

Private Pension Industry Quarterly Statistics

March 2020



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Table 1 : Key Statistics

	March 2020	December 2019	September 2019
Number of Plans ¹	809	809	809
Asset Values (\$' Millions)	624,600	700,730	689,980
Total Membership	134,034	127,347	126,601

Private Pension Industry Overview

As at March 31, 2020, the Jamaican private pension industry contracted by approximately 11% when compared to the December 2019 quarter. The total industry asset value now stands at \$624.6 billion; which represents the first contraction experienced by the industry since 2008. Over the past previous 20 quarters, the private pension industry grew on average by 4% per quarter. Decreases in asset prices, partially due to the negative impact of Covid-19, have significantly affected the industry in the first fiscal quarter of 2020, resulting in a reduction in the average quarterly growth to 3%. (See: Table 1 & Figure 1.0)

The industry still consists of 809 pension plans. Membership growth remains on a steady upward trajectory, mirroring the stable growth in the Jamaican employed labour force². During the March 2020 quarter, the industry membership and the labour force grew by approximately 5% and 2%, respectively (See: Figure 1.1). The details of the percentage of persons covered by private pension arrangements in Jamaica are as follows:

- 10.56% in terms of all plans
- 10.36% in terms of active plans
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(See: Figures 1.1 & 1.2)

Figure 1.0 Growth Trend of Total Industry Assets

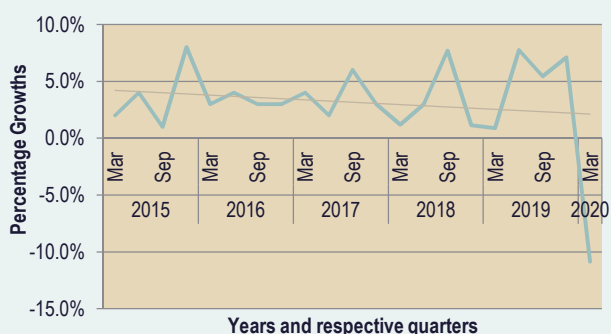
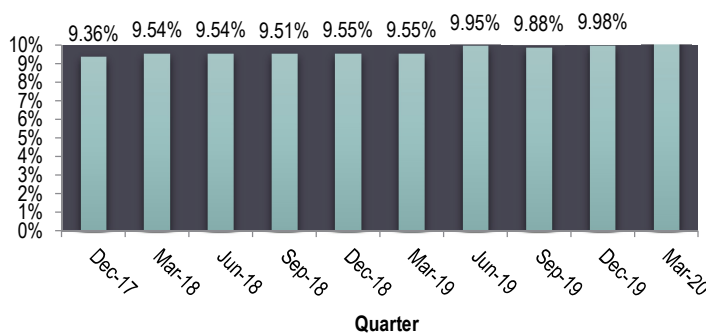


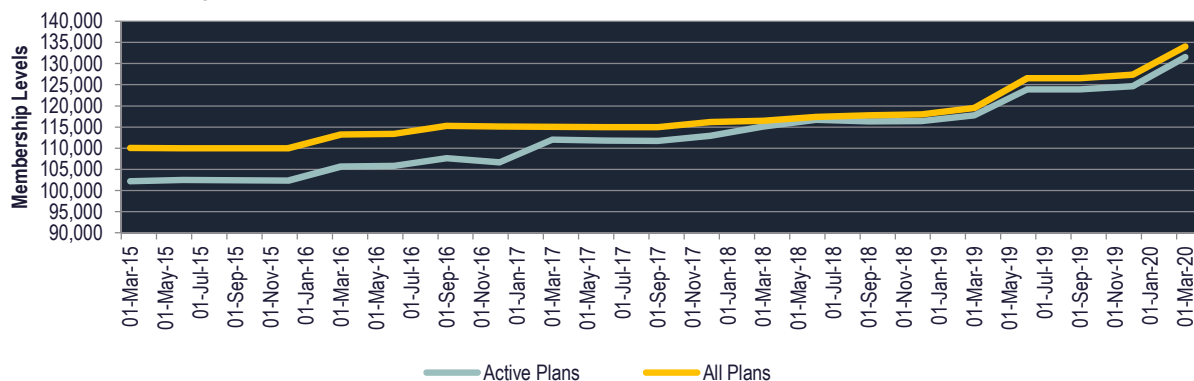
Figure 1.1: Active Membership in Private Pension Arrangements as a %age of Employed Labour Force



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

² The Jamaican employed labour force as at January 31, 2020 was 1,269,100 according to the Planning Institute of Jamaica (pioj.gov.jm).

Figure 1.1: Growth Trends: Membership Levels of Active Pension Plans vs All Pension Plans



Investment Mix

Private Pensions Investments

The decline in the value of the invested assets in the portfolio of private pension plans over the March 2020 quarter was partially due to the negative economic impact of Covid-19. In particular, Pooled Investment Arrangements (“PIA”) which encompasses the largest portion of assets within the portfolio (at approximately 37%), declined significantly by 12.4% or \$30 billion to \$230.7 billion.

Similarly, significant depression in equity prices over the quarter resulted in major declines in the direct holdings of stocks and shares as the value of this asset class fell by 20% and now stands at \$145 billion. Despite this, within the aggregate portfolio, stocks and shares still account for the second-largest portion of pension assets (23%). Government of Jamaica (“GOJ”) securities which comprise the third-largest portion (20%), declined by 9% over the review period (See: Chart 1 & Table 2)

Investments in the local debt market increased markedly as mortgage loans, repurchase agreements (“repos”), and bonds and debentures grew by 46%, 26%, and 6%, respectively. This represents a shift by pension plans to other liquid assets as they weather the challenging economic climate partially and meet upcoming liquidity needs. These assets collectively represented approximately \$65 billion of total private pension invested assets as at March 2020.

The value of real estate assets also increased over the period as direct holdings stood at \$27.7 billion; an 8% quarter-over-quarter growth. (See: Chart 2 & Table 2)

Chart 1: Allocation of Total Private Pension Assets as at March 31, 2020

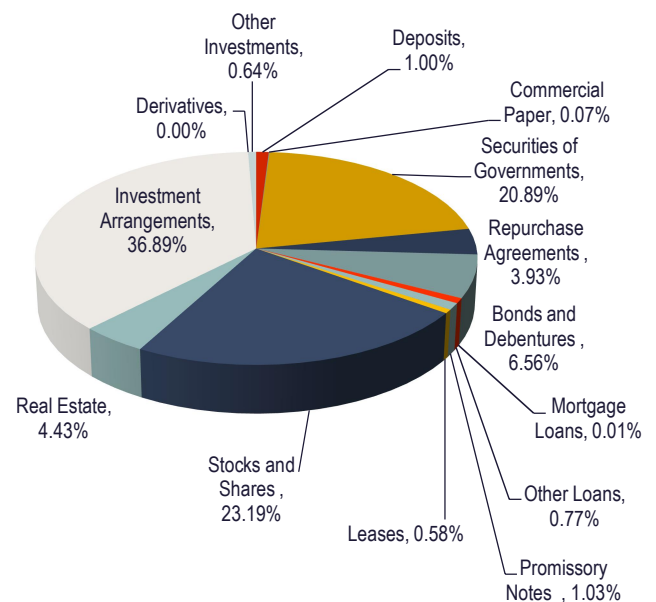


Table 2: Aggregate Investment Mix

Types of Investment	Amount Invested \$' Millions	% of Total Investments	Amount Invested \$' Millions	% of Total Investments	Amount Invested \$' Millions	% of Total Investments
	Mar-20		Dec-19		Sep-19	
Deposits	6,246.72	1.00%	6,069.75	0.86%	5,343.06	0.77%
Commercial Paper	436.84	0.07%	330.00	0.05%	289.40	0.04%
Securities of Governments	130,645.87	20.89%	143,915.47	20.50%	142,296.84	20.60%
Repurchase Agreements	24,598.78	3.93%	19,445.09	2.77%	18,651.74	2.70%
Bonds and Debentures	41,006.25	6.56%	38,808.98	5.53%	38,560.71	5.58%
Mortgage	47.67	0.01%	32.63	0.00%	73.53	0.01%
Other Loans	4,839.91	0.77%	4,233.75	0.60%	4,034.35	0.58%
Promissory Notes	6,430.31	1.03%	9,732.96	1.39%	9,031.30	1.31%
Leases	3,630.37	0.58%	5,182.18	0.74%	3,887.94	0.56%
Stocks and Shares	145,058.77	23.19%	180,819.45	25.75%	180,850.84	26.18%
Real Estate	27,722.36	4.43%	25,672.87	3.66%	25,223.14	3.65%
Investment Arrangements	230,741.43	36.89%	263,609.80	37.54%	258,286.25	37.39%
Derivatives	0.00	0.00%	0.00	0.00%	0.00	0.00%
Other Investments	4,001.98	0.64%	4,314.22	0.61%	4,327.47	0.63%
Total Investments	625,407.26	100.00%	702,167.15	100.00%	690,856.57	100.00%
Other Net Assets	-806.54		-1,436.87		-876.88	
Total Assets	624,600.72		700,730.28		689,979.69	

Pooled Investment Arrangements

The decline in the value of assets held in the PIA portfolio was mainly a result of declines reported for equities which is the largest asset class (38%) in the portfolio of PIA. As at March 31, 2020, the total asset value of these indirect equity investments stood at \$80 billion; a 23% decline from the \$104 billion recorded in the previous quarter.

Similarly, indirect investments of GOJ securities, which encompass the second largest (27%) portion of assets in the PIA portfolio, suffered a 20% decline. As at the end of the quarter, total sovereign debt held within the PIAs portfolio stood at \$57 billion.

Similar to the aggregate portfolio, there were significant increases in the value of short-term debt securities held within PIAs. Indirect investments in Repos and bonds and debentures experienced increases of 41% and 16%, respectively.

(See: Chart 2 & Table 3).

Chart 2: Allocation of Pension Assets in Investment Arrangements as at March 31, 2020

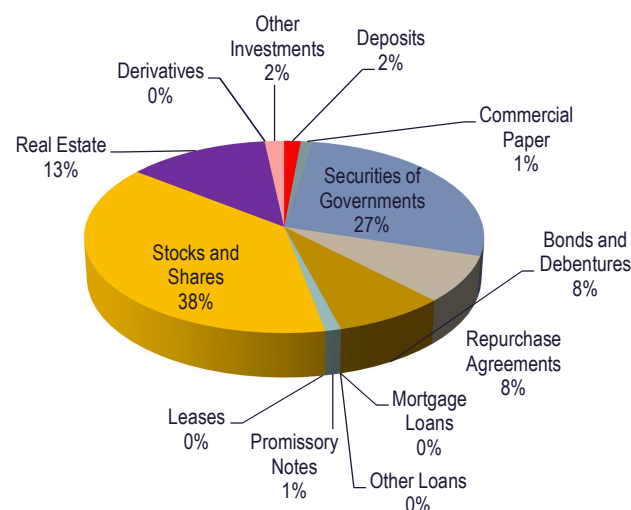


Table 3: Pooled Investment Arrangements Portfolio Mix

Types of Investment	Amount Invested (\$' Millions)	% of Total Investments	Amount Invested (\$' Millions)	% of Total Investments	Amount Invested (\$' Millions)	% of Total Investments
	Mar-20		Dec-19		Sep-19	
Deposits	5,145.93	2.30%	3,844.36	1.50%	4,329.91	1.73%
Commercial Paper	2,242.82	1.00%	2,250.25	0.88%	1,621.08	0.65%
Securities of Governments	68,264.56	30.55%	82,204.28	32.16%	80,571.70	32.28%
Repurchase Agreements	16,544.39	7.40%	11,561.05	4.52%	14,429.67	5.78%
Bonds and Debentures	17,080.30	7.64%	15,633.04	6.12%	14,049.93	5.63%
Mortgage	0.07	0.00%	0.07	0.00%	0.00	0.00%
Other Loans	0.26	0.00%	0.26	0.00%	0.26	0.00%
Promissory Notes	2,430.47	1.09%	2,435.70	0.95%	2,408.60	0.96%
Leases	644.51	0.29%	715.70	0.28%	668.61	0.27%
Stocks and Shares	80,108.58	35.84%	104,864.93	41.02%	99,805.70	39.98%
Real Estate	27,381.16	12.25%	28,271.12	11.06%	27,971.49	11.21%
Derivatives	0.00	0.00%	0.00	0.00%	0.00	0.00%
Other Investments	3,645.44	1.63%	3,858.36	1.51%	3,752.79	1.50%
Total Pooled Investments	223,488.50	100.00%	255,639.13	100.00%	249,609.75	100.00%
Other Net Assets	744.15		1,163.64		1,957.57	
Deposit Administration	6,508.78		6,681.71		6,718.93	
Total Assets	230,741.43		263,484.47		258,286.25	

Operating Statistics

Active Pension Plans

During the March 2020 quarter, two pension plans wound-up; resulting in 377 or 47% of the total private pension plans within the industry being active. Notwithstanding, the industry has experienced quarterly growth in membership over the last three quarters. (See: Table 4).

During the review period, there was a 10.86% decline in the total net asset value of active pension plans; this may have been partially due to the negative impact of Covid-19 on market assets. As at March 31, 2020, the total asset value of active plans stood at \$615.6 billion or 99% of total private pension assets. Over the review quarter, there was a 9% reduction in the total asset value of defined benefit ("DB") pension plans within the industry. Likewise, defined contribution ("DC") pension plans experienced a decline of 13% in total pension assets.

In the Jamaican private pension industry, DB pension plans account for the largest portion of total private pension assets at 62% and the other 38% are assets held in DC plans. As at March 31, 2020, total DB and DC assets stood at \$380.6 billion and \$234 billion, respectively. (See: Table 4)

Active Plans by Type

During the review period, there was a marginal rise in the active membership of both funds and schemes. The industry now consists of just over 131,500 active members. Of this amount, 49% are enrolled in retirement schemes ("RS") and 51% are participating in superannuation funds ("SF").

There were no changes in the number of RS in Jamaica, while two SF wound-up. In terms of asset values at the end of the quarter; both segments experienced declines; RS assets fell by 11% while SF saw a reduction of 7%. Active SF still account for approximately 92% or \$569 billion of total active pension plans asset value. (See: illustrations in Table 5 - Parts A & B, Charts 3 - 4).

Table 4: Active Pension Plans by Type

	Mar 2020	Dec 2019	Sep 2019
Number of Plans			
Defined Benefit	90	92	93
Defined Contribution	287	287	288
Total Active Plans	377	379	381
Membership			
Defined Benefit	20,140	20,487	20,636
Defined Contribution	111,368	104,144	103,280
Total Membership	131,508	124,631	123,916
Assets Values			
Defined Benefit (\$' Millions)	380,617	419,349	419,640
Defined Contribution (\$' Millions)	234,968	271,223	255,357
Total Asset Values (\$' Millions)	615,585	690,572	674,997

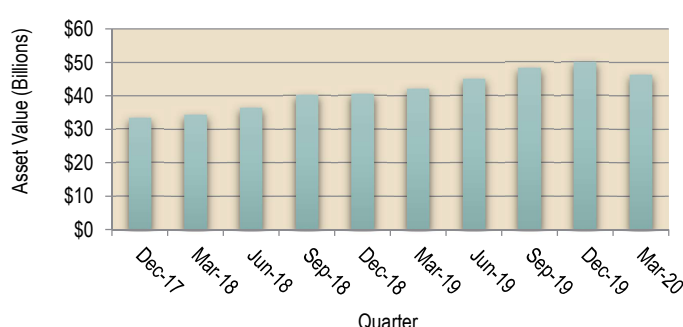
Chart 3: Asset Values for Active Superannuation Funds



Table 5: Active Plans by Type as at March 31, 2020

Part A				
	Number of Active Plans	Percentage of Plans	Number of Members	Percentage of Membership
Retirement Schemes	13	3.45%	65,321	49.73%
Superannuation Funds	364	96.55%	66,043	50.27%
TOTAL	377	100.00%	124,631	100.00%
Part B				
	Asset Value as at March 31, 2020 (\$' Millions)		Percentage of Asset Value	
Retirement Schemes	46,421		7.54%	
Superannuation Funds	569,164		92.46%	
TOTAL	615,585		100.00%	

Chart 4: Asset Values for Active Retirement Schemes



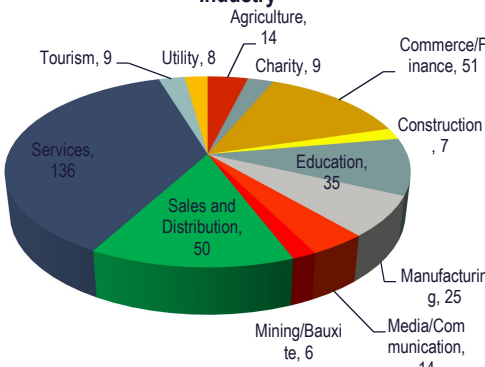
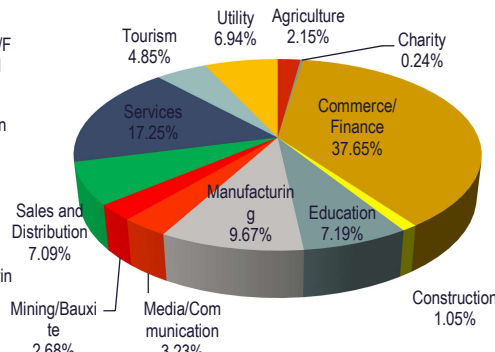
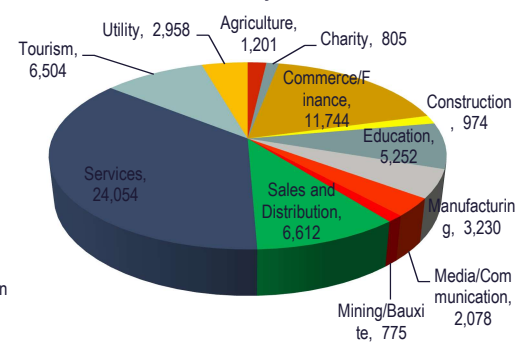
Active Superannuation Funds by Industry

According to the Planning Institute of Jamaica ("PIOJ"), the ³Services sector employs approximately 10% of the population; it is the most important sector of the economy and accounts for around 60% of GDP. Likewise, the largest number of active private SF participants within the Jamaican private pensions industry has been attributable to the entities operating within the Services (36%) with the Commerce and Finance sector (18%) contributing to the next largest number of pension plan participants.

By the end of the quarter, \$98 billion of pension assets remained in the Services sector, while the Commerce and Finance sector accounted for \$214.3 billion. (See: Charts 5 - 7)

Despite a reduction in the number of active pension plans within the Services sector over the quarter, active membership in this sector increased marginally. However, the Commerce and Finance sector recorded a nominal decline in active membership. Each segment, however, consists of over 11,500 pension plan members.

³ The Planning Institute of Jamaica's Review of Economic Performance 2020 - www.pioj.gov.jm

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

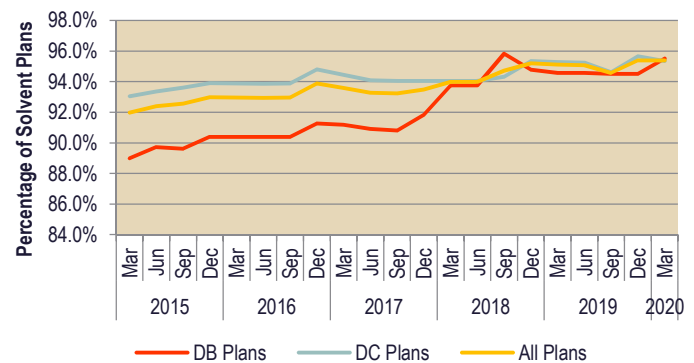
The financial stability of pension funds is often measured by the ability of the plan to meet its long term obligations and to pay benefits as they become due. Notwithstanding the deleterious effects, Covid-19 is having on asset prices and the value of contributions being paid into funds, 95% of the private pension plans which have submitted valuation reports continue to have positive solvency positions. As at March 31, 2020; a total of 368 pension plans were solvent. (See: Table 6)

The FSC will continue to monitor this metric as the depressed economic climate caused by this lingering pandemic continues to take hold of the pension sector and continues to urge trustees to monitor the health and sustainability of their pension plans. DC pension plan members who bear the investment risks associated with their plans are at significant market and credit risks with regards to their investment portfolio as asset prices have declined and investment returns have fallen. For DB plans, the obligation to fund any shortfall lies with the sponsors who are at risk in relation to remaining going concerns. Trustees are guided to be vigilant in understanding the risks being faced with sponsors and their ability to continue to fund pension liabilities.

Figure 3 illustrates the trend in solvency of funds and schemes between 2015 and 2020.

Table 6: Solvency Levels of Active Plans as at March 31, 2020

	#.of. plans	Solvency Level				% of plans which are solvent
		Less than 100%	Between 100% & 120%	Between 120% & 150%	Greater than 150%	
DB	89	4	21	24	40	96%
DC	279	13	190	55	21	96%
Total	368	17	211	79	61	95%

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


Inactive Pension Plans

There still remain 17 inactive pension plans within the Jamaican private pension industry. The total asset values of these dormant pension plans decreased by 13% over the review period; closing the quarter of March 2020 at \$284 million.

Additionally, the membership level of this subsection declined marginally over the quarter. (See: Table 7).

Table 7: Inactive Pension Plans by Type

	Mar 2020	Dec 2019	Sep 2019
Number of Plans			
Defined Benefit	4	4	4
Defined Contribution	13	13	13
Total Terminating Plans	17	17	17
Membership			
Defined Benefit	1,815	1,827	1,827
Defined Contribution	56	55	55
Total Membership	1,871	1,882	1,882
Asset Values			
Defined Benefit (\$ Millions)	223	260	268
Defined Contribution (\$ Millions)	61	69	69
Total Asset Values (\$ Millions)	284	329	337

Terminating Plans

Over the March 2020 quarter, two superannuation funds initiated termination proceedings resulting in a total of 415 termination plans within the industry.

As of March 31, 2020, this group of plans had a total asset value of \$8.7 billion; an 11% decline compared to the previous quarter. (See: Table 8).

Table 8: Terminating Pension Plans by Type

	Mar 2020	Dec 2019	Sep 2019
Number of Plans			
Defined Benefit	100	98	97
Defined Contribution	315	315	314
Total Terminating Plans	413	413	411
Membership			
Defined Benefit	178	232	205
Defined Contribution	477	602	598
Total Membership	655	834	803
Asset Values			
Defined Benefit (\$ Millions)	3,536	4,052	4,016
Defined Contribution (\$ Millions)	5,195	5,776	10,629
Total Asset Values (\$ Millions)	8,731	9,828	14,645

Investment Managers

There are still 26 licensed investment managers (“IMs”) within the Jamaican private pension industry. Securities Dealers (“SD”) account for the largest number of licensees (15) and Life Insurance companies (“LIC”) (3) account for the second-largest number of pension funds under management. During the review quarter, the value of the assets under management by SD declined by 9%; moving from \$281 billion in December 2019 to \$256 billion as at March 2020. The three LIC licensees also experienced a significant decline in assets of 13%. By the end of the quarter, the total pension assets managed by LIC stood at \$316 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 Mar 2020	Asset Values Mar 2020 (\$'Millions)	Number of Entities Dec 2019	Asset Values Dec 2019 (\$'Millions)	Number of Entities Sep 2019	Asset Values Sep 2019 (\$'Millions)
Insurance Companies	3	316,573	3	362,851	3	358,354
Securities Dealers	15	256,371	15	281,160	15	276,329
Credit Unions	1	516	1	543	1	533
Other	7	51,141	7	56,176	7	54,764
Total	26	624,601	26	700,730	26	689,980

Risk Outlook

Over the past 20 quarters, the Jamaican economy had experienced a sustained period of growth. This has now been disrupted as the impact of the Covid-19 pandemic, and the measures put in place to contain its spread caused a 1.8% contraction of the economy over the review period according to the PIOJ. The PIOJ stressed that the capacity utilization encountered within the mining and quarrying industries was lowered and the output in the services (hotels, sales and distribution, and finance) and manufacturing industries was reduced. A vast majority of active pension plan members are employers in these industries; thus the resilience of these market segments would determine the continued viability of a large portion of pension plans within the private pension industry.

Jamaica continues to experience low unemployment rates, even in the midst of the pandemic. According to the Statistical Institute of Jamaica, the unemployment rate as at March 2020 remained just above 7%. Increased job creation has been sustained by the continued growth of the Business Process Outsourcing sector. This sector consists of mainly young individuals that would greatly benefit from participating in arrangements that foster long term social security. Private pension providers are encouraged to target this market for business, as growth in young participants for private pension arrangements will help to significantly improve overall national pension coverage.

Consistent with the economic downturn, annual inflation decelerated to 4.8% as of March 2020; a 1.4% drop from the 6.2% recorded as at December 2019. The Bank of Jamaica reported that this outturn was due to a decrease in agricultural food price inflation and a decline in transport-related costs, partly offset by cost acceleration in Housing, Water, Electricity, Gas, and Other Fuels. Inflation is expected to average 4.4% over the next eight quarters (June 2020 to March 2022).

Covid-19 is piling pressure on both local and global financial markets. The pandemic has partially contributed to a fall in stock prices and lower interest rates. For the March 2020 quarter, the Jamaica Stock Exchange Main index fell by 25.6% and local bond prices by approximately 25%. Nonetheless, generally declining stock prices can offer an opportunity to average down on prices for certain blue-chip stocks; providing more options for trustees seeking to re-balance their pension portfolios and benefit from any market rebound. On the other hand, several pension plans increased investments in local money market instruments despite the fall in bond prices. This may have been done to meet liquidity needs, particularly for those plans with upcoming benefit payouts, as well as to position themselves to take advantage of investment opportunities that may arise.

Real estate assets performed creditably over the quarter, despite the impact of the pandemic. Pension stakeholders may continue looking into the local real estate market for positive investment alternatives as the developers look to implement new designs to meet post- Covid-19 needs to maintain the attraction to the market. Additionally, new housing projects continue as housing demand increases on the heel of recent reductions in mortgage interest rates and increased loan limits in some banks.

It is anticipated that financial markets and businesses will likely continue experiencing declines in the medium to long term; exacerbating the already negative impacts being faced by asset price declines and volatility. This may result in further loss of capital for many pension plans and lingering uncertainty within the industry. The virus's long-term negative effect may be that some pension plans wind-up because employers have been forced to discontinue business. Pension plan sponsors may also look to take contribution holidays, where the pension plan rules allow, which would further minimize the accumulation of benefits for participating employees.

The FSC urges fund managers and administrators to ensure that sufficient due diligence is practiced when managing plan assets. At a time when pension beneficiaries, especially for those approaching retirement, are threatened by this global crisis, responsible practices, improved governance and effective risk management are particularly crucial.

Summary

During the quarter ended March 2020, membership growth in private pension arrangements remained on a steady upward trajectory, now standing at 10.56%. Assets on the other hand contracted by approximately 11% with a reduction from \$700.7 billion to \$624.6 billion. Significant changes included a 12% aggregate reduction in GOJ securities and a 21% aggregate reduction in equities. Of note there was a 33% aggregate increase in assets allocated to repos. Additionally aggregate foreign currency assets increased from 6.41% to 8.1% during the quarter. This is expected to be the result of decreases in value for Jamaican dollar assets such as equities.

This has led to concerns regarding:

1. Continued solvency in particular for DB plans, where benefits are based on salary and the employer contribution rates to meet the cost over the long term would have been estimated. However over, 70% of these funds had a solvency rate of 120% and over.
2. In relation to DC funds, where benefits are based on the contribution and their investment gains, the primary concerns related to withdrawals at depressed prices which could reduce the funds capacity to recover. Thus reducing member benefits. We have therefore issued proposed solutions that trustees may consider to mitigate this impact.
3. There is concern regarding sponsors' ability to continue to contribute to plans, particularly in the tourism sector and we have had discussions with some trustees regarding possible solutions.
4. There is also the potential for increased number of wind-ups which we continue to monitor. We are proposing legislative changes to allow for a smoother transition from a SF to a RS.

Fund managers have reported that they will continue to seek opportunities to acquire high quality stocks at reduced prices.