

# Private Pension Industry Quarterly Statistics

September 2020



## INSIDE THIS REPORT

1. Private Pension Industry Overview
2. Investment Mix
3. Operating Statistics
4. Risk Outlook

Table 1: Key Statistics

	September 2020	June 2020	March 2020
<b>Number of Plans<sup>1</sup></b>	817	811	809
<b>Asset Values (\$' Millions)</b>	639,285	639,799	624,600
<b>Total Membership</b>	136,009	134,733	134,034

## Private Pension Industry Overview

The Covid-19 pandemic continued to have a negative impact on the Jamaican private pension industry during the September 2020 quarter, as the industry contracted by 0.08%, contrasting the 2.4% increase experienced during the June 2020 quarter. As at September 30, 2020, the total value of assets in the industry amounted to \$639.29 billion. Notwithstanding a contraction, the five-year average quarterly growth of the industry was 3%. (See: Table 1 & Figure 1; details of the five-year (20 quarters) review of the average growth of the private pension sector). Evidently, asset values continue to fluctuate given the current uncertainties in the market.

The industry now consists of a total of 817 pension plans, having seen the introduction of six new pension plans. The private pension industry membership continues to depict steady growth quarter over quarter. However, there was a 12% decrease in the Jamaican employed labour force<sup>2</sup> from January to July 2020. Consequently, private pension coverage increased by the end of the quarter. Figure 1.1 below details this coverage as follows:

- 12.16% in terms of all plans
- 11.91% in terms of active plans

(See: Figures 1.1 & 1.2)

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

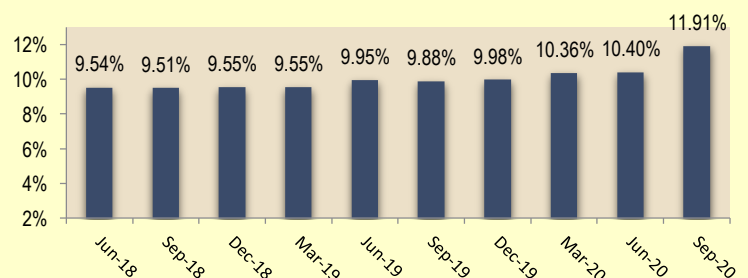


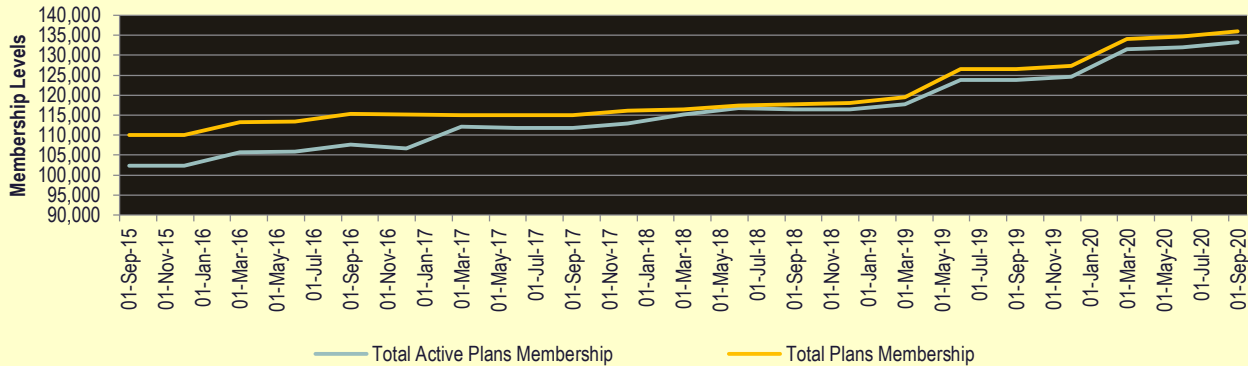
Figure 1.0 Growth Trend of Total Industry Assets



<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 July 31, 2020 was 1,118,300 according to the Planning Institute of Jamaica (pioj.gov.jm). No labour market update was available for as at October 31, 2020.

Figure 1.2: Growth Trends: Membership Levels of Active Pension Plans vs All Pension Plans

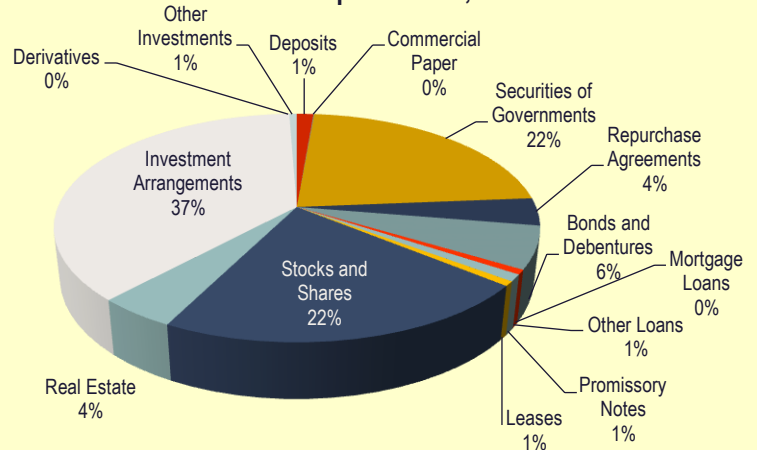


Investment Mix

Private Pensions Investments

As at September 30, 2020, Pooled Investment Arrangements (“PIA”), remained the largest asset class at 37%. Investments in PIA stood at \$239.67 billion, representing 0.11% growth from the previous quarter. Similarly, Government of Jamaica (“GOJ”) securities, which surpassed investments in stocks during the last quarter, account for the second-largest portion of private pension assets (22%) and experienced marginal growth of approximately 0.77%, to close the quarter at \$142.96 billion. Increases in the value of commercial paper, leases, real estate and deposits, collectively valued at \$41.49 billion, were also noted during the quarter, with the latter asset class experiencing the most significant value growth (48%). This is partially attributable to the desire of some pension plans to increase liquidity and the paucity of new investment opportunities within the financial landscape.

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



Marginal declines in corporate securities, such as bonds and debentures, and promissory notes were noted over the quarter. As investors in listed equities remain uncertain given the global pandemic and the related declines in the value of equities, consequent reductions in the value of direct holdings of stocks and shares were observed. Notwithstanding, stocks and shares remained the third-largest portion (22%) of total private pension invested assets, with approximately \$138 billion invested. (See: Chart 1 & Table 2)

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-20		Jun-20		Mar-20	
Deposits	8,457.33	1.32%	5,728.31	0.89%	6,246.72	1.00%
Commercial Paper	380.87	0.06%	337.44	0.05%	333.35	0.05%
Securities of Governments	142,961.72	22.34%	141,865.83	22.14%	130,762.00	20.91%
Repurchase Agreements	24,920.28	3.90%	25,392.20	3.96%	24,604.19	3.93%
Bonds and Debentures	38,352.60	5.99%	40,682.21	6.35%	40,941.16	6.55%
Mortgage	26.45	0.00%	44.47	0.01%	47.67	0.01%
Other Loans	4,211.13	0.66%	4,631.70	0.72%	4,839.91	0.77%
Promissory Notes	6,211.79	0.97%	6,304.65	0.98%	6,430.31	1.03%
Leases	4,198.16	0.66%	3,883.84	0.61%	3,630.37	0.58%
Stocks and Shares	138,159.29	21.59%	140,907.80	21.99%	145,058.77	23.20%
Real Estate	28,449.75	4.45%	27,900.23	4.35%	27,722.36	4.43%
Investment Arrangements	239,674.84	37.46%	239,401.40	37.37%	230,740.59	36.90%
Derivatives	0.00	0.00%	0.00	0.00%	0.00	0.00%
Other Investments	3,792.90	0.59%	3,619.05	0.56%	4,001.98	0.64%
<b>Total Investments</b>	<b>639,797.13</b>	<b>100.00%</b>	<b>640,699.13</b>	<b>100.00%</b>	<b>625,359.37</b>	<b>100.00%</b>
Other Net Assets	-512.07		-899.81		-806.06	
<b>Total Assets</b>	<b>639,285.06</b>		<b>639,799.32</b>		<b>624,553.32</b>	

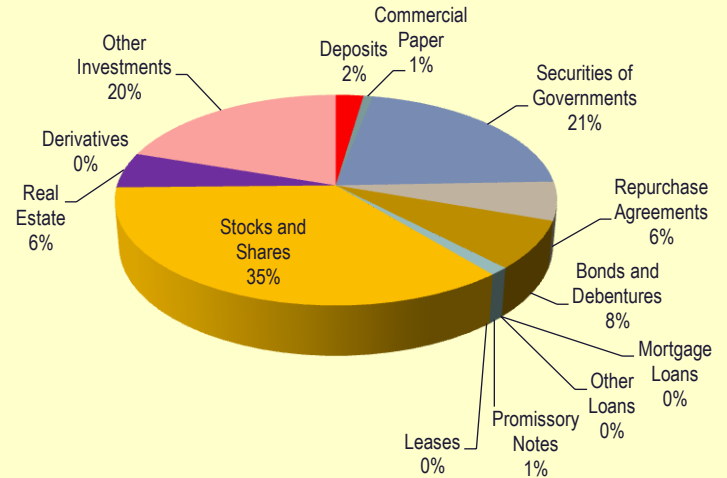
The June 2020 quarter was restated.

**Pooled Investment Arrangements (“PIA”)**

The PIA portfolio experienced marginal growth of 0.11% during the quarter. Similar to the previous quarter, stocks and shares experienced low growth, taking the largest asset class (35%) within the PIA portfolio to \$82.05 billion. Further, indirect investments in promissory notes and leases also contributed to the growth of the PIA portfolio for the quarter, with 11.11% and 11.50% return, respectively.

Additionally, there was a 962% increase in assets allocated to other investments, which correlated to significant declines in the assets invested in GOJ securities and real estate. Consequently, GOJ securities and other investments accounted for 21% (\$49.37 billion) and 20% (\$46.04 billion) of assets within the PIA portfolio respectively, a change from the 32% and 2% reported in the previous quarter, respectively. As at September 30, 2020, indirect investments in real estate accounted for only 5% of total PIA assets or 12.61 billion, a reduction from the 11.61% reported for the June quarter. These changes were primarily due to a reclassification of an asset class in the PIA. (See: Chart 2 & Table 3).

**Chart 2: Allocation of Pension Assets in Investment Arrangements as at September 30, 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
	Sep-20		Jun-20		Mar-20	
Deposits	5,387.19	2.32%	5,574.80	2.41%	5,145.93	2.30%
Commercial Paper	1,805.52	0.78%	2,121.29	0.92%	2,242.82	1.00%
Securities of Governments	49,368.61	21.30%	75,163.74	32.43%	68,264.56	30.54%
Repurchase Agreements	13,700.74	5.91%	16,337.71	7.05%	16,544.39	7.40%
Bonds and Debentures	17,240.92	7.44%	17,477.22	7.54%	17,080.30	7.64%
Mortgage	0.07	0.00%	0.07	0.00%	0.07	0.00%
Other Loans	0.00	0.00%	0.00	0.00%	0.26	0.00%
Promissory Notes	2,833.76	1.22%	2,550.34	1.10%	2,430.47	1.09%
Leases	723.46	0.31%	648.82	0.28%	644.51	0.29%
Stocks and Shares	82,046.96	35.40%	80,650.88	34.80%	80,108.58	35.84%
Real Estate	12,611.40	5.44%	26,916.72	11.61%	27,381.16	12.25%
Derivatives	0.00	0.00%	0.00	0.00%	0.00	0.00%
Other Investments	46,039.09	19.87%	4,336.45	1.87%	3,645.44	1.63%
<b>Total Pooled Investments</b>	<b>231,757.71</b>	<b>100.00%</b>	<b>231,778.03</b>	<b>100.00%</b>	<b>223,488.50</b>	<b>100.00%</b>
Other Net Assets	1,084.75		984.79		1,211.47	
Deposit Administration	6,832.38		6,638.57		6,040.62	
<b>Total Assets</b>	<b>239,674.84</b>		<b>239,401.40</b>		<b>230,740.59</b>	

**Operating Statistics**

**Active Pension Plans**

During the quarter, total net assets for active pension plans declined by 0.08% to \$628.75 billion and accounted for 46% of the total private pension industry. The movement resulted in assets for active plans accounting for 98% of total private pension assets. Despite the winding-up of four pension plans during the quarter, the total number of active plans increased to 378 due to the registration of six new pension plans. Continuing on trend, the industry experienced steady growth in active membership. (See: Table 5).

While defined contribution (“DC”) plans continue to outweigh defined benefit (“DB”) plans with regard to membership and the number of plans, DB pension plans still accounted for 60% of the total private pension assets or \$377.38 billion, while DC plans accounted for the remaining 40% or \$251.37 billion. DB plans experienced another negligible decline in total assets; conversely, DC plans experienced a 0.19% increase in total pension assets over the period. (See: Table 5)

**Active Plans by Type**

The September 2020 quarter reflected another increase in total active membership in private pension plans, bringing the total to 133,208 active members, with both retirement schemes (“RS”) and superannuation funds (“SF”) seeing marginal increases in membership. Changes in plan membership over the period resulted in virtually equal participation of active members in SF and RS.

There were no changes in the number of retirement schemes, which still accounts for approximately 3% of active plans. However, the total number of SF increased to 365. Likewise, assets of SF experienced slight growth, resulting in total assets of \$579.05 billion. The total net assets of RS amounted to approximately \$50 billion, reflecting a 3.64% decrease. (See: illustrations in Table 6 - Parts A & B, Charts 3 - 4).

**Table 4: Active Pension Plans by Type**

	Sep 2020	Jun 2020	Mar 2020
<b>Number of Plans</b>			
Defined Benefit	88	88	90
Defined Contribution	290	288	287
<b>Total Active Plans</b>	<b>378</b>	<b>376</b>	<b>377</b>
<b>Membership</b>			
Defined Benefit	19,695	20,029	20,140
Defined Contribution	113,513	111,974	111,368
<b>Total Membership</b>	<b>133,208</b>	<b>132,003</b>	<b>131,508</b>
<b>Assets Values</b>			
Defined Benefit (\$' Millions)	377,382	377,818	380,617
Defined Contribution (\$' Millions)	251,368	250,892	234,968
<b>Total Asset Values (\$' Millions)</b>	<b>628,749</b>	<b>628,710</b>	<b>615,585</b>

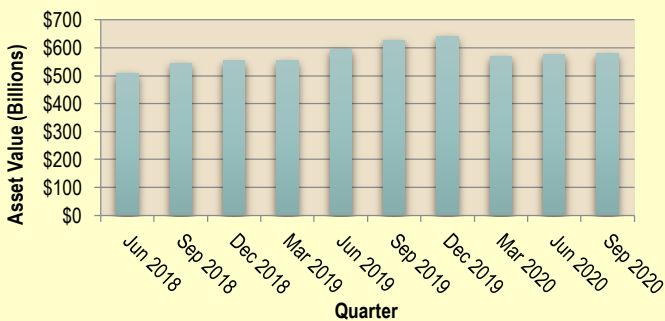
**Table 5: Active Plans by Type as at September 30, 2020**

<b>Part A</b>				
	Number of Active Plans	Percentage of Plans	Number of Members	Percentage of Membership
<b>Retirement Schemes</b>	13	3.45%	66,411	49.86%
<b>Superannuation Funds</b>	365	96.55%	66,797	50.14%
<b>TOTAL</b>	<b>378</b>	<b>100.00%</b>	<b>133,208</b>	<b>100.00%</b>

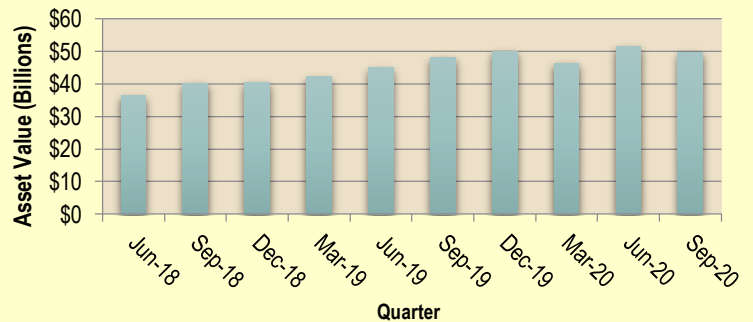
  

<b>Part B</b>		
	Asset Value as at Sep 30, 2020 (\$' Millions)	Percentage of Asset Value
<b>Retirement Schemes</b>	49,699	7.90%
<b>Superannuation Funds</b>	579,050	91.80%
<b>TOTAL</b>	<b>628,749</b>	<b>100.00%</b>

**Chart 3: Asset Values for Active Superannuation Funds**



**Chart 4: Asset Values for Active Retirement Schemes**

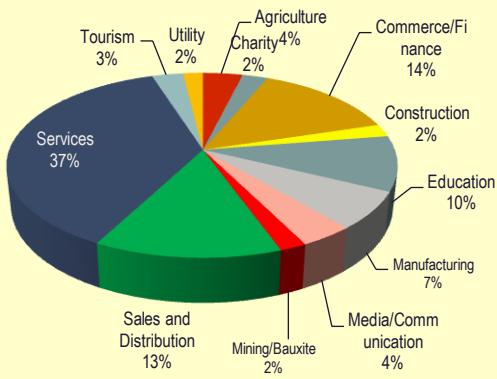




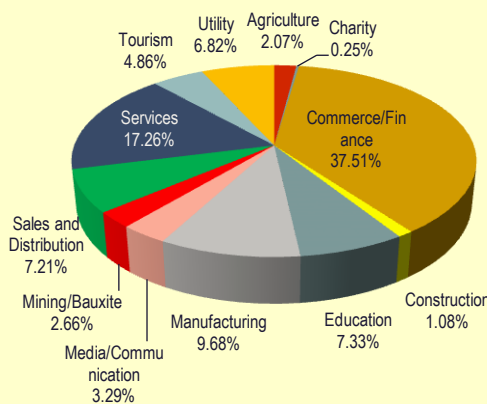
**Active Superannuation Funds by Industry**

The Planning Institute of Jamaica (“PIOJ”) reported that the Services industry, which has the largest number of active private pension plans and participants, further contracted by 13% during the September 2020 quarter, mainly due to a reduction in recreational activities stemming from the spread of covid-19. Notwithstanding, total pension assets for the Services industry marginally increased to \$99.96 billion by the end of the quarter. Additionally, membership in active plans within the Services industry grew to 23,915, a slight increase from the 23,880 members reported by the end of the June quarter. Similarly, the Commerce and Finance sector, which accounts for the largest portion of private pension assets (37.51%) and the second largest number of active plans and participants, saw marginal growth in both asset values and membership over the period, notwithstanding a 4.5% contraction of the sector. The Commerce and Finance sector therefore closed out the quarter with total assets valued at \$217.22 billion. (See: Charts 5 - 7).

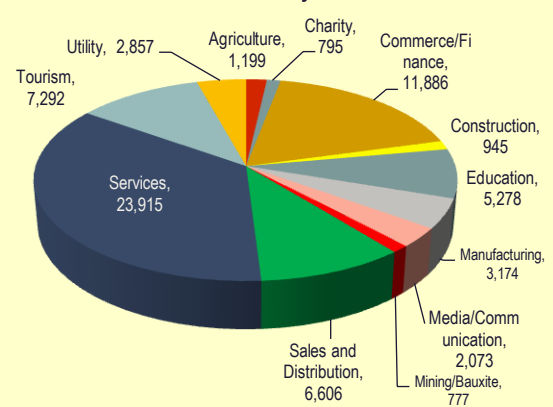
**Chart 5: Number of Active Funds by Industry**



**Chart 6: Asset Values by Industry**



**Chart 7: Number of Active Membership by Industry**



**Solvency of Active Pension Plans**

Three hundred and sixty-one (361) plans or 96% of total active plans submitted solvency data for the period. An analysis of the data provided revealed that there was a negligible increase in the solvency positions of majority of pension plans within the industry when compared with the previous quarter, due to the increase in the number of solvent DB plans. 96% or 347 of these plans were still solvent. (See: Table 7)

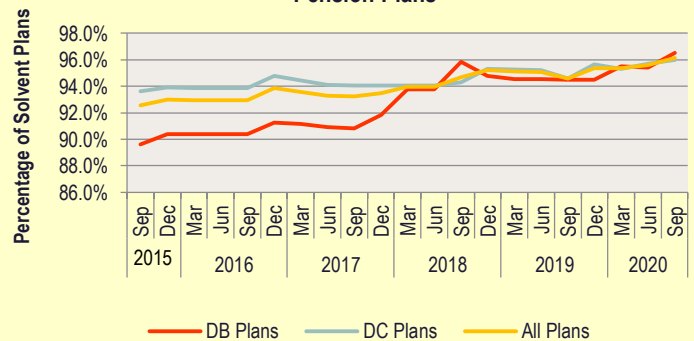
In light of the current economic climate, it is pertinent that trustees of DB plans and their agents actively monitor solvency risk. Trustees are to remain aware of the various risks faced by sponsors, as sponsors are obligated to fund any shortfall in assets available to cover liabilities.

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 September 30, 2020**

	#.of. plans	Solvency Level				% of plans which are solvent
		Less than 100%	Between 100% & 120%	Between 120% & 150%	Greater than 150%	
DB	86	3	15	26	42	97%
DC	275	11	188	56	20	96%
<b>Total</b>	<b>361</b>	<b>14</b>	<b>203</b>	<b>82</b>	<b>62</b>	<b>96%</b>

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



### Inactive Pension Plans

There was no change in the number of inactive plans and concomitant membership as at September 30, 2020. However, the asset value for these inactive plans decreased by 3.5% to \$274 billion. (See: Table 7).

**Table 7: Inactive Pension Plans by Type**

	Sep 2020	Jun 2020	Mar 2020
<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	1,815
Defined Contribution	56	56	56
<b>Total Membership</b>	<b>1,871</b>	<b>1,871</b>	<b>1,871</b>
<b>Asset Values</b>			
Defined Benefit (\$ Millions)	212	222	223
Defined Contribution (\$ Millions)	62	62	61
<b>Total Asset Values (\$ Millions)</b>	<b>274</b>	<b>284</b>	<b>284</b>

### Terminating Plans

The number of terminating plans increased to 422 during the September 2020 quarter, as four plans initiated termination proceedings. Consequently, terminating plans account for 52% of the total number of private pension plans.

As at September 30, 2020, the total asset value of this group of plans stood at approximately \$10.3 billion; a 5.0% decrease compared to the previous quarter. (See: Table 8).

**Table 8: Terminating Pension Plans by Type**

	Sep 2020	Jun 2020	Mar 2020
<b>Number of Plans</b>			
Defined Benefit	103	102	100
Defined Contribution	319	316	315
<b>Total Terminating Plans</b>	<b>422</b>	<b>418</b>	<b>415</b>
<b>Membership</b>			
Defined Benefit	363	305	178
Defined Contribution	567	554	477
<b>Total Membership</b>	<b>930</b>	<b>859</b>	<b>655</b>
<b>Asset Values</b>			
Defined Benefit (\$ Millions)	5,217	5,353	3,536
Defined Contribution (\$ Millions)	5,044	5,444	5,195
<b>Total Asset Values (\$ Millions)</b>	<b>10,262</b>	<b>10,797</b>	<b>8,731</b>

### Investment Managers

There still remains 25 licensed investment managers ("IMs") in Jamaica. While there are only three Life Insurance Companies ("LIC") managing assets within the private pension industry, the companies managed approximately 52% of the total private pensions assets as at September 30, 2020, or \$331.69 billion. Securities Dealers ("SD"), which account for the largest number of IMs – 15, and the second-largest amount of managed pension assets, likewise saw some growth during the quarter in contrast to the decline experienced in the last two quarters, bringing the total assets managed by SD companies to \$255.36 million. (See Table 9)

Table 9: Total Assets Under Management of Investment Managers

Investment Managers	Number of Entities Sep 2020	Asset Values Sep 2020 (\$'Millions)	Number of Entities Jun 2020	Asset Values Jun 2020 (\$'Millions)	Number of Entities Mar 2020	Asset Values Mar 2020 (\$'Millions)
Insurance Companies	3	331,693	3	334,457	3	316,573
Securities Dealers	15	255,356	15	253,204	15	256,371
Credit Unions	1	552	1	531	1	516
Other	6	51,683	6	51,610	7	51,141
<b>Total</b>	<b>25</b>	<b>639,285</b>	<b>25</b>	<b>639,802</b>	<b>26</b>	<b>624,601</b>

## Risk Outlook

The negative impacts of the Covid-19 pandemic on Jamaica's economy were still evident in the September 2020 quarter, as the PIOJ reported economic contraction of 11.3%. Continuing on the same trend, the PIOJ predicts that the country's real GDP will further contract within the range of 9% to 11% in the next quarter. Major contractions in the Services, Tourism and Mining/Bauxite sectors continued to contribute to the decline in economic growth, largely due to limited movement of tourists and nationals, and reduced recreational activities and output stemming from imposed Covid-19 protocols. Given that these sectors collectively employ approximately 48% of active pension plan participants, a rebound of the sectors is crucial for the sustainability of the private pension industry.

During the quarter, Jamaica's unemployment rate moved to 12.6% as at July 2020, a significant increase from the 7.3% reported in January 2020. Further, the PIOJ reported that Jamaica experienced the largest year-over-year decline in employment ever recorded, which reflected the impact of the pandemic. As businesses grapple with reduced revenue, downsizing across various industries has become inevitable, resulting in a decrease in the disposable income of the population. This may further dampen the possibilities of increased participation in pension arrangements, particularly in the retirement scheme segment, necessary to improve overall national pension coverage.

Annual inflation decelerated to 4.9% during the September quarter, a 1.4 percentage point decrease when compared to the 6.3% reported at June 2020. The BOJ attributed this outcome to a decrease in agricultural food price inflation, water & sewage rates and the non-repetition of a significant increase in communication prices. However, inflation is expected to increase over the next two quarters.

Fluctuations in the JSE Main Index over the September quarter reflected the uncertainties of investors. While there were improvements during the period, the JSE Main Index declined from 383,755.80 points as at June 30, 2020, to 380,425.98 points as at September 30, 2020. This decrease corresponded with the slight reduction in equity values within the aggregate pension portfolio over the quarter.

Due to the government's declaration of community transmission of the virus, further restrictions have been imposed which continue to engender disruption across the island. Consequently, pension plans may resort to wind-up as employers are forced to downsize or discontinue their 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 implore pension plan trustees, administrators and investment managers to remain vigilant and exercise due diligence in managing plan assets, bearing in mind the risks faced by the sponsors and members in this uncertain period. Solid governance and practices, and effective risk management remain vital for the resilience of pension plans in this global pandemic.

**Summary**

As at September 30, 2020, the number of active private pension plans was 378, two more than the previous period. Also, membership in these plans continued to grow steadily during the period. However, the private pension industry contracted by 0.08%, to bring the total value of assets in the industry to \$639.29 billion.

The following concerns were noted given the current state of the industry:

1. Solvency/funding levels of DB plans: Notwithstanding an increase seen in the solvency of DB plans, asset values for DB plans have decreased over the last four quarters which could result in future reductions in the funding ratios. Sponsors should therefore develop contingency plans for the aforementioned scenario.
2. The slowed accumulation in members' accounts of DC plans, due to fluctuating asset values and net yields, and possible reduction in pension benefits withdrawn.
3. Increased inflation rates: notwithstanding that the BOJ has employed inflation targeting, the persistence of the pandemic could derail efforts made at stabilizing inflation which has a deleterious effect on pensions in payment and disposable income.
4. The inability of sponsors in contracting sectors to continue to contribute at the required rate.
5. The potential for additional wind-ups, given the winding-up of four more pension plans during the quarter. Proposals for legislative changes, among other factors, are being considered to allow for a smoother transition from a SF to a RS.