

PRIVATE PENSIONS INDUSTRY STATISTICS

**2020
REVIEW**

OVERVIEW

In this report:

-  Private Pension Industry Overview
-  Investment Mix
-  Operating Statistics
-  Global Pensions and COVID-19
-  Risk Outlook

The Jamaican private pensions industry's track record of consistent growth each quarter was disrupted by periods of contraction during 2020, which resulted from the COVID-19 pandemic and consequent uncertainties in the market. Overall, the industry's assets contracted by 5.38% during the 2020 calendar year, which contrasts the 16% growth experienced during 2019. However, the industry remained healthy as plan membership increased and strong solvency positions were reported by the majority of pension plans.

As at December 31, 2020, the total value of assets in the industry amounted to **\$663.07 billion**.

OVERVIEW (cont'd)

Key changes over the 2020 calendar year:

 **PRIVATE PENSION ASSETS • 5.38%**
2020: **\$663.07B**, 2019: **\$700.73B**

 **NUMBER OF PLANS¹ • 0.99%**
2020: **817**, 2019: **809**

 **MEMBERSHIP • 6.79%**
2020: **135,992**, 2019: **127,347**

 **PENSION COVERAGE • 15.63%**
2020: **11.54%**, 2019: **9.98%**

Marginal growth of 2.43% and 3.72% was noted during the June and December quarters, respectively, however, this was offset by contractions in the other quarters, resulting in an average quarter-to-quarter decline of -1.20% during 2020. Notwithstanding, the industry has experienced an average growth of 2.87% per quarter and 11.15% per annum for the past five years.

There was also a 15.63% increase in private pension coverage during the year, which is the largest annual growth in private pension coverage that the industry has ever seen. While increased active membership contributed to the movement, it is noted that the number of employed individuals within the Jamaican labour force² decreased by 7.55% during the period due to job losses partially attributed to the pandemic.

Figure 1.0 Annual Growth Trend of Total Industry Assets

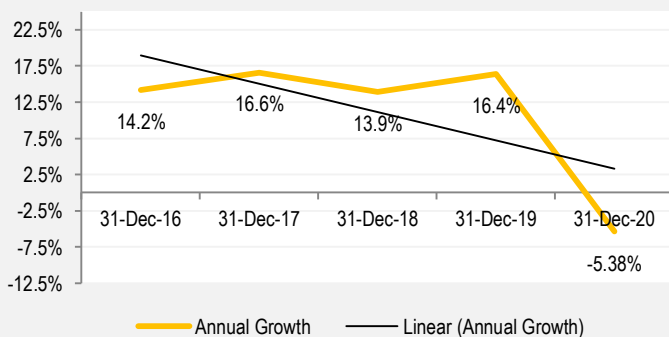


Figure 1.1: Growth Trend - Total Membership of Active Pension Plans

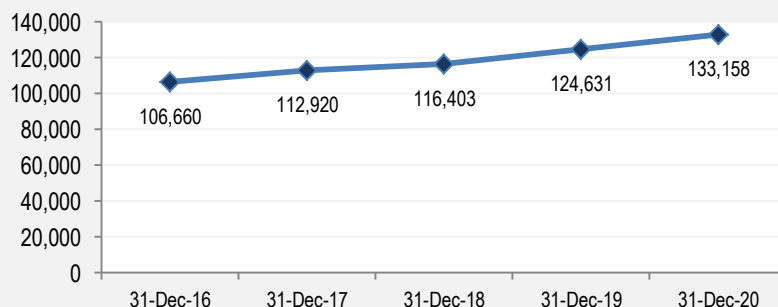
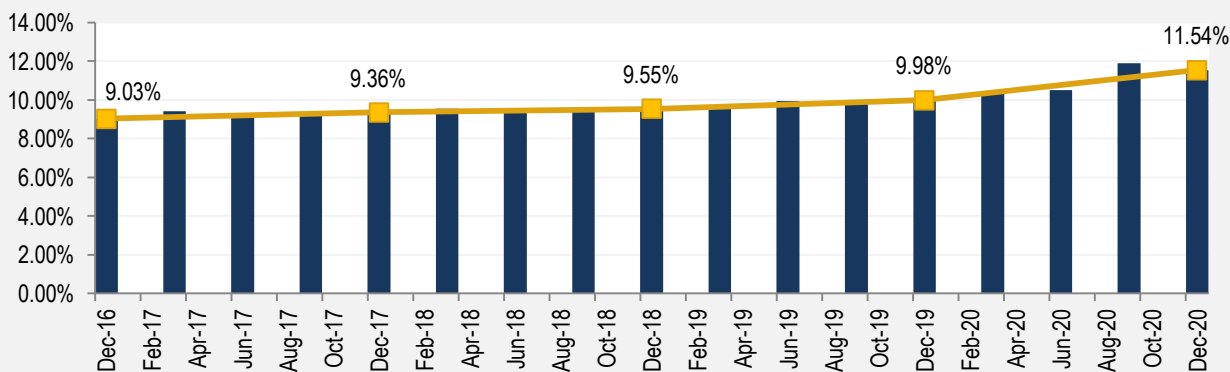


Figure 1.2: Five Year Growth in Pension Coverage for the Jamaican Private Pension Industry



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

²The Jamaican employed labour force as at October 31, 2020 was 1,154,100 according to the Planning Institute of Jamaica (pioj.gov.jm).

INVESTMENT MIX

Private Pension Assets

Investments in pooled arrangements, Government of Jamaica (“GOJ”) securities, and stocks and shares have encompassed the largest portion of private pension assets for the last five years. Over time, there has been a gradual shift from investments in GOJ securities to equities and pooled arrangements. Pooled arrangements, valued at \$250.02 billion, remained the largest asset class (37.75%) during the calendar year; however investments in GOJ securities (22.22%) surpassed equity investments (21.74%) to become the second-largest asset class within the aggregate private pension portfolio. This change was partially attributable to declines in the value of equities due to uncertainties presented by the global pandemic. Consequently, direct investments in GOJ securities and stocks and shares valued \$147.17 billion and \$144.01 billion respectively as at December 31, 2020.

Increases in direct holdings of deposits, repurchase agreements, promissory notes, real estate, and mortgages were also noted during the period. Some pension plans have also begun to pursue investments now permitted by the amended Investment Regulations, such as private equity, notwithstanding there is a general reduction in funds invested in other assets. Trustees and agents have been exploring available investment opportunities as well as diversifying assets to reduce concentration risk.

Notwithstanding a 5.38% annual reduction in the value of total private pension assets, a 3.72% increase was recorded during the December quarter. (See: Figures 2.0 and 2.1)

Key changes over the calendar year:



GOJ SECURITIES SURPASSED STOCKS AND SHARES AS THE SECOND LARGEST ASSET CLASS. POOLED ARRANGEMENTS REMAINED THE LARGEST ASSET CLASS.



INCREASED DIVERSIFICATION OF ASSETS

Figure 2.0: Allocation of Total Private Pension Assets as at December 31, 2020

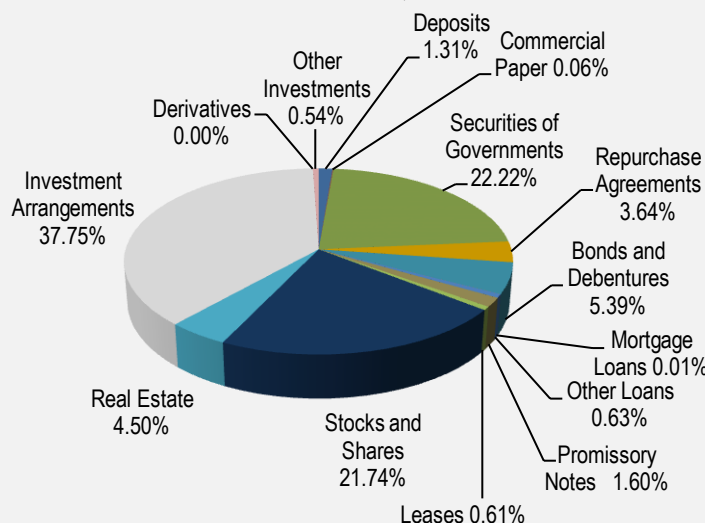


Figure 2.1: Five Year Growth of the Largest Asset Classes within the Aggregate Private Pension Portfolio

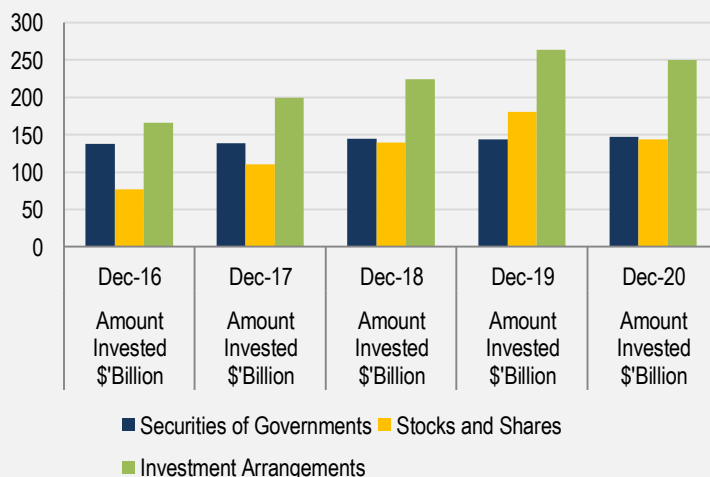


Table 1: Aggregate Investment Portfolio Mix

Types of Investment	Amount Invested \$' Millions	% of Total Investments	Amount Invested \$' Millions	% of Total Investments	Amount Invested \$' Millions	% of Total Investments	Year over Year Growth in Asset Classes
	Dec-20		Sep-20		Dec-19		
Deposits	8,671.13	1.31%	8,457.33	1.32%	6,069.75	0.86%	42.86%
Commercial Paper	414.57	0.06%	380.87	0.06%	437.53	0.06%	-5.25%
Securities of Governments	147,168.99	22.22%	143,175.80	22.38%	143,807.94	20.48%	2.34%
Repurchase Agreements	24,130.93	3.64%	24,995.99	3.91%	19,445.09	2.77%	24.10%
Bonds and Debentures	35,678.37	5.39%	38,429.16	6.01%	38,809.98	5.53%	-8.07%
Mortgage	62.21	0.01%	26.45	0.00%	32.63	0.00%	90.68%
Other Loans	4,145.71	0.63%	4,211.13	0.66%	4,233.75	0.60%	-2.08%
Promissory Notes	10,590.77	1.60%	6,211.79	0.97%	9,857.88	1.40%	7.43%
Leases	4,024.91	0.61%	4,198.16	0.66%	5,182.18	0.74%	-22.33%
Stocks and Shares	144,010.61	21.74%	139,039.09	21.73%	180,819.45	25.75%	-20.36%
Real Estate	29,820.13	4.50%	28,449.75	4.45%	25,672.87	3.66%	16.15%
Investment Arrangements	250,024.81	37.75%	238,428.71	37.27%	263,484.47	37.52%	-5.11%
Derivatives	0.00	0.00%	0.00	0.00%	0.00	0.00%	0.00%
Other Investments	3,577.04	0.54%	3,792.90	0.59%	4,314.22	0.61%	-17.09%
Total Investments	662,320.19	100.00%	639,797.14		702,167.75	100.00%	-5.67%
Other Net Assets	744.87		-514.82		-1,437.47		131.83%
Total Assets	663,065.06		639,282.31		700,730.28		-5.38%

The September 2020 quarter was restated.

Pooled Investment Arrangements (“PIAs”)

The PIA portfolio, consisting of Type I and Type II Pooled Funds and Deposit Administration Funds, experienced a 5.11% decline over the calendar year. Similarly, investments in assets within the PIA portfolio such as GOJ securities, stocks and shares, and real estate saw significant decreases – 36.90%, 19.10%, and 44.99% respectively. Notwithstanding, indirect investments in stocks and shares, valued at \$84.84 billion, still represented the largest portion of the portfolio.

On the other hand, indirect investments in bonds and debentures and promissory notes increased by 20.84% and 43.54% respectively. There was also a significant increase in other investments of more than 1100%. These changes were primarily due to the reclassification of an asset class in the PIA. Moreover, the reclassification resulted in other investments becoming the third-largest asset class within the PIA portfolio, and indirect investments in bonds and debentures surpassing investments in real estate. (See: Figures 2.2 and 2.3)

Figure 2.2: Allocation of Pension Assets in Pooled Investment Arrangements as at December 31, 2020

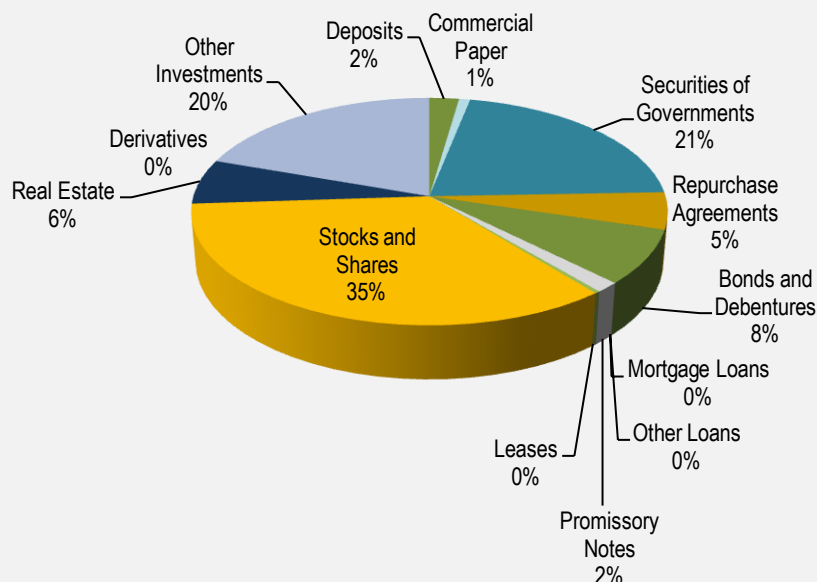
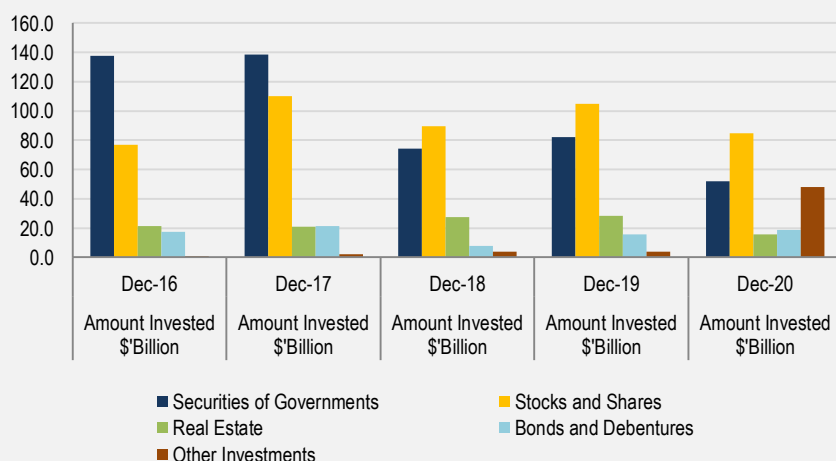


Figure 2.3: Five Year Growth of the Largest Asset Classes within the Pooled Investment Arrangements Portfolio



Key changes over the calendar year:

↓ TOTAL INVESTMENTS IN POOLED ARRANGEMENTS • 5.11%
2020: \$250.02B, 2019: \$263.48B

➔ RECLASSIFICATION OF PIA ASSETS RESULTED IN LARGE MOVEMENTS IN VARIOUS ASSET CLASSES.

➔ OTHER INVESTMENTS REPLACED REAL ESTATE AS THE THIRD LARGEST ASSET CLASS WITHIN PIA.

Table 2: Pooled Investment Arrangement Portfolio Mix

Types of Investment	Amount Invested \$' Millions	% of Total Investments	Amount Invested \$' Millions	% of Total Investments	Amount Invested \$' Millions	% of Total Investments	Year over Year Growth in PIAs
	Dec-20		Sep-20		Dec-19		
Deposits	5,574.99	2.29%	5,387.19	2.32%	3,844.36	1.50%	45.02%
Commercial Paper	2,083.37	0.85%	1,805.52	0.78%	2,250.25	0.88%	-7.42%
Securities of Governments	51,874.67	21.28%	49,307.53	21.21%	82,204.28	32.16%	-36.90%
Repurchase Agreements	12,784.92	5.24%	13,818.91	5.94%	11,561.05	4.52%	10.55%
Bonds and Debentures	18,890.20	7.75%	17,287.55	7.44%	15,633.04	6.12%	20.84%
Mortgage	0.07	0.00%	0.07	0.00%	0.07	0.00%	0.00%
Other Loans	0.00	0.00%	0.00	0.00%	0.26	0.00%	-100.00%
Promissory Notes	3,496.31	1.43%	2,833.76	1.22%	2,435.70	0.95%	43.54%
Leases	769.34	0.32%	787.88	0.34%	715.70	0.28%	7.49%
Stocks and Shares	84,838.95	34.80%	81,209.04	34.93%	104,864.93	41.02%	-19.10%
Real Estate	15,552.57	6.38%	14,065.15	6.05%	28,271.12	11.06%	-44.99%
Investment Arrangements	0.00	0.00%	0.00	0.00%	0.00	0.00%	0.00%
Other Investments	47,941.00	19.66%	45,999.18	19.78%	3,858.36	1.51%	1,142.52%
Total Pooled Investments³	243,806.38	100.00%	232,501.78	100.00%	255,639.13	100.00%	-4.63%
Deposit Administration Funds	4,898.00		4,842.18		6,681.71		-26.70%
Other Net Assets	1,320.43		1,084.75		1,163.64		13.47%
Total Assets	250,024.81		238,428.71		263,484.47		-5.11%

The September 2020 quarter was restated.

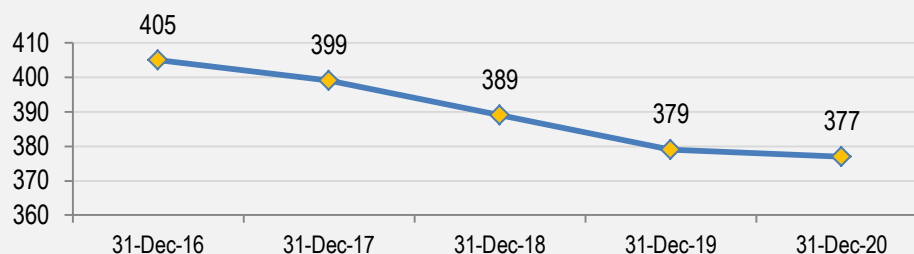
³ Total Pooled Investments describes Type I Pooled Funds and some Deposit Administration Funds.

OPERATING STATISTICS

Active Pension Plans

As at December 31, 2020, there were 377 active pension plans within the Jamaican private pension industry. Despite the entrance of nine (9) new pension plans into the industry, eleven (11) plans exited; as a result, there were two (2) fewer active private plans in the industry when compared to the previous year. This reduction is on trend with previous periods, as the number of active plans has trended downwards over the past five (5) years. Notwithstanding, the industry experienced steady growth in active membership. While private pension assets in active plans would have reduced by 5.41% to \$653.23 billion, active plans accounted for approximately 99% of total private pension assets, an increase from the 98% reported in the previous year. (See: Figure 3.0 and Table 5)

Figure 3.0: Growth Trend - Number of Active Pension Plans



Active Plans by Type

Defined Benefit vs. Defined Contribution

Both Defined Contribution ("DC") and Defined Benefit ("DB") plans saw reductions of approximately 5% in total assets during the year. As a result, total assets in DC and DB plans valued at \$256.44 billion and \$396.79 billion respectively, as at December 31, 2020. Notwithstanding the reduction, DB plans still accounted for the majority of total active pension assets (60.74%). Also, DC plans continued to outweigh DB plans with regards to the number of plans and membership, as DB plans saw marginal decreases in both categories during the period while the number of DC plans and membership therein increased. (See: Table 3)

Table 3: Active Pension Plans by Benefit Type

	Dec 2020	Sep 2020	Dec 2019
Number of Plans			
Defined Benefit	88	88	92
Defined Contribution	289	290	288
Total Active Plans	377	378	379
Membership			
Defined Benefit	19,695	19,695	20,487
Defined Contribution	113,463	113,470	104,144
Total Membership	133,158	133,165	124,631
Assets Values			
Defined Benefit (\$' Millions)	396,789	377,382	419,349
Defined Contribution (\$' Millions)	256,437	251,368	271,223
Total Asset Values (\$' Millions)	653,226	628,750	690,572

September 2020 was restated.

Superannuation Funds vs. Retirement Schemes

The number of retirement schemes (“RS”) remained the same (13) during the 2020 calendar year. The number of active superannuation funds (“SF”) reduced to 364 during the period and the total value of assets in SF likewise decreased by 6.19% to \$600.86 billion. On the other hand, total assets in RS amounted to \$52.36 billion, reflecting a 4.62% increase from the previous year. Nevertheless, SF still accounted for approximately 92% of assets in the Jamaican private pension industry.

Over the year, membership in RS increased at a faster rate than SF (11.16% and 2.87% respectively), resulting in total active membership of 133,158 and virtually equal participation of active members in SF and RS. This suggests that there is heightened interest in planning for retirement. (See: Figures 3.1 to 3.5)

Figure 3.1: Number of Superannuation Funds vs Retirement Schemes

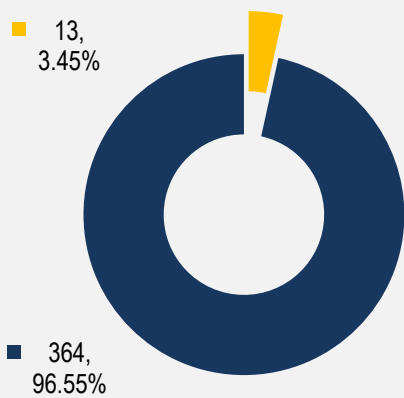


Figure 3.2: Number of Members in Superannuation Funds and Retirement Schemes

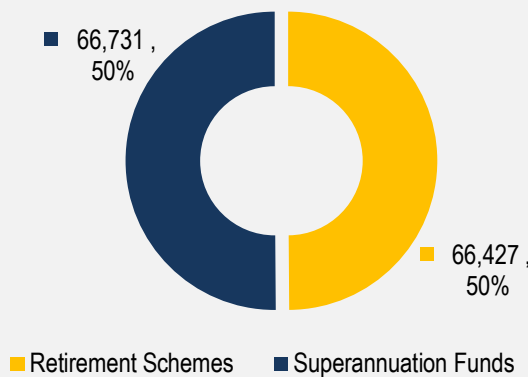
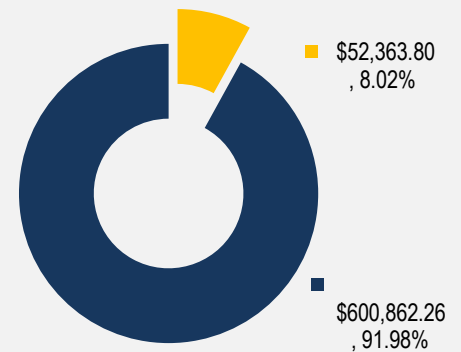


Figure 3.3: Assets in Superannuation Funds vs Retirement Schemes (\$'Millions)



For the past five years, active RS have experienced average annual growth of approximately 22%, while active SF have seen average annual growth of approximately 11%.

Figure 3.4: Five Year Growth in Asset Values for Retirement Schemes

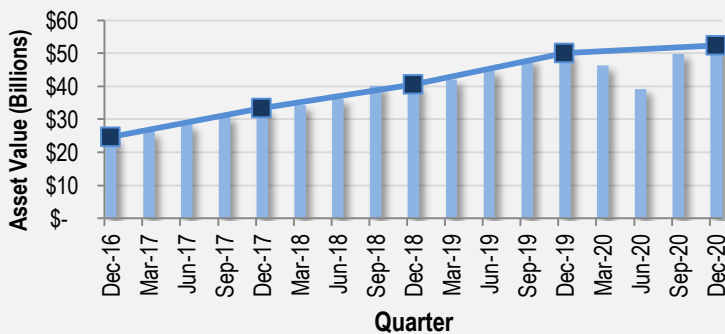
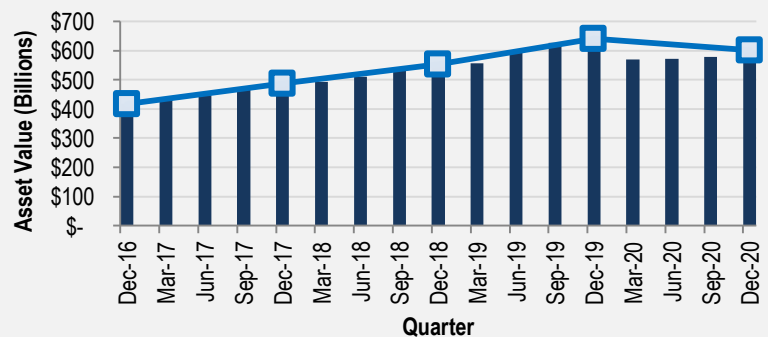


Figure 3.5: Five Year Growth in Asset Values for Superannuation Funds



Active Superannuation Funds by Industry

Notwithstanding the onset of COVID-19 and consequent contractions in several industries, the majority of the industries saw increased membership in 2020. Over 1,400 individuals joined superannuation funds within the Tourism industry⁴, a 25% increase from the previous year, despite the industry experiencing the largest contraction during the period. The Services industry, which retained the largest portion of superannuation funds (36.81%) and participants (35.70%), saw a 6.20% reduction in private pension assets from the \$110.40 billion reported as at December 31, 2019, to \$103.56 billion at the end of 2020. This is consistent with the industry’s contraction reported by the Planning Institute of Jamaica (“PIOJ”). Similarly, the Commerce and Finance sector, which accounts for the largest portion of private pension assets (37.37%), saw a 5.93% reduction in asset values over the period, closing out the year with total assets valued at \$224.52 billion. The largest decrease in assets was noted for the Mining/Bauxite industry, which saw an approximate 11% decrease. (See: Figures 3.6 to 3.8)

Figure 3.6: Percentage of Active Funds by Industry

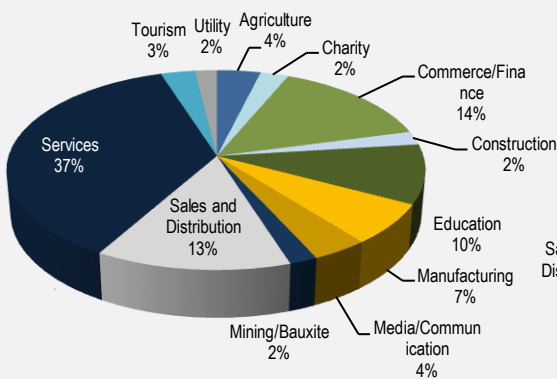


Figure 3.7: Asset Values for Funds by Industry

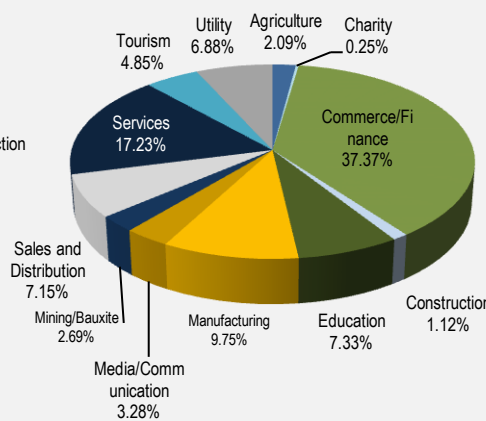
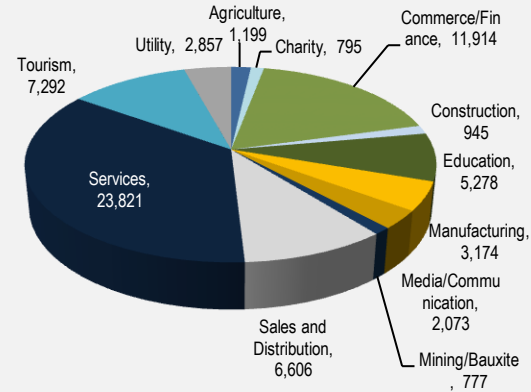


Figure 3.8: Active Membership in Funds by Industry



Solvency of Active Pension Plans

As at December 31, 2020, 347 or 96% of the 360 pension plans for which the FSC received solvency data were solvent, up from the 95% reported in the last year. Over the period, there was a reduction in the number of insolvent plans, due to the termination of some pension plans as well as the improved solvency position of others. Moreover, the solvency positions of both active DC and DB plans have generally increased over the last five (5) years. (See: Figure 3.11)

Trustees of DC plans, especially those which are insolvent, should make every effort to regularly review the plans’ asset allocations and investment strategies as well as monitor the payment of contributions, to increase and maintain the assets available for members’ benefits. Similarly, trustees of DB plans and their agents must actively monitor solvency risk and other risks faced by the plans and their sponsors.

Figure 3.9: Solvency Levels of Defined Benefit Plans

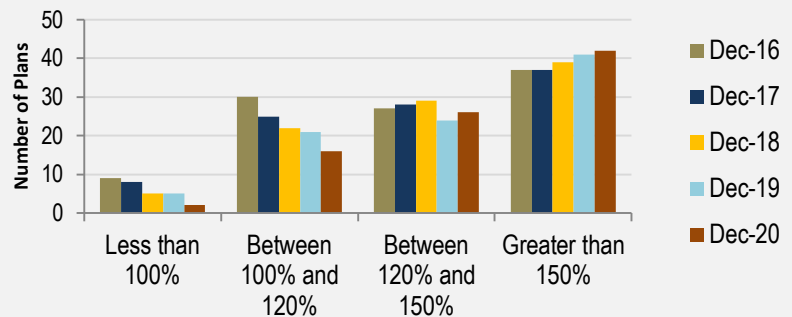
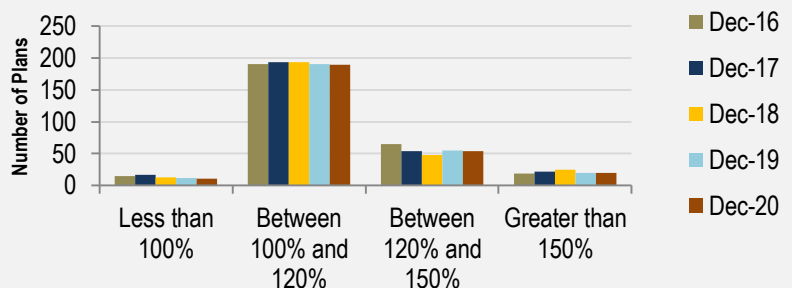


Figure 3.10: Solvency Levels of Defined Contribution Plans



⁴ Tourism Workers Pension Scheme membership is not included.

Figure 3.11: Quarterly View of the Percentage of Solvent Plans

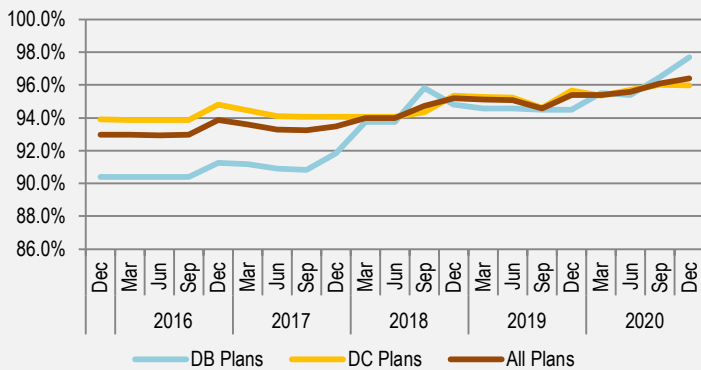


Table 4: Solvency Levels of Active Plans as at December 31, 2020

	# of plans	Solvency Level				% of plans which are solvent
		Less than 100%	Between 100% & 120%	Between 120% & 150%	Greater than 150%	
DB	86	2	16	26	42	98%
DC	274	11	189	54	20	96%
Total	360	13	205	80	62	96%

Inactive and Terminating Pension Plans

The number of inactive plans in the industry remained the same (17) during the calendar year. However, the 1,871 members in those plans at the end of 2020 evidenced a marginal reduction of 0.59% in membership. Further, total assets in inactive plans were valued at \$265.63 million as at December 31, 2020, representing a 3.06% decline from the previous quarter and a 23.13% decrease from 2019. Over the past five (5) years, assets in inactive plans have fluctuated, seeing increases as large as 52% and decreases as low as 45%. Consequently, the average annual decline in the assets values of inactive plans over the past five (5) years) was -3.05%.

On the other hand, the number of terminating plans increased from 413 to 423⁵ by the end of 2020, to represent approximately 52% of plans within Jamaica’s private pensions industry. Likewise, membership in terminating plans consistently increased during each quarter of 2020, demonstrating an overall 15.47% increase by the end of the year. As at December 31, 2020, terminating plan assets were valued \$9.67 billion, a 6.68% decline from the previous quarter and a 2.59% decrease from 2019. Nonetheless, total assets in terminating plans experienced an average annual growth of 4.01% over the past five (5) years, due to periods of growth throughout the interval. (See: Tables 5 and 6)

Table 5: Inactive Pension Plans by Benefit Type

	Dec 2020	Sep 2020	Dec 2019
Number of Plans			
Defined Benefit	4	4	4
Defined Contribution	13	13	13
Total Inactive Plans	17	17	17
Membership			
Defined Benefit	1,815	1815	1,827
Defined Contribution	56	56	55
Total Membership	1,871	1,871	1,882
Asset Values			
Defined Benefit (\$ Millions)	202	212	260
Defined Contribution (\$ Millions)	63	62	69
Total Asset Values (\$ Millions)	266	274	329

Table 6: Terminating Pension Plans by Benefit Type

	Dec 2020	Sep 2020	Dec 2019
Number of Plans			
Defined Benefit	103	103	98
Defined Contribution	320	319	315
Total Terminating Plans	423	422	413
Membership			
Defined Benefit	363	363	232
Defined Contribution	600	567	602
Total Membership	963	930	834
Asset Values			
Defined Benefit (\$ Millions)	5,104	5,217	4,052
Defined Contribution (\$ Millions)	4,469	5,042	5,776
Total Asset Values (\$ Millions)	9,573	10,259	9,828

⁵ Eleven (11) plans commenced winding up proceedings during the year; however one plan reported as terminating in 2019 changed its status to active during 2020.

Figure 3.12: Growth Trend of Assets in Inactive Plans

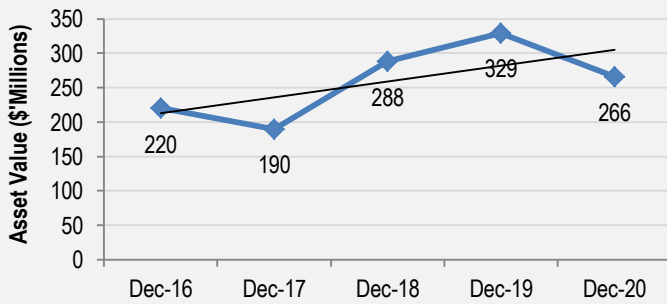
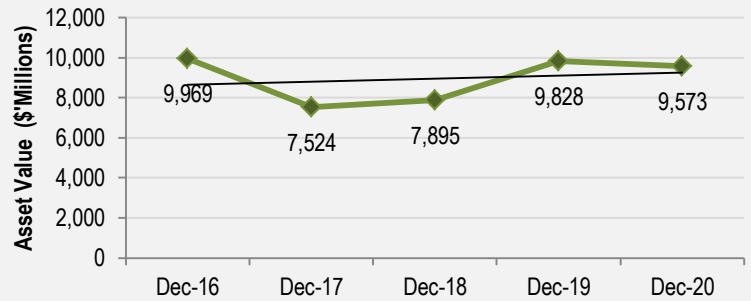


Figure 3.13: Growth Trend of Assets in Terminating Plans



Investment Managers

The total number of licensed investment managers (“IMs”) was 25 as at December 31, 2020. During the December quarter, one (1) Life Insurance Company (“LIC”) relinquished its Life Insurance registration and is now solely a Securities Dealer (“SD”). SDs continue to account for the largest number of IMs (16) and now account for the largest amount of managed pension assets. Further, some SDs experienced marginal growth in the assets managed during the year. Consequently, total private pension assets managed by SDs increased overall by 29.22% from \$281.16 billion as at December 31, 2019, to \$363.33 billion as at the end of 2020.

The two (2) remaining LICs managed approximately 37% of total private pension assets or \$245.05 billion as at December 31, 2020. The remaining assets were managed by one (1) credit union and six (6) other IMs. (See Table 7)

Table 7: Total Assets under Management of Investment Managers

Investment Managers	Number of Entities Dec 2020	Asset Values Dec 2020 (\$'Millions)	Number of Entities Sep 2020	Asset Values Sep 2020 (\$'Millions)	Number of Entities Dec 2019	Asset Values Dec 2019 (\$'Millions)
Insurance Companies	2	246,050	3	331,690	3	362,851
Securities Dealers	16	363,326	15	255,356	15	281,160
Credit Unions	1	567	1	552	1	543
Other	6	53,122	6	51,684	7	56,176
Total	25	663,065	25	639,282	26	700,730

September 2020 was restated.

GLOBAL PENSIONS & COVID-19

There is no doubt that the COVID-19 pandemic has impacted the Jamaican private pensions industry, and the same holds for pensions industries around the world. Notwithstanding the differences in the sizes of these industries, the pandemic has had similar impacts in several countries. For example, the pandemic has led to reduced pension contributions and lower investment returns globally. Additionally, there have been more reviews of asset allocations and investment strategies, and in some cases, shifts to more conservative or liquid investment options. In like manner, regulators around the world have made similar decisions to ease the burden of the pandemic. For example, some regulators including the FSC opted to defer deadlines for reporting requirements. Also, some countries enabled pension plan members to access their accrued benefit to a greater extent than is normally permitted. For example, Australia enabled individuals whose income had dropped by more than 20% to access up to AUD20,000 from their pension assets, while India allowed partial withdrawals for COVID-19 treatment and a payment from the pension fund account not exceeding three months’ wages and allowances. While Jamaica’s legislation does not currently allow for a refund of pension assets before retirement, the allowance of refunds in the event of financial hardship is being considered for Phase II of the Private Pensions Reform.

The impact of COVID-19 on global pensions may be long-standing and now more than ever, it is pertinent that trustees, agents, and regulators partner to protect the benefits of pension plan members.

RISK OUTLOOK



The PIOJ reported that there was a 9.4% decline of the Jamaican economy in the December 2020 quarter when compared to the same quarter in 2019. The COVID-19 pandemic took a toll on numerous industries in Jamaica during the year, and it is expected that the effects of the pandemic will continue into the March 2021 quarter. In particular, the Tourism industry suffered the largest decline during the year (53%), primarily due to restrictions in movement imposed to minimize the spread of the virus. While superannuation funds within the Tourism industry showed promise with increased plan numbers and membership during the period, recovery in the industry is required if sponsors are to sustain their private pension plans. This also holds for several other industries.



According to the Statistical Institute of Jamaica, Jamaica's unemployment rate stood at 10.65% as at October 2020, an improvement from the 12.6% reported as at July 2020. Nevertheless, the unemployment rate increased by approximately 43% during the year. Since the onset of the COVID-19 pandemic, a total of 113,300 fewer persons were employed as at October 2020 relative to January 2020. This comes as no surprise, given that several businesses have downsized due to curfew measures and several stay-at-home orders issued by the GOJ, and the corresponding reduction in revenue. With declining disposable income levels, the challenge of increasing pension coverage may be amplified in the quarters to come.



Annual inflation accelerated to 5.2% during the December 2020 quarter, due to increases in agricultural food prices and energy costs. This represented a 6.12% increase from the 4.9% reported as at September 2020. The BOJ anticipates that inflation will increase during the March 2021 quarter and fluctuate for the remainder of the year, but will remain within the inflation target of 4% to 6% over the medium term. Although the BOJ has employed inflation targeting, the continuing pandemic could disrupt those efforts and consequently impact pensions in payment and disposable income. Further, fluctuations in inflation could have an adverse effect on the real yields achieved by DC plans and the ensuing rate credited to members' contributions.



The JSE Main Index grew from 375,684.76 points as at October 1, 2020, to 395,614.93 points as at December 31, 2020, notwithstanding several oscillations during the period. This increase corresponded with the slight upsurge in equity values within the aggregate pension portfolio during the December quarter. Given the volatility of the asset class, it is expected that trustees and agents will continue to embrace alternative investment opportunities to preserve plan assets.



The majority of pension plans which initiated winding-up proceedings during 2020 cited financial difficulties or cessation of contributions by the sponsor as the rationale for winding up. Given the ongoing challenges posed by the pandemic, there exists the potential for additional wind-ups as well as increased tardiness or cessation in the payment of contributions. Consequently, members of DC plans may not achieve maximum returns during this period, which could result in smaller pension benefits and lower-income replacement ratios. Also, sponsors of DB plans may not be able to fund impending liabilities if financial difficulties persist. Trustees and sponsors should therefore seek to employ proper risk management practices, in an effort to protect members' benefits.



SUMMARY

As at December 31, 2020, the total value of assets in Jamaica's private pensions industry amounted to \$663.07 billion, representing a contraction of 5.38% during the calendar year. However, the industry saw increased plan numbers and membership by the end of 2020. Notwithstanding, the FSC continues to implore pension plan trustees and agents to employ solid governance and practices and effective risk management, as well as exercise due diligence in managing plan assets, bearing in mind the risks faced by plan sponsors and participants in this uncertain period.

The FSC will continue to fulfill its mandate of supervising the industry, and partner with trustees, sponsors, agents and other stakeholders, to foster stability within the industry and ultimately protect the benefits of pension plan members.