

Private Pension Industry Statistics

2019
Annual Review

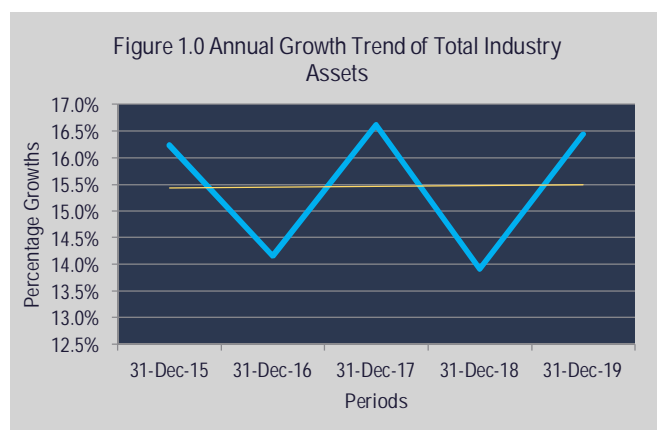


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Table 1 : Key Statistics

	December 2019	September 2019	December 2018
Number of Plans ¹	809	809	807
Asset Values (\$' Millions)	700,730	689,980	601,834
Total Membership	127,347	126,601	117,981



Private Pension Industry Overview

During 2019 the Jamaican private pension industry grew by approximately 16%. The quarter to quarter growth was approximately 2%, bringing the total industry asset value to \$700.7 billion. Over the last five years the private pension industry's average growth was 4% per quarter and 15.5% per annum. (See: Table 1 & Figure 1.0)

Currently the industry consists of 809 pension plans, two more than the previous year. The Jamaican employed labour force² experienced 2% growth throughout 2019; however, this was outweighed by the growth in membership within the private pension industry. Year over year there was a 7.9% growth in membership or a total of 9,366 new participants within the industry.

Despite the winding-up of a number of pension plans during the year, membership growth was recorded for each quarter of 2019. This is the result of the number of persons joining pension arrangements outweighing those terminating membership. Pension coverage over the past five years has marginally increased as detailed below:

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

(See: Figures 1.1 - 1.3)

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

² The Jamaican employed labour force as at October 31, 2019 was 1,248,400 according to the Planning Institute of Jamaica (pioj.gov.jm).

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

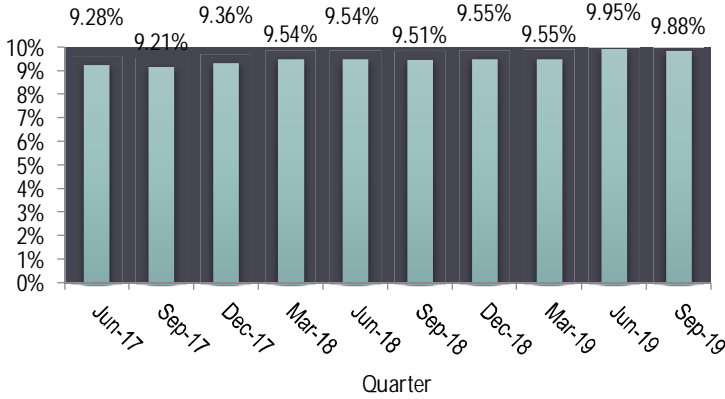


Figure 1.2: Five Year Growth in Pension Coverage for the Jamaican Private Pension Industry

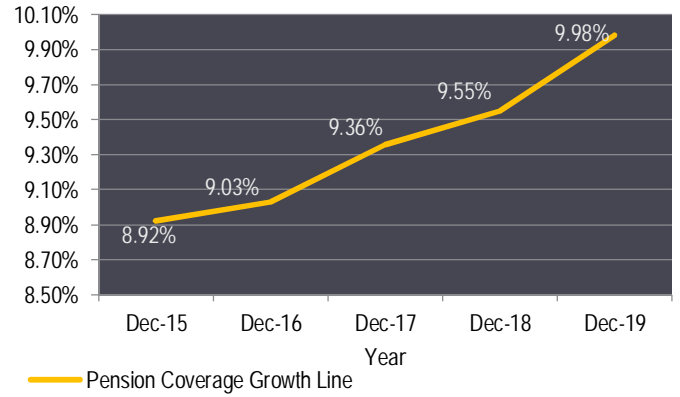
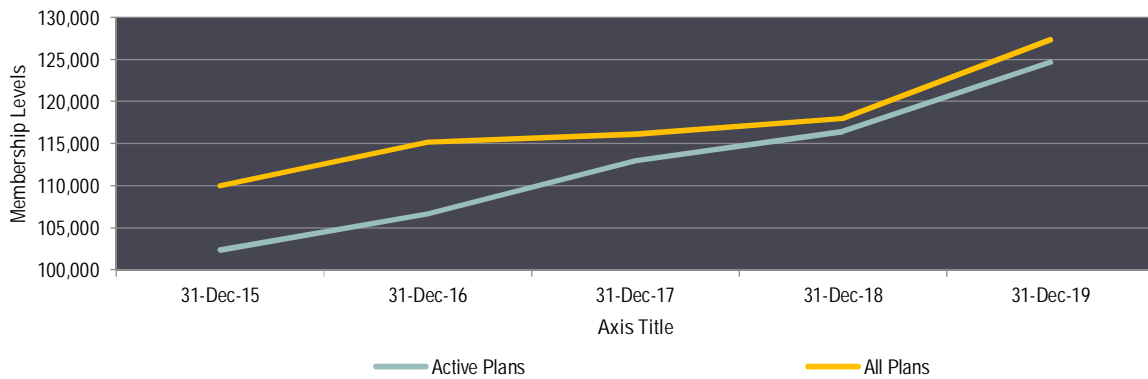


Figure 1.3: Annual Growth Trends: Membership Levels of Active Pension Plans vs All Pension Plans



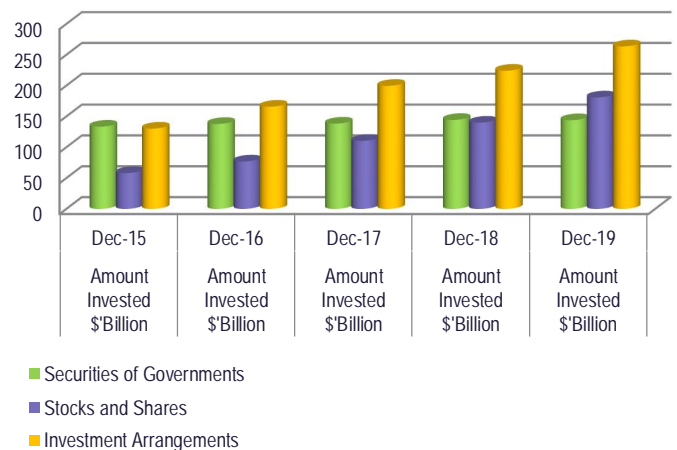
Investment Mix

Private Pensions Investments

As at December 31, 2019, Pooled Investment Arrangements (“PIAs”), direct holdings of stocks and shares and Government of Jamaica (GOJ) securities encompassed the largest portions of the investments within the aggregate private pension portfolio by 37%, 26% and 20%, respectively. There has been a gradual shift from the investments in GOJ securities to investments in equity and pooled arrangements. (See: Charts 1 - 2 & Table 2)

Investments in PIAs stood at \$263.6 billion of total invested assets within the aggregate private pensions’ portfolio. This represents an annual growth of 17% and a quarter-to-quarter growth of 2%. Similarly, direct holdings of Stock and Shares increased by 29% to \$180.8 billion over the past year. However, a review of the past quarter revealed a marginal decline in the asset value of Stocks and Shares which is partially attributable to falling stock prices experienced throughout the quarter.

Chart 1: Five Year growth of the Largest Asset Classes within the Aggregate Private Pension Portfolio



Direct holdings of GOJ securities experienced negligible growth over the December 2019 quarter. However, year over year investments in these assets have steadily declined as the GOJ as gradually retreated from the local debt market.

Over the 2019 calendar year, direct holdings of Repurchase Agreements ("Repos") and Bonds and Debentures grew by 43% and 16 %, respectively. These assets collectively represented approximately \$57 billion of total private pension invested assets as at December 2019. Direct investments of Commercial Paper, Promissory Notes and Leases experienced growths of 65%, 58% and 48%, over the past year and each had more than 7% growth quarter over quarter.

As the government continues to lessen its presence within the capital market, other asset classes such as real estate assets have grown by \$1.4 Billion. As at December 31, 2019, direct holdings of these real assets stood at \$26 billion; a 5% annual growth and approximately 2% quarter over quarter. (See: Chart 2 & Table 2)

Chart 2: Allocation of Total Private Pension Assets as at December 31, 2019

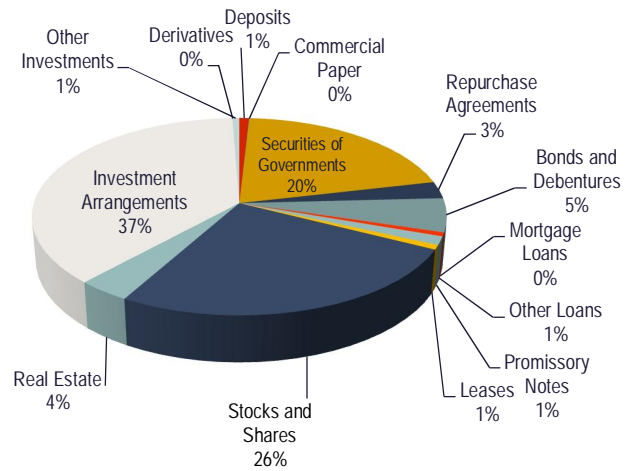


Table 2: Aggregate Investment Mix

Types of Investment	Amount Invested \$' Millions	% of Total Investments	Amount Invested \$' Millions	% of Total Investments	Amount Invested \$' Millions	% of Total Investments
	Dec-19		Sep-19		Dec-18	
Deposits	6,069.75	0.86%	5,343.06	0.77%	5,044.74	0.84%
Commercial Paper	330.00	0.05%	289.40	0.04%	199.45	0.03%
Securities of Governments	143,915.47	20.50%	142,296.84	20.60%	144,329.70	23.96%
Repurchase Agreements	19,445.09	2.77%	18,651.74	2.70%	13,588.60	2.26%
Bonds and Debentures	38,808.98	5.53%	38,345.73	5.55%	33,391.29	5.54%
Mortgage	32.63	0.00%	73.53	0.01%	96.85	0.02%
Other Loans	4,233.75	0.60%	4,049.18	0.59%	3,813.79	0.63%
Promissory Notes	9,732.96	1.39%	9,031.30	1.31%	6,154.47	1.02%
Leases	5,182.18	0.74%	3,851.84	0.56%	3,496.76	0.58%
Stocks and Shares	180,819.45	25.75%	181,400.15	26.26%	139,872.55	23.22%
Real Estate	25,672.87	3.66%	24,910.08	3.61%	24,227.69	4.02%
Investment Arrangements	263,609.80	37.54%	258,286.25	37.39%	224,099.57	37.20%
Derivatives	0.00	0.00%	0.00	0.00%	0.00	0.00%
Other Investments	4,314.22	0.61%	4,327.47	0.63%	4,052.43	0.67%
Total Investments	702,167.15	100.00%	690,856.57	100.00%	602,367.86	100.00%
Other Net Assets	-1,436.87		-876.88		-533.72	
Total Assets	700,730.28		689,979.69		601,834.14	

Pooled Investment Arrangements

Pooled Investment Arrangements (PIA) consists mainly of Stocks and Shares, GOJ securities and Real Estate assets. This has been the same for the past five years, with the exception of a somewhat larger uptake of Bonds and Debentures in 2017. Similar to the aggregate portfolio, there has been a gradual shift to investments in equities than GOJ securities. (See: Chart 3)

Year over year, Stocks and Shares, GOJ securities and Real Estate assets within the PIAs portfolio grew by approximately 17%, 11% and 4%, respectively. As at December 31, 2019, total Stocks and Shares within the PIAs portfolio was \$104.8 billion. While, GOJ securities and Real Estate assets stood at \$82 billion and \$28 billion, respectively.

Over the December 2019 quarter, investments of Repos declined by 20%, however, there was an annual growth of 41%. Additionally, investments of Bonds and Debentures and Promissory Notes recorded significant annual growths of 104% and 21%, respectively. Collectively, these asset classes account for just over \$29 billion. (See: Chart 4 & Table 3)

Chart 3: Five Year growth of the Largest Asset Classes within the Pooled Investment Arrangements Portfolio

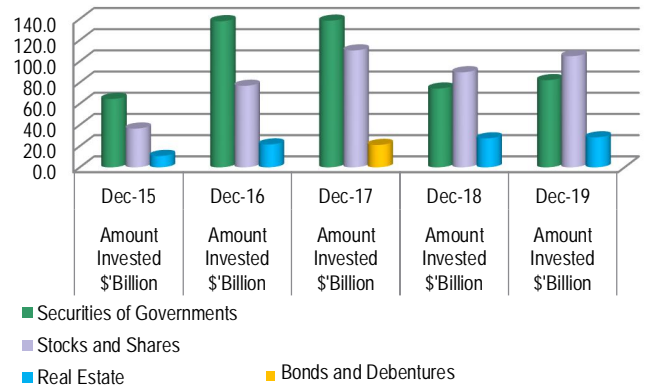


Chart 4: Allocation of Pension Assets in Investment Arrangements as at December 31, 2019

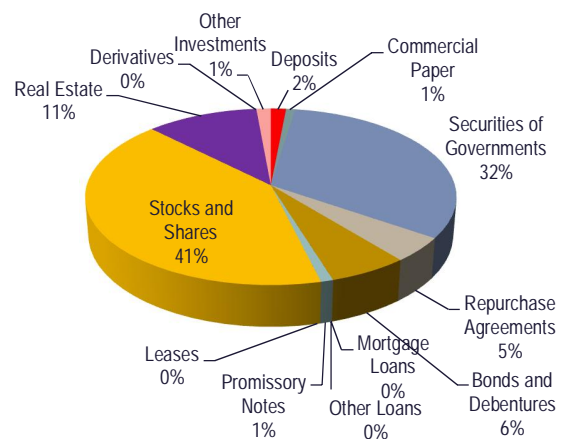


Table 3: Pooled Investment Arrangements Portfolio Mix

Types of Investment	Amount Invested (\$' Millions)	% of Total Investments	Amount Invested (\$' Millions)	% of Total Investments	Amount Invested (\$' Millions)	% of Total Investments
	Dec-19		Sep-19		Dec-18	
Deposits	3,844.36	1.51%	4,329.91	1.78%	3,562.40	1.63%
Commercial Paper	2,250.25	0.88%	1,621.08	0.61%	917.53	0.42%
Securities of Governments	82,204.28	32.18%	80,571.70	30.96%	74,302.20	34.09%
Repurchase Agreements	11,561.05	4.53%	14,429.67	4.85%	8,153.31	3.74%
Bonds and Debentures	15,633.04	6.12%	14,049.93	5.31%	7,630.74	3.50%
Mortgage	0.00	0.00%	0.07	0.00%	0.07	0.00%
Other Loans	0.26	0.00%	0.26	0.02%	44.63	0.02%
Promissory Notes	2,435.70	0.95%	2,408.60	0.90%	2,000.53	0.92%
Leases	715.70	0.28%	668.61	0.27%	673.90	0.31%
Stocks and Shares	104,864.93	41.06%	99,805.70	42.27%	89,674.64	41.14%
Real Estate	28,271.13	11.07%	27,971.49	11.52%	27,286.69	12.52%
Derivatives	0.00	0.00%	0.00	0.00%	0.00	0.00%
Other Investments	3,639.16	1.42%	3,752.79	1.53%	3,739.28	1.72%
Total Pooled Investments	255,419.86	100.00%	249,609.81	100.00%	218,411.18	100.00%
Other Net Assets	1,163.64		1,957.57		1,205.96	
Deposit Administration	7,026.30		6,718.87		4,627.93	
Total Assets	263,609.80		258,286.25		224,245.07	

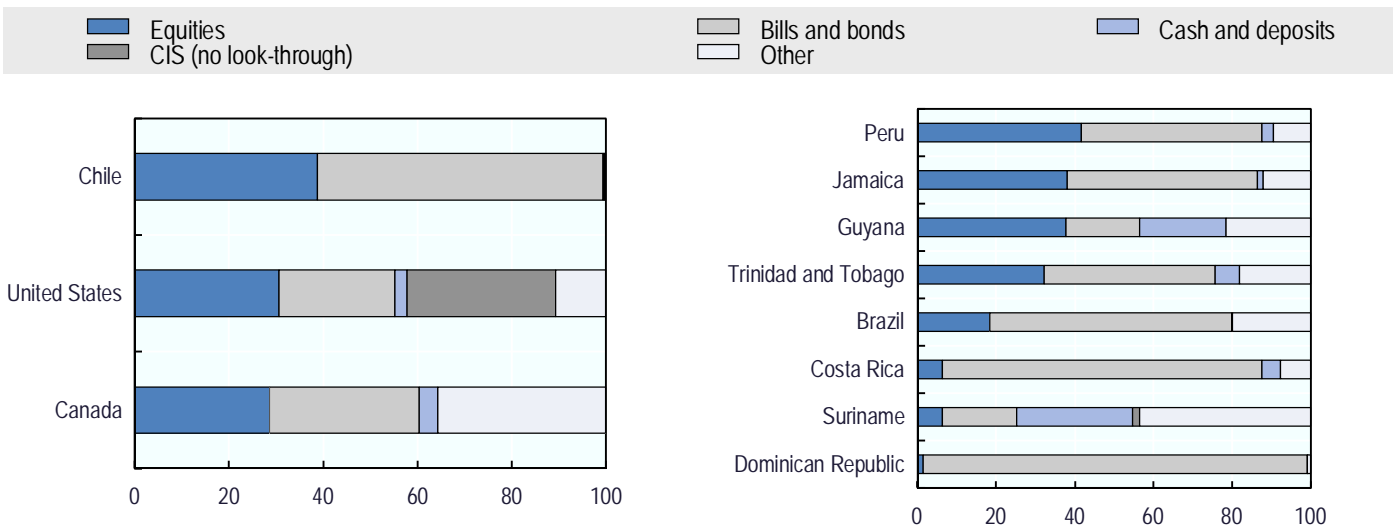
International Position (Real Investments)

The Organization for Economic Co-operation and Development (“OECD”) is an international organization that works in tandem with governments and regulatory pension bodies across the world to establish evidence-based international standards and provide solutions to a range of social, economic and environmental challenges. The OECD’s latest report on international pension investments showed that Jamaica’s portfolio allocation of invested assets closely aligns with those of other major territories that participate in private pension business. The tables below illustrate Jamaica’s investment composition in comparison to other international states within the Americas that share similar investment structure.

Large Jurisdictions	Equities (%)	Bills and bonds (%)	Cash and deposits (%)	Collective Investment Schemes (%)	Other (%)
Chile	38.8	60.6	0.3	..	0.3
United States	30.7	24.5	2.5	31.6	10.6
Canada	28.7	31.7	4.0	..	35.6

Small Jurisdictions	Equities (%)	Bills and bonds (%)	Cash and deposits (%)	Collective Investment Schemes (%)	Other (%)
Peru	41.6	46.1	2.8	..	9.6
Jamaica	38.1	48.4	1.4	..	12.1
Guyana	37.7	18.9	21.9	..	21.5
Trinidad and Tobago	32.3	43.4	6.2	..	18.1
Brazil	18.4	61.6	0.1	..	19.9
Costa Rica	6.3	81.4	4.7	..	7.7
Suriname	6.3	18.9	29.5	1.9	43.5

Figure 1.4. Allocation of assets in funded and private pension plans in selected asset classes and investment vehicles, 2018 or latest year available as a percentage of total investment



Operating Statistics

Active Pension Plans

As at December 31, 2019, there were 379 active pension plans; 10 less than the previous year; approximately 47% of total private pension plans. During 2019, two new pension plans entered the market, while twelve plans exited. Notwithstanding, the industry has been experiencing consistent annual growth over the past five years. (See: Charts 5 - 6 & Table 5).

The December 2019 quarter reflected an increase of 23% in the asset value of active plans. This brought the total asset value of active plans to \$690.5 billion or 98% of total private pension assets.

Defined Contribution ("DC") pension plans continue to outweigh Defined Benefit ("DB") plans account for the greater share of total active pension assets (61%). Over the last quarter of year in review, there was a minor reduction in total DB plan assets. Notwithstanding, the annual growth of these assets was 13%. Similar growth was experienced in the asset value of DC plans. (See: Table 5)

Active Plans by Type

Despite a total of 32 plans winding up over the past five years, the industry has seen a gradual increase in the number of persons actively participating in private pension arrangements. As at December 31, 2019 the industry had 124,631 active members; a 7% increase from the 116,403 as at December 2018. Retirement schemes participants account for approximately 48% of total active membership while 52% is attributed to participants of superannuation funds.

There are still 13 retirement schemes within the industry, however, the number of superannuation funds have decreased to 366 by the end of December 2019. The total asset value of the retirement schemes increased by 23% annually; outperforming the 16% growth recognized by superannuation funds. Nevertheless, active funds still account for approximately 96% or \$640.5 billion of total active pension plans asset value.

For the past five years active schemes have experienced average annual growth of approximately 17%, while active funds have seen average annual growth of 30%.

Chart 5: Growth Trend - Number of Active Pension Plans

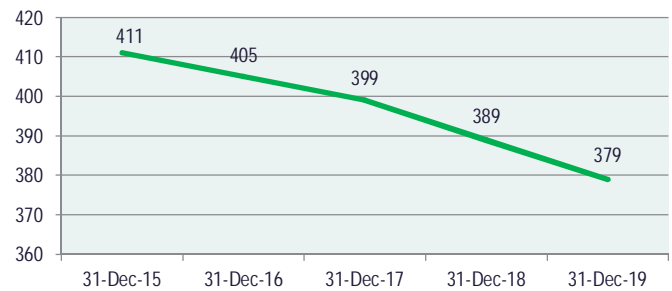


Chart 6: Growth Trend - Total Membership of Active Pension Plans

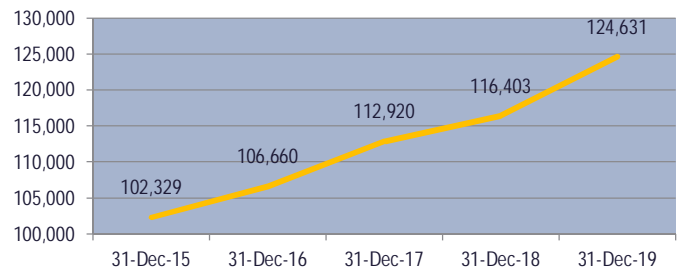


Table 5: Active Pension Plans by Type

	Dec 2019	Sep 2019	Dec 2018
Number of Plans			
Defined Benefit	92	93	97
Defined Contribution	287	288	292
Total Active Plans	379	381	389
Membership			
Defined Benefit	20,487	20,636	20,681
Defined Contribution	104,144	103,280	95,722
Total Membership	124,631	123,916	116,403
Assets Values			
Defined Benefit (\$' Millions)	419,349	419,640	369,930
Defined Contribution (\$' Millions)	271,223	255,357	223,721
Total Asset Values (\$' Millions)	690,572	674,997	593,651

(See: illustrations in Table 6 - Parts A & B, Charts 7 - 10).

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

Part A	Number of Active Plans	Percentage of Plans	Number of Members	Percentage of Membership
Retirement Schemes	13	3.43%	59,760	47.95%
Superannuation Funds	366	96.57%	64,871	52.05%
TOTAL	379	100.00%	124,631	100.00%

Part B	Asset Value as at Dec 31, 2019 (\$' Millions)	Percentage of Asset Value
Retirement Schemes	50,051	7.25%
Superannuation Funds	640,521	92.75%
TOTAL	690,572	100.00%

Chart 7: Asset Values for Active Superannuation Funds

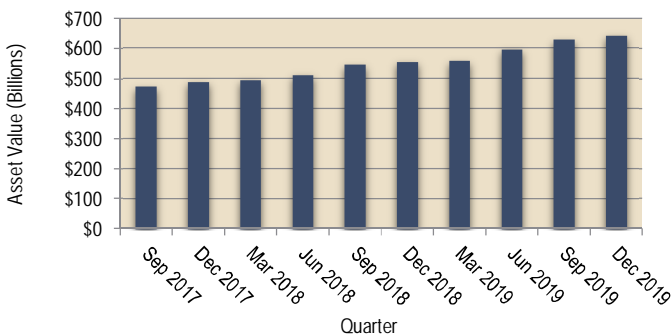


Chart 8: Asset Values for Active Retirement Schemes

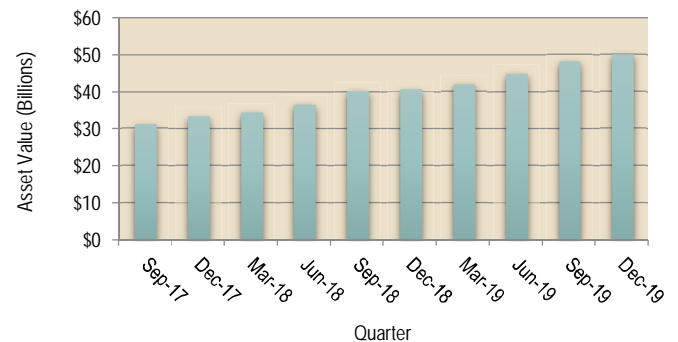


Chart 9: Five Year Growth Asset Values for Superannuation Funds

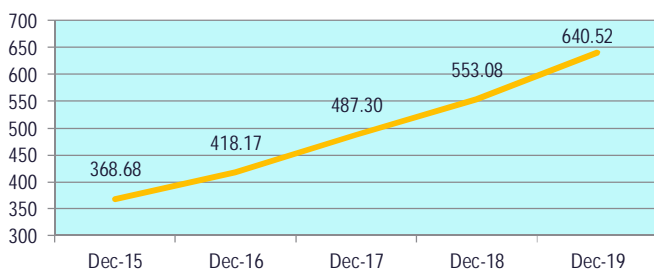
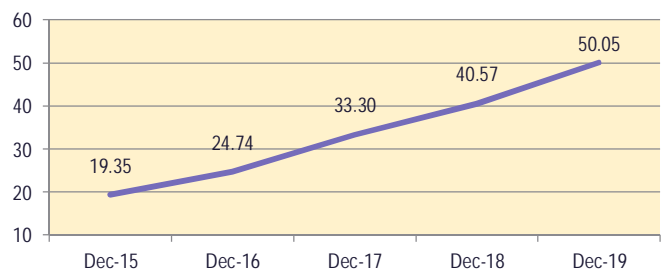


Chart 10: Five Year Growth Asset Values for Retirement Schemes



Active Superannuation Funds³ by Industry

The largest amount of active private superannuation fund participants within the Jamaican private pensions industry has been attributable to the entities operating in the Services (36%) and Commerce and Finance sectors (18%) sectors. As at December 31, 2019, total pension assets held in the Services sector were \$110 billion, an increase of 15% compared to the previous year's \$95.7billion and 3% relative to the September 2019 quarter's \$107 billion.

The Commerce and Finance Industry continues to account for the largest portion of assets of total active pension assets at approximately 36%. This sector experienced an annual growth of 15% and now currently stands at \$238.6 billion. (See: Charts 11 – 13)

³ Previous reports were based on all active plans – both funds and schemes – with members of schemes designated to the "Commerce/Finance" industry.

Chart 11: Number of Active Funds by Industry

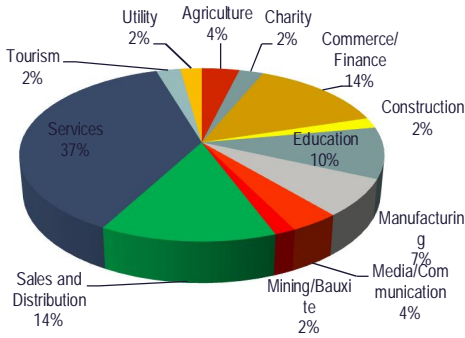


Chart 12: Asset Values by Industry

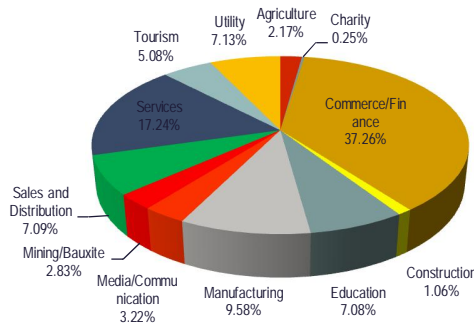
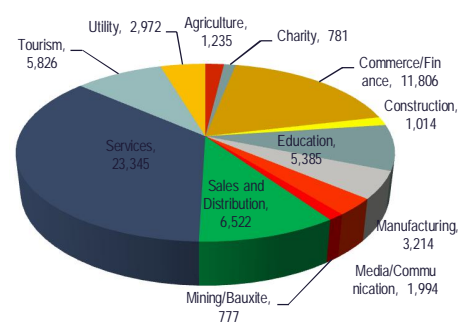


Chart 13: Number of Active Membership by Industry



Solvency of Active Pension Plans

Of a total of 368 pension plans, 95% were solvent. A five year review showed that on average 94% of plans have remained solvent mostly within the range of 100% and 120%, while only a few fall within the extreme; greater 150%. The plans with solvency levels above 150% are mostly DB plans. (See: Table 7 & Charts 14 - 15)

The FSC continues to urge trustees to monitor the health and sustainability of their pension plans. For DB plans, the obligation to finance any shortfall lies with the sponsor(s). While, in DC arrangements the members are the ones who bear the investment risks.

Figure 3 illustrates the trend in solvency of funds and schemes between 2014 and 2019.

Figure 3: Quarterly View of the Percentage of Solvent of Pension Plans

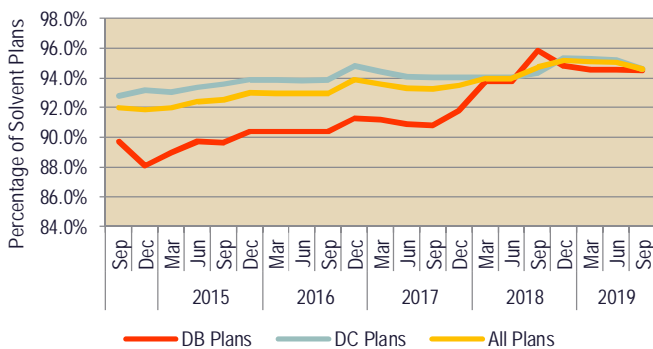


Chart 14: Solvency Levels of Defined Benefit Plans

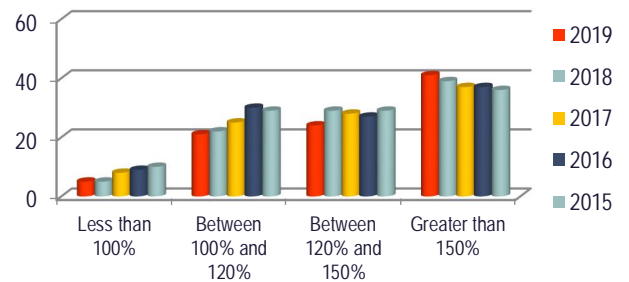


Chart 15: Solvency Levels of Defined Contribution Plans

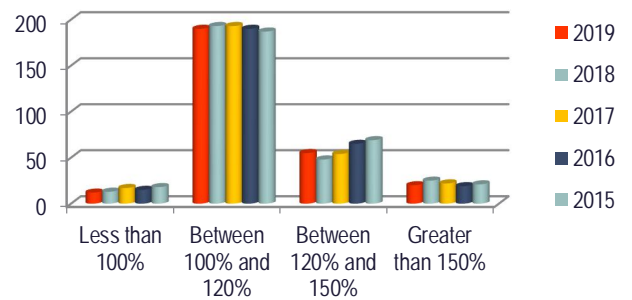


Table 7: Solvency Levels of Active Plans as at December 31, 2019

	#.of. plans	Solvency Level				% of plans which are solvent
		Less than 100%	Between 100% & 120%	Between 120% & 150%	Greater than 150%	
DB	91	5	21	24	41	95%
DC	277	12	190	55	20	96%
Total	368	17	211	79	61	95%

Inactive Pension Plans

Since 2017 there has been 17 dormant pension plans in the Jamaican private pension industry. As at December 31, 2019, this subsection of the industry accounted for \$329 million in assets; a 2% decline quarter over quarter but a 14% increase year over year.

Over the last quarter of the 2019 calendar year, there was no change in membership; however, the 1,882 inactive members that remained at the end of 2019 reflected a 98% increase in total inactive membership since the 946 recorded in 2018.

(See: Table 8 & Chart 16).



Terminating Plans

Over the past five years the total number of terminating plans within the industry has gradually increased. During the December 2019 quarter, 12 pension plans commenced winding up proceedings, bringing the total number of terminating plans to 413. Currently, the total membership associated with these plans is 834 individuals.

The total asset value of this group by the end of 2019 was \$9.8 billion; an increase of 24% when compared to the previous year.

(See: Table 9 & Chart 17)

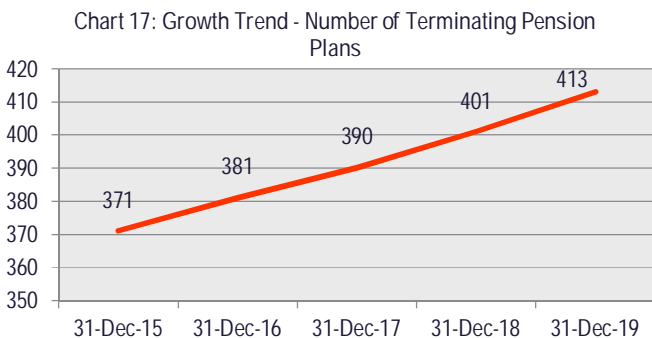


Table 8: Inactive Pension Plans by Type

	Dec 2019	Sep 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	1,827	894
Defined Contribution	55	55	52
Total Membership	1,882	1,882	946
Asset Values			
Defined Benefit (\$ Millions)	260	268	224
Defined Contribution (\$ Millions)	69	69	64
Total Asset Values (\$ Millions)	329	337	288

Table 9: Terminating Pension Plans by Type

	Dec 2019	Sep 2019	Dec 2018
Number of Plans			
Defined Benefit	98	97	93
Defined Contribution	315	314	308
Total Terminating Plans	413	411	401
Membership			
Defined Benefit	232	205	78
Defined Contribution	602	598	554
Total Membership	834	803	632
Asset Values			
Defined Benefit (\$ Millions)	4,052	4,016	3,082
Defined Contribution (\$ Millions)	5,776	10,629	4,813
Total Asset Values (\$ Millions)	9,828	14,645	7,895

Investment Managers

In Jamaica there are 26 licensed investment managers ("IMs"). Life Insurance companies ("LIC") (3) represent 11.5% of the total number of IMs; however they account for approximately 52% of total private pension assets. Contrariwise, Securities Dealers ("SD") represent the largest number of licensees at 57% or 15 IMs and account for the second largest numbers of pension funds under management.

As at December 31, 2019, the assets under management by LIC increased by 15%; closing at \$362.8 billion in the last quarter of the calendar year. Likewise, SD experienced an annual growth of 16% in managed assets and stood at \$281 billion. Collectively, these IMs manage approximately 92% or \$644 billion of the total private pension industry assets. The sole credit union and seven other entities manage the remaining 8% of the market. (See: Tables 10)

Table 10: Total Assets Under Management of Investment Managers

Investment Managers	Number of Entities Dec 2019	Asset Values Dec 2019 (\$'Millions)	Number of Entities Sep 2019	Asset Values Sep 2019 (\$'Millions)	Number of Entities Dec 2018	Asset Values Dec 2018 (\$'Millions)
Insurance Companies	3	362,851	3	358,354	3	315,818
Securities Dealers	15	281,160	15	276,329	15	238,874
Credit Unions	1	543	1	533	1	483
Other	7	56,176	7	54,764	7	46,659
Total	26	700,730	26	689,980	26	601,834

Risk Outlook

Jamaica has experienced over 20 quarters of positive growth. The Planning institute of Jamaica ("PIOJ") reported that the economy grew by an estimated 0.1% during the December 2019 quarter, bringing real GDP growth for calendar year 2019 to 0.9%. This reflected Jamaica's seventh year of consecutive economic growth. The PIOJ attributed the positive out-turns to the Services (Hotels, Sales and Distribution and Finance) and Manufacturing industries. Continued growth in these sectors will augur well for the private pensions industry, as these industries make up the vast majority of active pension plans.

Jamaica continues to experience record low unemployment rates. According to the Statistical Institute of Jamaica the unemployment rate as at the last quarter of the fiscal year was 7.2%, a 0.6% decline relative to the previous quarter and a 1.5% decline year-on-year. This has been due to increased job creation; buoyed by the introduction and rise of the Business Process Outsourcing ("BPO") sector. This sector consists of mainly young demographic; individuals that would greatly benefit from participating in arrangements that foster long term social security. Providers of pension products would do well in targeting the BPO sector.

During the December 2019 quarter, annual inflation accelerated above the Bank of Jamaica's target range of 4 - 6% band; due to increased inflation of agricultural food prices. Nevertheless, market interest rates continued to remain low. Many plans have gradually improved their returns by taking advantage of the investment opportunities offered by the local stock market which has been bolstered by several oversubscribed initial public offerings. Over the past year, the Jamaica Stock Exchange main index recorded an annual growth of 34%, despite a 2% decline suffered in the last quarter of the 2019.

Aside from equities, real estate assets continue to show promise as the Jamaican housing market strengthens. The Real Estate Board reported that due to booming tourism activities, recent reductions in mortgage interest rates and increased loan limits in some banks, there has been increased housing demand in Jamaica over the past year. Additionally, with an influx of prospective homeowners benefiting from the new National Housing Trust loan limit increases and the growing Airbnb industry, private pension

stakeholders could benefit by being a part of the group of investors who will be looking to share in the expected growth of the Jamaican real estate sector.

The recent gains experienced in the local economy could be wiped out as the country is expected to face emerging risks to both the global and domestic economy, as the continued spread of the COVID-19 presents a downside risk to financial markets and businesses. It is anticipated that there may be extreme impact on the stock market and foreign currency which may translate into loss of capital for many pension plans and lingering uncertainty within the industry. The long term negative impact of the virus may be that a number of pension plans may wind-up due to employers being forced to discontinue businesses. Sponsors of pension plans may also look to take contribution holidays, where the plan rules permit, which will further lessen the accumulation of benefits for participating employees.

The FSC encourages investment managers and trustees to ensure that sufficient due diligence is practiced in the management of plan assets. Prudent practices, enhanced governance and proper risk management are especially critical at this time where pension benefits, primarily for those approaching retirement, are threatened by this global crisis

The following are other risk concerns of the pension industry:

- Liquidity Risk – If the COVID-19 crisis persists, the negative impact may be the winding-up of pension plans. This will create scenarios where pension plans will have to payout benefits on an unscheduled basis which has implications for liquidity as plans will need to liquidate assets, and given the current investment environment, at a loss.
- Solvency Risk exist for DB plans, where the employer assumes the responsibility for funding promised pension benefits, the fall in asset values is accompanied by a rise in the balance of cost of providing these benefits, which is a major concern for sponsors. In times of uncertainty, actuarial assumptions may need to be adjusted which can affect the valuation results which currently hold. A plan that is currently solvent could become insolvent after its asset/liabilities have been assessed by the appointed actuary.
- For DC plans, where the members are fully exposed to investment risks, pension values will be adversely affected and replacement ratios are declining. This is particularly problematic for persons who are nearing retirement and those exiting pension plans as they are potentially securing pensions or taking benefit refunds based on assets with suppressed market values. Where annuity contracts are secured in the present economic conditions, they would not benefit from any potential economic recovery.

Summary

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 active membership rates continue to rise steadily over the past five years and overall growth in private pension assets remains on an upward trajectory. Additionally, solvency levels for most active pension plans remained adequate. This growth and the solvency of pension plans have been threatened by the current pandemic.

The adjustment of certain investment limits calls for greater prudential practices by plan trustees and other pension stakeholders. This has become even more critical as the growth and stability of the industry will depend greatly on how well the Jamaican economy navigates the possible impacts of the COVID-19 pandemic in the upcoming year. The FSC is monitoring the situation with its mandate of ensuring stability in the pension market at the forefront of its efforts.