

# Private Pension Industry Quarterly Statistics

June 2020



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Table 1: Key Statistics

	June 2020	March 2020	December 2019
Number of Plans <sup>1</sup>	811	809	809
Asset Values (\$' Millions)	639,802	624,600	700,730
Total Membership	134,733	134,034	127,347

Figure 1.0 Growth Trend of Total Industry Assets



## Private Pension Industry Overview

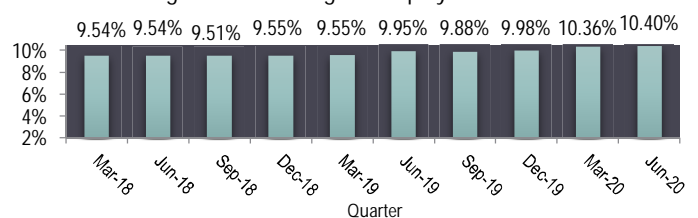
The Jamaican private pension industry exhibited resilience amid the lingering negative impact of the Covid-19 pandemic and provided a positive outturn for the June 2020 quarter. Over the period, the industry increased by 2.4%, marking a rebound from the 11% decline experienced during the March 2020 quarter. By June 30, 2020, the total value of assets in the industry stood at \$639.8 billion. This asset growth returned the average quarterly growth of the industry to 3%. (See: Table 1 & Figure 1.0; details of the five-year (20 quarters) review of the average growth of the private pension sector). It is noteworthy that this growth was not enough to return the industry to the pre-Covid-19 levels as asset values continue to fluctuate given the current uncertainties.

With the introduction of two new pension plans, the industry now consists of a total of 811 pension plans. Membership levels marginally increased over the quarter as well; continuing on an upward trajectory. Both the Jamaican employed labour force<sup>2</sup> and the private pension industry membership continue to depict steady growth quarter over quarter. At the end of June 2020, pension coverage continues to hover around 10%, as there was a marginal increase in the number of individuals participating in private pension arrangements in Jamaica. Figure 1.1 below details this coverage as follows:

- 10.62% in terms of all plans
- 10.40% in terms of active plans

(See: Figures 1.1 & 2)

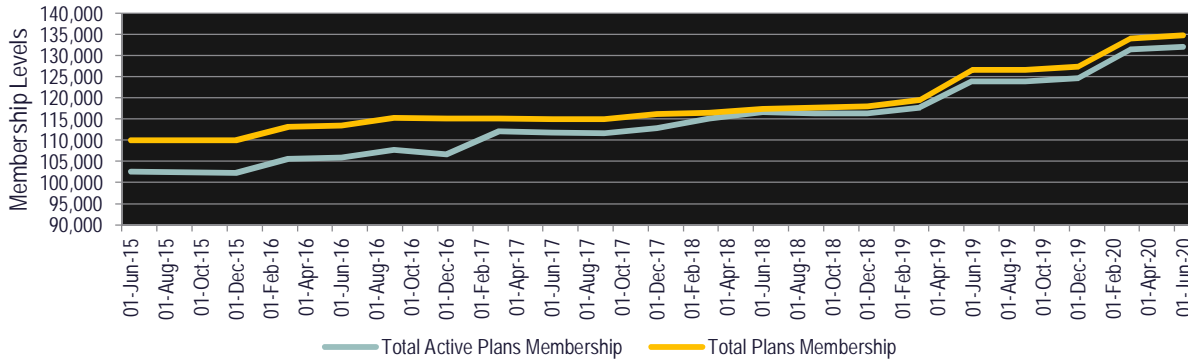
Figure 1.1: Active Membership in Private Pension Arrangements as a %age of Employed Labour



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

<sup>2</sup> The Jamaican employed labour force as at January 31, 2020 was 1,269,100 according to the Planning Institute of Jamaica (pioj.gov.jm). No labour market update was available for as at April 30, 2020.

Figure 2: Growth Trends: Membership Levels of Active Pension Plans vs All Pension Plans



## Investment Mix

### Private Pensions Investments

In the second quarter of 2020, the industry saw the rebound of certain asset classes such as Pooled Investment Arrangements (“PIA”), which, partially due to the negative economic impact of Covid-19, deteriorated over the March 2020 quarter. PIA assets grew by 3.7% in the June 2020 quarter and are currently at \$239.4 billion. This asset class remains the largest within the aggregate portfolio at 37%.

The second-largest portion of pension assets (23%), Government of Jamaica (“GOJ”) securities, experienced a significant quarterly increase of approximately 9%. These assets currently stand at approximately \$142 billion. An uptick in less risky sovereign debt is not uncommon in instances of economic recession such as the current financial atmosphere being imposed by the pandemic. Additionally, similar growth in asset classes such as Leases – 6.9% return and Repurchase Agreements (“Repos”) – 3% return, were also observed over the quarter. Collectively, these assets represented approximately \$30 billion of total private pension invested assets as at June 2020.

Direct holdings of listed equities continued to decline over the June 2020 quarter, as equity prices further declined while firms retreated from the market. As at June 2020, stocks and shares encompassed the third-largest portion (21%) of total private pension invested assets or \$140 billion. Likewise, direct investments in non-governmental fixed-income investments, such as bonds and debentures, mortgage loans and promissory notes, all suffered marginal declines in values over the quarter.

Investments in real property recorded a minute increase in value within the aggregate portfolio and stood at \$27.9 billion. Growth in this asset class has been relatively stable over the past three quarters and perhaps may remain the same for the medium term. Larger institutional investors such as pension funds may be faced with the decision to accept reduced rental income from tenants adversely affected by Covid-19.

(See: Chart 1 & Table 2)

Chart 1: Allocation of Total Private Pension Assets as at June 30, 2020

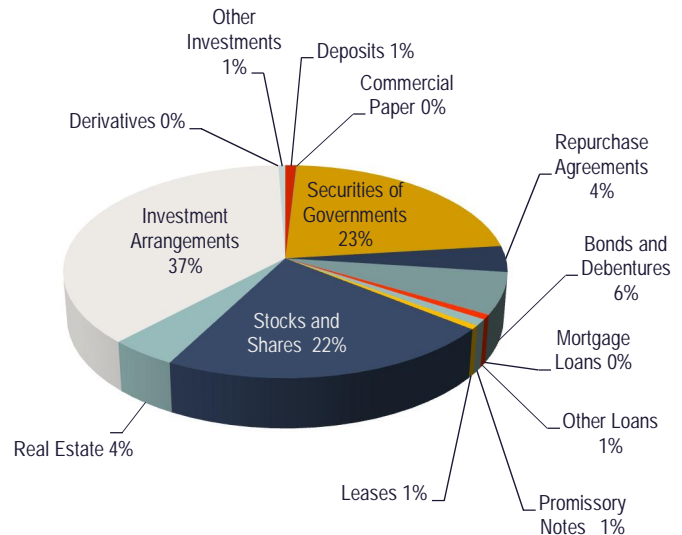


Table 2: Aggregate Investment Mix

Types of Investment	Amount Invested \$' Millions	% of Total Investments	Amount Invested \$' Millions	% of Total Investments	Amount Invested \$' Millions	% of Total Investments
	Jun-20		Mar-20		Dec-19	
Deposits	5,728.31	0.89%	6,246.72	1.00%	6,069.75	0.86%
Commercial Paper	337.44	0.05%	333.35	0.05%	437.53	0.06%
Securities of Governments	141,900.99	22.15%	130,762.00	20.91%	143,807.94	20.48%
Repurchase Agreements	25,384.19	3.96%	24,604.19	3.93%	19,445.09	2.77%
Bonds and Debentures	40,665.51	6.35%	40,941.16	6.55%	38,809.98	5.53%
Mortgage	44.47	0.01%	47.67	0.01%	32.63	0.00%
Other Loans	4,631.70	0.72%	4,839.91	0.77%	4,233.75	0.60%
Promissory Notes	6,304.65	0.98%	6,430.31	1.03%	9,857.88	1.40%
Leases	3,883.84	0.61%	3,630.37	0.58%	5,182.18	0.74%
Stocks and Shares	140,907.80	21.99%	145,058.77	23.20%	180,819.45	25.75%
Real Estate	27,900.23	4.35%	27,722.36	4.43%	25,672.87	3.66%
Investment Arrangements	239,401.51	37.37%	230,740.59	36.90%	263,484.47	37.52%
Derivatives	0.00	0.00%	0.00	0.00%	0.00	0.00%
Other Investments	3,618.71	0.56%	4,001.98	0.64%	4,314.22	0.61%
Total Investments	640,709.34	100.00%	625,359.37	100.00%	702,167.15	100.00%
Other Net Assets	-907.79		-806.06		-1,436.87	
Total Assets	639,801.54		624,553.32		700,730.28	

The March 2020 quarter has been restated

Pooled Investment Arrangements (“PIA”)

The PIA portfolio rebounded from March 2020 quarter by reporting an increase of 3.7% in total assets held. This increase was mainly due to increases in the value of GOJ Securities (10%), Deposits (8%), and promissory notes (5%) held by pension plans.

Within the PIA portfolio, GOJ securities account for the second-largest portion (32%) of assets at just over \$75 billion. Equities account for the largest portion of the PIA portfolio (35%). Over the June 2020 quarter, indirect equity investments experienced low growth, unlike the direct equity investments within the aggregate portfolio. As at the end of the quarter, total stocks and shares held within the PIA portfolio stood at \$80.6 billion.

Indirect investments in real estate assets marginally declined during the quarter. These assets currently account for 12% of total PIA assets or \$26.9 billion. (See: Chart 2 & Table 3).

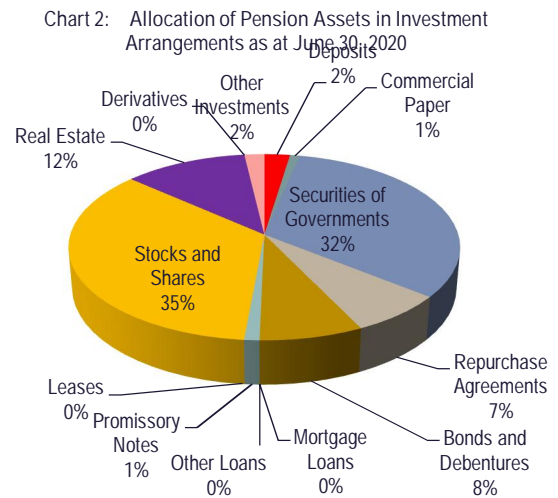


Table 3: Pooled Investment Arrangements Portfolio Mix

Types of Investment	Amount Invested (\$' Millions)	% of Total Investments	Amount Invested (\$' Millions)	% of Total Investments	Amount Invested (\$' Millions)	% of Total Investments
	Jun-20		Mar-20		Dec-19	
Deposits	5,574.80	2.41%	5,145.93	2.30%	3,844.36	1.50%
Commercial Paper	2,121.29	0.92%	2,242.82	1.00%	2,250.25	0.88%
Securities of Governments	75,163.74	32.43%	68,264.56	30.54%	82,204.28	32.16%
Repurchase Agreements	16,337.71	7.05%	16,544.39	7.40%	11,561.05	4.52%
Bonds and Debentures	17,477.22	7.54%	17,080.30	7.64%	15,633.04	6.12%
Mortgage	0.07	0.00%	0.07	0.00%	0.07	0.00%
Other Loans	0.00	0.00%	0.26	0.00%	0.26	0.00%
Promissory Notes	2,550.34	1.10%	2,430.47	1.09%	2,435.70	0.95%
Leases	648.82	0.28%	644.51	0.29%	715.70	0.28%
Stocks and Shares	80,650.88	34.80%	80,108.58	35.84%	104,864.93	41.02%
Real Estate	26,916.72	11.61%	27,381.16	12.25%	28,271.12	11.06%
Derivatives	0.00	0.00%	0.00	0.00%	0.00	0.00%
Other Investments	4,336.45	1.87%	3,645.44	1.63%	3,858.36	1.51%
Total Pooled Investments	231,778.03	100.00%	223,488.50	100.00%	255,639.13	100.00%
Other Net Assets	1,452.11		1,211.47		1,163.64	
Deposit Administration	6,171.37		6,040.62		6,681.71	
Total Assets	239,401.51		230,740.59		263,484.47	

The March 2020 quarter has been restated

## Operating Statistics

### Active Pension Plans

The June 2020 quarter saw the registration of two new pension plans, however, three plans also initiated winding-up proceedings. Currently, there are 376 active pension plans - 46% of the total private pension industry. Nevertheless, the industry still experienced a quarter over quarter growth in membership. (See: Table 4).

During the quarter active plans showed signs of recovery from significant losses experienced in the March quarter, as total net assets for active pension plans increased marginally to close out the quarter at \$628.7 billion.

Over the quarter, the total asset value of defined benefit ("DB") pension plans experienced a minor decline. However, defined contribution ("DC") pension plans experienced a 7% increase in total pension assets. Notwithstanding, DB pension plans still account for the larger portion of total private pension assets at 60% or \$377.8 billion and DC plans accounted for the remaining 40% of assets or 250.9 billion. (See: Table 5)

### Active Plans by Type

As at June 30, 2020, the industry consists of just over 132,000 active members. During the review period, there was a marginal decline in the active membership of retirement schemes ("RS"). Conversely, superannuation funds ("SF") experienced a marginal increase in membership. Currently, 49% of the total number of participating members is enrolled in RS and 51% are participating in SF.

Currently, there are 363 SF or 97% of the total number of active plans. There are still 13 RS that represent the remaining 3%. The total net assets of RS increased significantly by 11% and stood at approximately \$52 billion, exceeding the pre-Covid 19 values. SF grew marginally to close out the quarter at just over \$577 billion as this segment is taking a little longer to recover from the effects of the macroeconomic decline. (See: illustrations in Table 5 - Parts A & B, Charts 3 - 4).

Table 4: Active Pension Plans by Type

	Jun 2020	Mar 2020	Dec 2019
Number of Plans			
Defined Benefit	88	90	92
Defined Contribution	288	287	287
Total Active Plans	376	377	379
Membership			
Defined Benefit	20,029	20,140	20,487
Defined Contribution	111,974	111,368	104,144
Total Membership	132,003	131,508	124,631
Assets Values			
Defined Benefit (\$' Millions)	377,829	380,617	419,349
Defined Contribution (\$' Millions)	250,892	234,968	271,223
Total Asset Values (\$' Millions)	628,721	615,585	690,572

Table 5: Active Plans by Type as at June 30, 2020

<i>Part A</i>				
	Number of Active Plans	Percentage of Plans	Number of Members	Percentage of Membership
Retirement Schemes	13	3.46%	65,300	49.47%
Superannuation Funds	363	96.54%	66,703	50.53%
TOTAL	376	100.00%	132,003	100.00%
<i>Part B</i>				
	Asset Value as at June 30, 2020 (\$' Millions)	Percentage of Asset Value		
Retirement Schemes	51,574	8.20%		
Superannuation Funds	577,147	91.80%		
TOTAL	628,721	100.00%		

Chart 3: Asset Values for Active Superannuation Funds

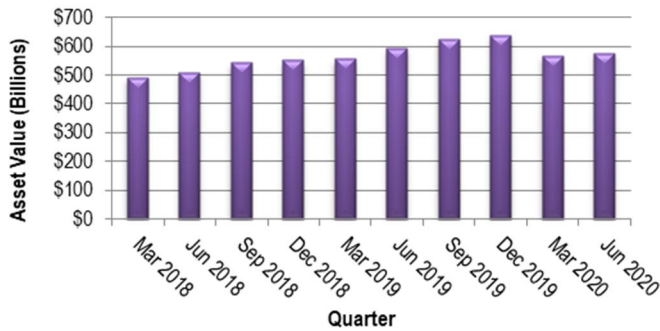
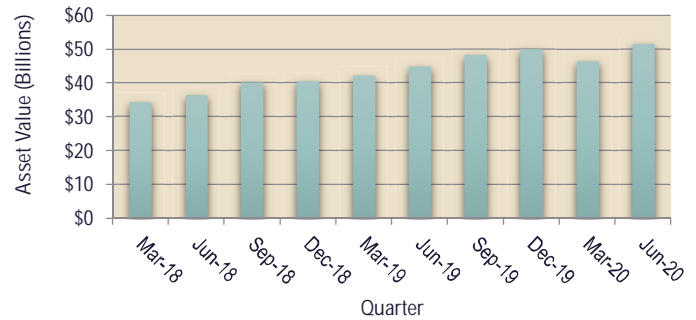


Chart 4: Asset Values for Active Retirement Schemes



Active Superannuation Funds by Industry

For the June 2020 quarter, the Planning Institute of Jamaica (“PIOJ”) <sup>3</sup> reported that the Services industry contracted by approximately 21%. The PIOJ stated that this sector was one of the sectors most significantly impacted by Covid-19. Nevertheless, total pensions assets as at the end of the quarter in the Services sector stood at \$99.6 billion; a marginal increase when compared to the \$98.2 billion reported in March 2020, while the Commerce and Finance sector accounted for \$216.5 billion; a likewise marginal growth when compared to the previous quarter’s \$214.3 billion. A marginal reduction in the membership levels of active plans within the Services industry was observed over the quarter. Approximately 10% of the Jamaican employed population includes individuals working within this sector. Currently, there are just over 23,800 pension plan members in the Services sector; the largest number of active private SF participants within the Jamaican private pensions industry - 36%. (See: Charts 5 - 7).

The PIOJ also reported a minute contraction of the Commerce and Finance sector. However, this segment of the private pension industry experienced a marginal increase in total membership. The Commerce and Finance sector accounts for the second-largest number of pension plan participants with just over 11,800 members - 18%.

Chart 5: Number of Active Funds by Industry

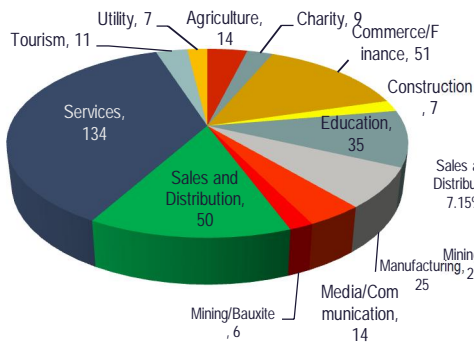


Chart 6: Asset Values by Industry

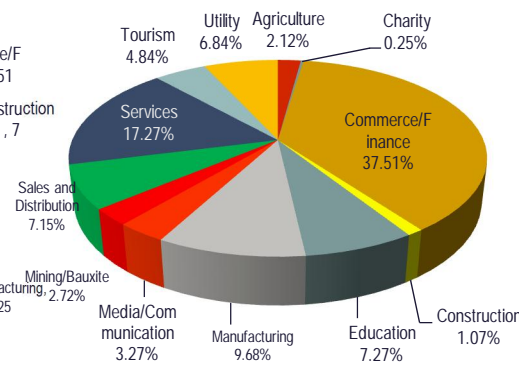
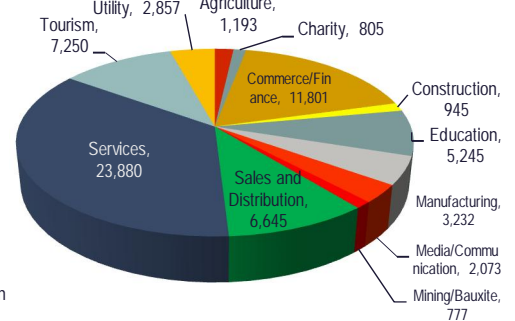


Chart 7: Number of Active Membership by Industry



Solvency of Active Pension Plans

Solvency risk must be managed by trustees and their agents. Of the 363 private pension plans that submitted actuarial valuation reports, 95% or 347 plans were solvent. (See: Table 6)

In cases of DB plans, the obligation to fund any shortfall lies with the sponsors who will have to explore measures to maintain coverage of liabilities or increase pension reserves that can pose a risk to the sponsoring company remaining as a going concern. Trustees are guided to be vigilant in understanding the risks being faced by the sponsors and their ability to continue to fund pension liabilities.

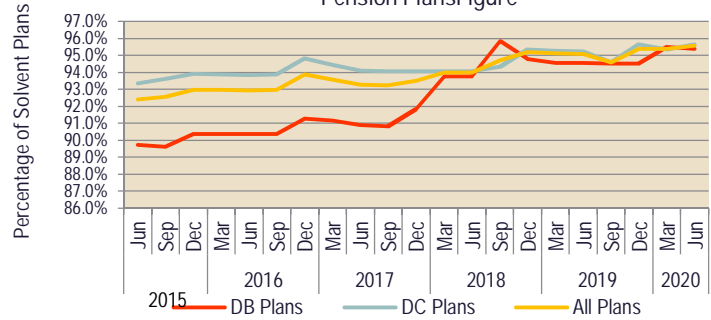
<sup>3</sup> The Planning Institute of Jamaica’s Review of Economic Performance April – June 2020 - www.pioj.gov.jm

Figure 3 illustrates the trend in the solvency levels of pension plans between 2015 and 2020

Table 6: Solvency Levels of Active Plans as at June 30, 2020

	#.of. plans	Solvency Level				% of plans which are solvent
		Less than 100%	Between 100% & 120%	Between 120% & 150%	Greater than 150%	
DB	87	4	20	24	39	95%
DC	276	12	189	55	20	96%
Total	363	16	209	79	59	96%

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



*Inactive Pension Plans*

In Jamaica there are 17 inactive pension plans. As at June 30, 2020, the total asset values of these dormant pension plans stood at \$284 billion: no change from the previous quarter ended March 31, 2020.

Similarly, membership within this subsection remained unchanged. Currently, there are just over 1,800 inactive pension plan members within the industry. (See: Table 7).

Table 7: Inactive Pension Plans by Type

	Jun 2020	Mar 2020	Dec 2019
<b>Number of Plans</b>			
Defined Benefit	4	4	4
Defined Contribution	13	13	13
<b>Total Terminating Plans</b>	<b>17</b>	<b>17</b>	<b>17</b>
<b>Membership</b>			
Defined Benefit	1,815	1,815	1,827
Defined Contribution	56	56	55
<b>Total Membership</b>	<b>1,871</b>	<b>1,871</b>	<b>1,882</b>
<b>Asset Values</b>			
Defined Benefit (\$ Millions)	222	223	260
Defined Contribution (\$ Millions)	62	61	69
<b>Total Asset Values (\$ Millions)</b>	<b>284</b>	<b>284</b>	<b>329</b>

### Terminating Plans

Over the June 2020 quarter, three plans initiated termination proceedings; increasing the number of terminating plans within the industry to 418; 51% of the total number of private pension plans.

As at June 30, 2020, the total asset value of this group of plans stood at approximately \$10.8 billion; an 22.9% increase compared to the previous quarter. (See: Table 8).

Table 8: Terminating Pension Plans by Type

	Jun 2020	Mar 2020	Dec 2019
Number of Plans			
Defined Benefit	102	100	98
Defined Contribution	316	315	315
<b>Total Terminating Plans</b>	<b>418</b>	<b>415</b>	<b>413</b>
Membership			
Defined Benefit	305	178	232
Defined Contribution	554	477	602
<b>Total Membership</b>	<b>859</b>	<b>655</b>	<b>834</b>
Asset Values			
Defined Benefit (\$' Millions)	5,353	3,536	4,052
Defined Contribution (\$' Millions)	5,444	5,195	5,776
<b>Total Asset Values (\$' Millions)</b>	<b>10,797</b>	<b>8,731</b>	<b>9,828</b>

### Investment Managers

During the quarter, the Investment Managers' licence of one corporate entity was canceled, consequently, there are now there are 25 licensed investment managers ("IMs"). Securities Dealers ("SD") account for the bulk of the total number of IMs however, the largest market share of private pension assets (52%) is managed by Life Insurance companies ("LIC"). As at June 30, 2020, the three LIC managed assets in excess of \$334 billion, a marginal increase relative to the previous quarter. The 14 SD that account for the second-largest amount of managed pension assets (approximately 40% or \$253.2 billion), continues to experience quarterly declines in asset values.

A sole credit union and seven other entities manage the remaining 8% of total private pension assets. (See Table 9)

Table 9: Total Assets Under Management of Investment Managers

Investment Managers	Number of Entities Jun 2020	Asset Values Jun 2020 (\$'Millions)	Number of Entities Mar 2020	Asset Values Mar 2020 (\$'Millions)	Number of Entities Dec 2019	Asset Values Dec 2019 (\$'Millions)
Insurance Companies	3	334,457	3	316,573	3	362,851
Securities Dealers	14	253,204	15	256,371	15	281,160
Credit Unions	1	531	1	516	1	543
Other	7	51,610	7	51,141	7	56,176
<b>Total</b>	<b>26</b>	<b>639,802</b>	<b>26</b>	<b>624,601</b>	<b>26</b>	<b>700,730</b>

### Risk Outlook

The economic outlook for Jamaica remains relatively uncertain given the negative impacts of the ongoing Covid-19 pandemic. The PIOJ reported that for the June 2020 quarter, the economy contracted by as much as 18%. The decline in economic growth was attributed to major contractions of certain sectors, particularly, Services and Tourism, that were greatly impacted by the pandemic and the measures put in place to contain its spread. Approximately 36% of active pension plan participants are individuals employed in the services industry; outlining the importance the viability of the sector to the private pension industry.

Jamaica continues to experience relatively low unemployment rates, even in the midst of the pandemic, however, unemployment may worsen in the short term with the Bank of Jamaica ("BOJ") reporting that the average unemployment rate is projected to increase by 10% for the next four

quarters. Any decrease in disposable income has implications for the viability of the RS segment. During the June 2020 quarter, the BPO<sup>4</sup> sector lost approximately \$5.88 billion in revenue due to imposed restrictions caused by the COVID-19 pandemic. Continued downtime in this sector will significantly stymie the growth of the employed labour force; which in turn could dampen the possibilities of increased participation in pension arrangements necessary to improve overall national pension coverage.

The BOJ reported that, by the end of the quarter, annual inflation accelerated to 6.3%; a 1.5 percentage point increase when compared to the 4.8% reported in March 2020. The central bank attributed this to a rise in food price inflation and increased costs in electricity and water & sewage rates. Inflation is expected to decelerate to 5% over the medium term (the next three quarters).

Further, in light of several factors inclusive of the economic downturn due to Covid-19, Fitch Ratings has revised Jamaica's Outlook from positive to stable and affirmed a B+ with respect to the Long-Term Foreign-Currency Issuer Default Rating. Nonetheless, investors appeared to remain optimistic as the JSE Main Index managed to move from 379,242.11 points as at March 31, 2020, to 383,755.80 points as at June 30, 2020. This performance represents a minor increase when compared to the 21% improvement in the index experienced over the June 2019 quarter. Pension plans have experienced depressed values of their equity investments over the quarter as they further look to diversify their portfolios, spread risks, and better generate funds to meet liquidity needs.

If the localized spread of Covid-19 increases, the government may have to resort to stronger measures to curtail it, which will worsen the economic contraction. Financial markets may be exposed to further shocks to asset prices and firms will have to face continued disruption in business. This may result in further loss of capital for many pension plans and lingering uncertainty within the industry. There are increased risks 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 inflow of assets in the industry.

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

## Summary

Over the June 2020 quarter the number of active private pension arrangements reduced to 377. Nevertheless, membership growth remained on a steady growth path. Additionally private pension plan asset values are approaching pre-Covid-19 levels.

The current market conditions and the financial shocks being endured by the industry has led to the following concerns:

1. Adequate solvency / funding levels for DB pension plans: Asset price shocks can reduce the value of pension reserves available for DB plans; causing reduced funding ratios. In such instances, the sponsors' obligations will call for swift action to be taken to re-establishing healthy funding ratios within a reasonable period.
2. Declining asset values negatively impact DC plans as declining net yields affect the accumulation of members' accounts and their potential replacement ratios at retirement.
3. There is concern regarding the strength of employer covenants, particularly those from the Services and Tourism sectors.
4. There is also the potential for increased number of wind-up of pension plans which the FSC continues to monitor as a further three plans wound-up during the quarter. In light of this, among other factors, proposals for legislative changes to allow for a smoother transition from a SF to a RS are under consideration.

<sup>4</sup> [http://www.jamaicaobserver.com/news/business-unusual-for-bpos-in-the-covid-19-aftermath\\_195292?profile=1096](http://www.jamaicaobserver.com/news/business-unusual-for-bpos-in-the-covid-19-aftermath_195292?profile=1096)