

Private Pension Industry Quarterly Statistics

September 2019



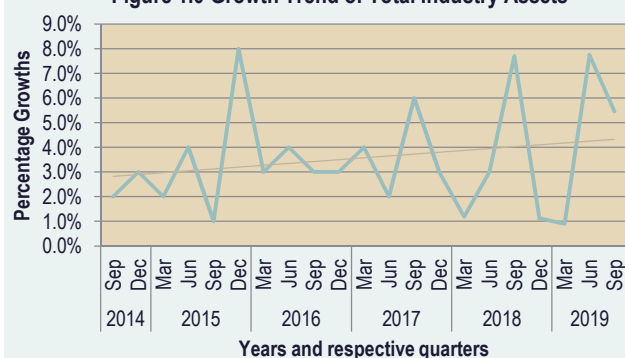
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Table 1 : Key Statistics

	September 2019	June 2019	March 2019
Number of Plans¹	809	808	807
Asset Values (\$' Millions)	689,980	654,278	607,235
Total Membership	126,601	126,560	119,514

Figure 1.0 Growth Trend of Total Industry Assets



Private Pension Industry Overview

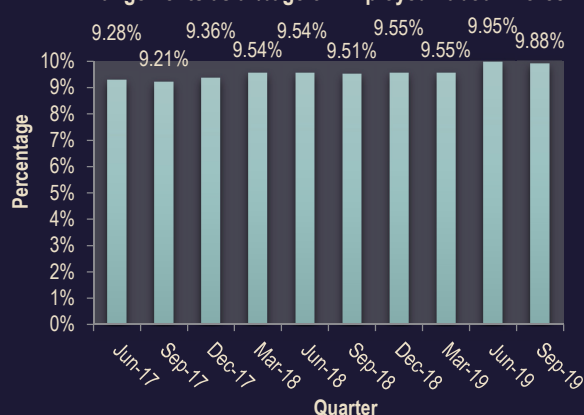
The Jamaican private pension industry continued its growth during the September 2019 quarter, with total industry value increasing by approximately 6%, resulting in an end of quarter asset value of \$690 billion. The five year review revealed that the private pension sector's average growth is 4%. (See: Table 1 & Figure 1.0)

The quarter in review saw the registration of one new pension plan, bringing the industry total to 809. Membership growth has been on a steady upward trajectory mirroring the growth of the Jamaican employed labour force². This resulted in a slight reduction in coverage for private pensions, as follows:

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

(See: Figures 1.1 & 1.2)

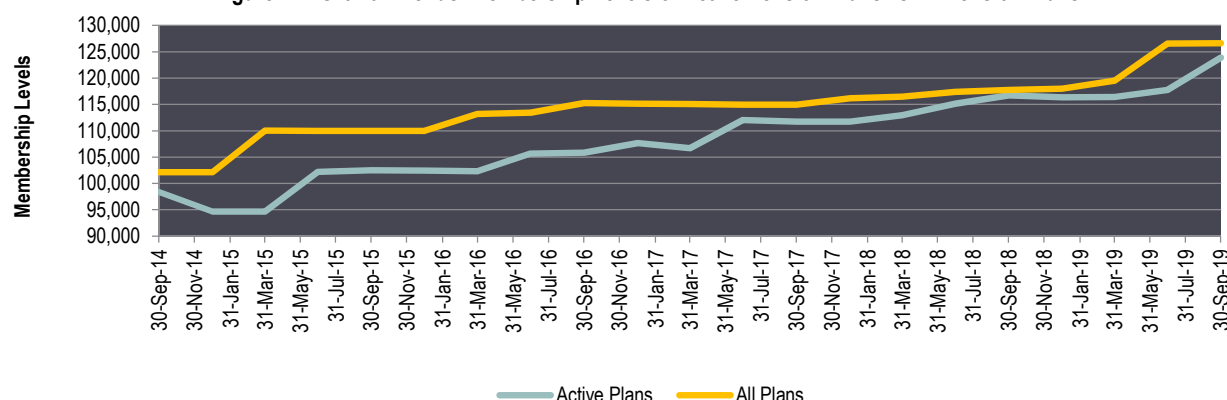
Figure 1.1: Active Membership in Private Pension Arrangements as a %age of Employed Labour Force



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

² The Jamaican employed labour force as at July 31, 2019 was 1,254,100 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 quarter saw growth in the direct holdings of repurchase agreements ("Repos"), leases and stocks and shares of 20%, 17% and 10% respectively. Growth in the value of the majority of all other asset classes was recorded during the quarter with the notable exception of a 2% and 11% decline in the holdings of Government of Jamaica ("GOJ") securities and mortgages. There is notably a lower stock of GOJ securities for investment within the industry 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 \$181.4 billion and direct holdings of GOJ securities at \$142.2 billion. Stocks and shares continue to encompass the second largest portion of the aggregate investment portfolio at approximately 26%, while Investment Arrangements continue to account for the largest portion of total pension assets at 37% or \$258 billion. (See: Chart 1 & Table 2)

Chart 1

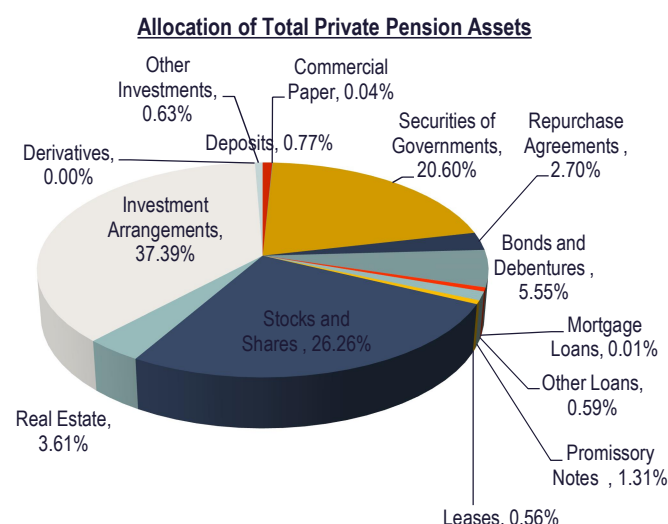


Table 2: Aggregate Investment Mix

Types of Investment	Amount Invested \$' Millions	% of Total Investments	Amount Invested \$' Millions	% of Total Investments	Amount Invested \$' Millions	% of Total Investments
	Sep-19		Jun-19		Mar-19	
Deposits	5,343.06	0.77%	5,017.47	0.77%	5,256.87	0.86%
Commercial Paper	289.40	0.04%	288.81	0.04%	291.42	0.05%
Securities of Governments	142,296.84	20.60%	145,558.31	22.20%	146,272.53	24.04%
Repurchase Agreements	18,651.74	2.70%	15,558.37	2.37%	12,952.27	2.13%
Bonds and Debentures	38,345.73	5.55%	36,121.53	5.51%	36,457.37	5.99%
Mortgage	73.53	0.01%	82.71	0.01%	88.31	0.01%
Other Loans	4,049.18	0.59%	4,008.97	0.61%	3,802.80	0.62%
Promissory Notes	9,031.30	1.31%	8,242.83	1.26%	8,250.63	1.36%
Leases	3,851.84	0.56%	3,300.79	0.50%	3,428.74	0.56%
Stocks and Shares	181,400.15	26.26%	165,231.42	25.20%	140,218.10	23.04%
Real Estate	24,910.08	3.61%	24,018.30	3.66%	23,527.58	3.87%
Investment Arrangements	258,286.25	37.39%	243,866.48	37.19%	224,245.07	36.85%
Derivatives	0.00	0.00%	0.00	0.00%	0.00	0.00%
Other Investments	4,327.47	0.63%	4,384.68	0.67%	3,753.45	0.62%
Total Investments	690,856.57	100.00%	655,680.69	100.00%	608,545.13	100.00%
Other Net Assets	-876.88		-1,402.96		-1,310.47	
Total Assets	689,979.69		654,277.73		607,234.67	

Note: Jun 2019 has been re-stated.

Pooled Investment Arrangements

The assets in pooled investment arrangements closed out the September 2019 quarter at \$258 billion³, a 5.9% growth when compared to the previous quarter. This increase in asset value was due to significant capital gains in interest bearing securities over the period. Indirect investments in repos and promissory notes recorded growth of 25% and 13%, respectively.

Stocks and shares (40%) declined by less than 1% and continue to represent the largest asset class within this portfolio. The second largest portion of the portfolio is encompassed by GOJ securities which grew by 10%. (See: Chart 2 & Table 3).

Chart 2

Allocation of Pension Assets in Investment Arrangements

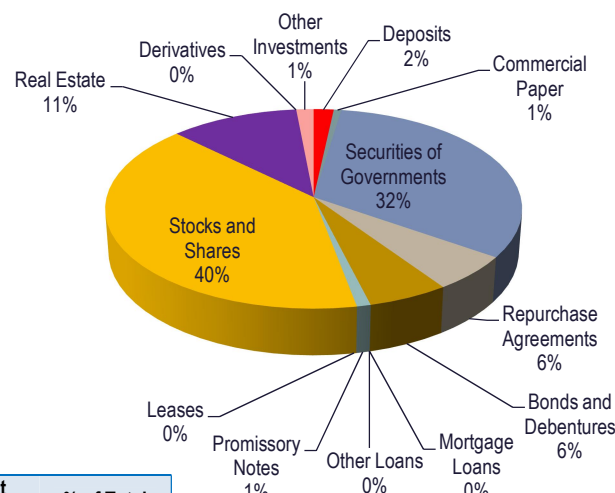


Table 3: Pooled Investment Arrangements Portfolio Mix

Types of Investment	Amount Invested (\$' Millions)	% of Total Investments	Amount Invested (\$' Millions)	% of Total Investments	Amount Invested (\$' Millions)	% of Total Investments
	Sep-19		Jun-19		Mar-19	
Deposits	4,329.91	1.73%	4,228.05	1.78%	4,388.77	2.01%
Commercial Paper	1,621.08	0.65%	1,441.95	0.61%	1,254.82	0.57%
Securities of Governments	80,571.70	32.28%	73,563.11	30.96%	67,261.10	30.80%
Repurchase Agreements	14,429.67	5.78%	11,520.31	4.85%	15,049.77	6.89%
Bonds and Debentures	14,049.93	5.63%	12,611.50	5.31%	9,324.39	4.27%
Mortgage	0.07	0.00%	0.07	0.00%	0.07	0.00%
Other Loans	0.26	0.00%	38.76	0.02%	0.00	0.00%
Promissory Notes	2,408.60	0.96%	2,128.03	0.90%	2,107.52	0.96%
Leases	668.61	0.27%	643.67	0.27%	700.61	0.32%
Stocks and Shares	99,805.70	39.98%	100,417.47	42.27%	86,484.18	39.60%
Real Estate	27,971.49	11.21%	27,370.91	11.52%	28,747.64	13.16%
Derivatives	0.00	0.00%	0.00	0.00%	0.00	0.00%
Other Investments	3,752.79	1.50%	3,625.23	1.53%	3,092.32	1.42%
Total Pooled Investments	249,609.81	100.00%	237,589.07	100.00%	218,411.18	100.00%
Other Net Assets	1,957.57		1,116.84		1,205.96	
Deposit Administration	6,718.87		5,160.58		4,627.93	
Total Assets	258,286.25		243,866.48		224,245.07	

Note: June 2019 has been re-stated.

Operating Statistics

Active Pension Plans

Approximately 47% of the pension plans in the Jamaican private pension sector are active. One new pension plan entered the sector during the September 2019 quarter, while one fund initiated winding-up proceedings, resulting in 381 active pension plans, the same as the previous quarter. (See: Table 4).

As at the end of the third quarter of 2019, at \$674 billion, the asset value of active plans accounted for about 98% 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 4, compares the growth trends between DB and DC plans for the last three quarters.

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

Active Plans by Type

The industry currently now has approximately 123,916 active members, 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 5% growth in the asset value of superannuation funds. Nevertheless, active funds still account for approximately 98% or \$674 billion of total asset value. (See illustration in Table 5 - Parts A & Charts 3 - 4).

Chart 3

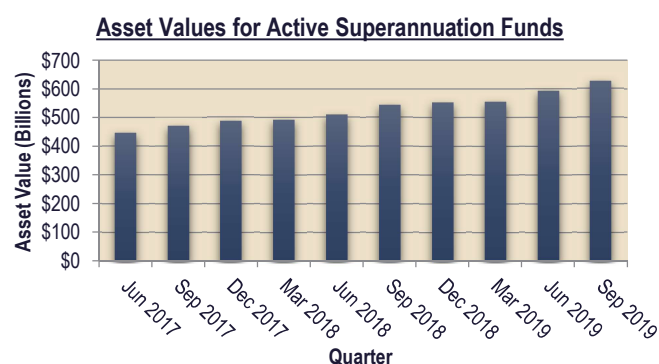


Chart 4

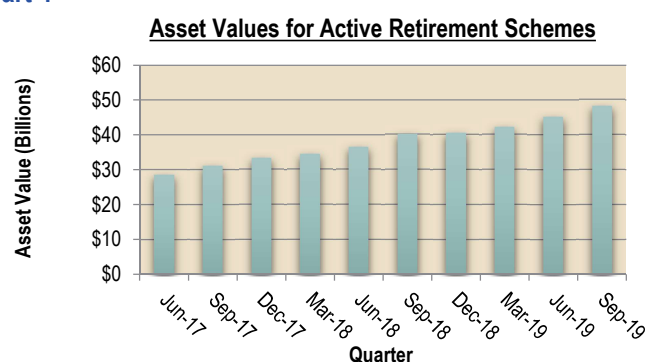


Table 4: Active Pension Plans by Type

	Sep 2019	Jun 2019	Mar 2019
Number of Plans			
Defined Benefit	93	94	94
Defined Contribution	288	287	289
Total Active Plans	381	381	383
Membership			
Defined Benefit	20,636	20,641	20,554
Defined Contribution	103,280	103,239	97,192
Total Membership	123,916	123,880	117,746
Assets Values			
Defined Benefit (\$' Millions)	419,640	398,844	370,878
Defined Contribution (\$' Millions)	255,357	240,604	227,581
Total Asset Values (\$' Millions)	674,997	639,448	598,459

Table 5: Active Plans by Type as at September 30, 2019

Part A				
	Number of Active Plans	Percentage of Plans	Number of Members	Percentage of Membership
Retirement Schemes	13	3.4%	59,002	47.61%
Superannuation Funds	368	96.6%	64,914	52.39%
TOTAL	381	100.00%	123,916	100.00%

Part B		
	Asset Value as at Sep 30, 2019 (\$' Millions)	Percentage of Asset Value
Retirement Schemes	48,231	7.1%
Superannuation Funds	626,766	92.9%
TOTAL	674,997	100.00%

Active Superannuation Funds⁴ by Industry

The Services and Commerce and Finance sectors continue to account for the largest amount of active private superannuation fund participants, with sector membership representation of 36% and 18% respectively. Total pension assets held in the Services sector were \$107 billion by the end of the quarter, an increase of 6% compared to the previous quarter. The Commerce and Finance Industry experienced an asset value growth of 5% and now stands at \$236 billion. This sector continues to account for largest percentage of total active pension assets at approximately 38%.

Chart 5: Number of Active Funds by Industry

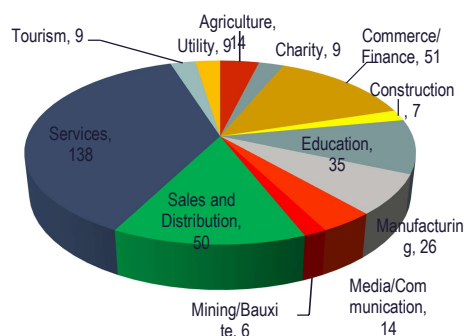


Chart 6: Asset Values by Industry

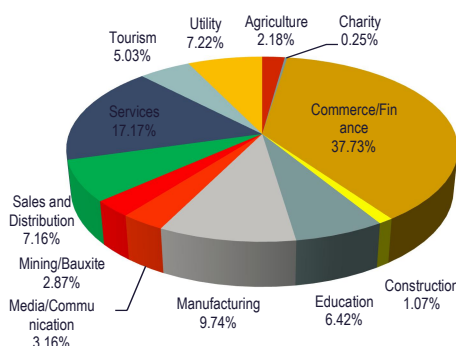
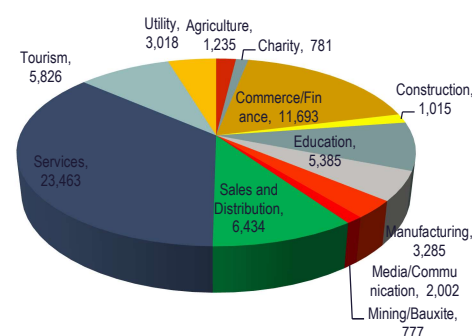


Chart 7: Number of Active Membership by Industry



Solvency of Active Pension Plans

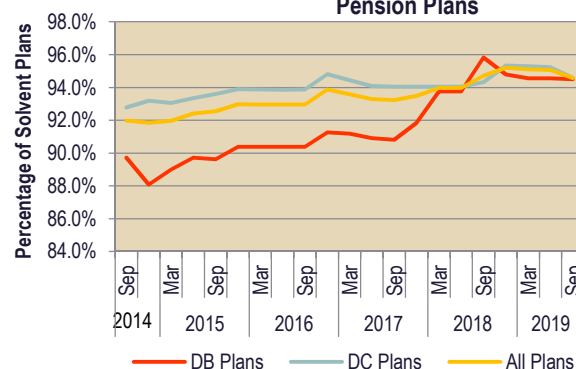
As at 30 September 2019, the solvency information presented to the FSC for 369 pension plans illustrated that 95% of those pension arrangements were solvent. (See: Table 6)

The FSC continues to encourage 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 6: Solvency Levels of Active Plans as at September 30, 2019

	#.of. plans	Solvency Level				% of plans which are solvent
		Less than 100%	Between 100% & 120%	Between 120% & 150%	Greater than 150%	
DB	91	5	20	24	42	95
DC	278	15	189	54	20	95
Total	369	20	209	78	61	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 3% over the September 2019 quarter. This subsection of the industry currently amounts to \$337 million.

In terms of membership or actual number of plans; there were no changes during the quarter. (See: Table 7).

Table 7: Inactive Pension Plans by Type

	Sep 2019	Jun 2019	Mar 2019
Number of Plans			
Defined Benefit	4	4	4
Defined Contribution	13	13	13
Total Terminating Plans	17	17	17
Membership			
Defined Benefit	1,827	1,827	894
Defined Contribution	55	55	52
Total Membership	1,882	1,882	946
Asset Values			
Defined Benefit (\$ Millions)	268	260	224
Defined Contribution (\$' Millions)	69	66	64
Total Asset Values (\$' Millions)	337	326	288

Terminating Plans

The total number of terminating plans within the industry continues to increase, as one superannuation fund initiated termination proceedings during the review quarter, bringing the group total to 411. For this group of plans, the total asset value stood at \$14.6 billion. (See: Table 8).

Table 8: Terminating Pension Plans by Type

	Sep 2019	Jun 2019	Mar 2019
Number of Plans			
Defined Benefit	97	96	96
Defined Contribution	314	314	311
Total Terminating Plans	411	410	407
Membership			
Defined Benefit	205	200	204
Defined Contribution	598	598	618
Total Membership	803	798	822
Asset Values			
Defined Benefit (\$' Millions)	4,016	4,263	3,801
Defined Contribution (\$' Millions)	10,629	10,240	4,683
Total Asset Values (\$' Millions)	14,645	14,503	8,484

Investment Managers

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 funds under management. During the review quarter the amount of assets under management by SD increased by 6% to \$276 billion. The three LIC licensees experienced a 5% growth in managed assets and are now overseeing total pension assets of \$358 billion. These IMs collectively, manage approximately 92% or \$635 billion of the total private pension industry assets. The remaining 8% is managed by the sole credit union and seven other entities. (See Table 9)

Table 9: Total Assets Under Management of Investment Managers

Investment Managers	Number of Entities Sep 2019	Asset Values Sep 2019 (\$'Millions)	Number of Entities Jun 2019	Asset Values Jun 2019 (\$'Millions)	Number of Entities Mar 2019	Asset Values Mar 2019 (\$'Millions)
Insurance Companies	3	358,354	3	341,083	3	316,649
Securities Dealers	15	276,329	15	260,812	15	242,636
Credit Unions	1	533	1	514	1	496
Other	7	54,764	7	51,868	7	47,454
Total	26	689,980	26	654,278	26	607,235

Risk Outlook

The September 2019 quarter saw a decline in the pace of growth in the economy, when compared to the previous quarter, as the growth rate ranged between 0.0% and 1.0%, according to the Bank of Jamaica (“BOJ”). The estimated growth in the quarter mainly reflected expansions in the manufacturing and the finance & insurance services. Notwithstanding growth in the aforementioned industries, Agriculture, Mining/Bauxite, and Construction industries saw negative growth during this quarter.

Due to increased job creation, Jamaica continues to experience record low unemployment rates. During the quarter, the unemployment rate remained at 7.8%, the same as the previous quarter and a 7.1% decline year-on-year.

Market interest rates remain low as annual inflation remains within the BOJ's 4 - 6% targeted band. This appeared to have contributed to the moderate growth in the values of interest bearing investments within the pension investment portfolio reported during the quarter. The main market index of the Jamaica Stock Exchange rose significantly by 48,146 points or 10% percent, slightly lower than the previous quarter. This was reflected by a similar growth in equity based investments during the quarter.

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.
- Crowding-in – With the reduction of GOJ securities in 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 – With an aging population, it is anticipated that pensioners will eventually exhaust their pension savings and exert additional pressure on the government for assistance through the Government's NIS scheme. This strain on the government will also be exacerbated by the low pension coverage in Jamaica.

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. Notwithstanding that there are more active members it appears that employment growth rate exceeds this growth leading to a fall in pension coverage; this resulted in a small decrease in pension coverage among the Jamaican working population for this quarter. 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 growth path with ongoing economic gains and responsible practices by trustees and other pension stakeholders.