital erosion in pension funds. The trustees of funds and schemes are reminded of their fiduciary responsibility in ensuring that capital being secured for the future benefits of plan members is handled prudently.

With the increase in the allowable investments for pension plans it is expected that trustees will be exposed to a new cocktail of investment alternatives for which there may be asymmetry in the information provided to make prudent decisions. The FSC encourages investment managers and trustees to ensure that sufficient due diligence is practiced in managing the plans assets within the predetermined risk appetite of the pension plan.

The following are other risk concerns of the pension industry:

- Reinvestment Risk - Jamaica’s downward trending interest rate environment has implications for pension funds as bonds mature; trustee will be faced with reinvesting with the expectation of lower returns from interest bearing instruments. In addition, it is expected that as trustees and investment managers seek higher returns on investments they may also be faced with available assets that generate cash flows at a comparable rate of return that currently exist but are not of good quality.

- Crowding-in – Due to the GOJ's gradual withdrawal from the local debt market, there has been a decline in the quantity and quality of assets available for pension investments.
- An ageing population and lowered fertility rates - Pensioners are likely to see reduced pension values from annuity purchases as life expectancy increases. Moreover, there is generally an increased likelihood that pensioners will outstrip their pension savings. The low pension coverage in Jamaica exacerbates this issue: primarily between freelancers and informal sector citizens. Individuals could become state wards or be forced to put their trust in the theme of social insurance or men's goodwill entirely.

Summary

The adjustment of certain investment limits calls for greater prudential practices by plan trustees. The industry continues to experience a reduction in the total number of active private pension plans and private pension coverage remains in the single-digit range, representing a slow increase in pension coverage among the Jamaican working population. Active membership rates continue to rise steadily over the past four quarters and overall growth in private pension assets remains on an upward trajectory. Additionally, solvency rates remained adequate for most active pension plans. The industry is expected to remain on a steady path of growth with ongoing economic change and responsible practices by trustees and other pension stakeholders.