

PRIVATE PENSIONS INDUSTRY STATISTICS

SEPTEMBER
2021

OVERVIEW

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The Jamaican private pensions industry saw a marginal increase of 0.12% in assets held during the third quarter of 2021. The majority of pension plans experienced growth however there was an increase in the number of pension plans which reported a reduction in assets from the last quarter (Sep 2021: 187 plans, Jun 2021: 93 plans). Notwithstanding, the submission of updated actuarial valuations, which have begun to reflect 2021 positions, revealed that the majority of pension plans remain solvent.

As at September 30, 2021, the total value of assets in the industry amounted to **\$696.56 billion**.

OVERVIEW (cont'd)

Key changes over the September 2021 quarter:

- ↑ **PRIVATE PENSION ASSETS • 0.12%**
SEP 2021: **\$696.56B**, JUN 2021: **\$695.74B**
- **NUMBER OF PLANS¹ REMAINED THE SAME**
SEP 2021: **815**, JUN 2021: **815**
- ↓ **NUMBER OF PLANS WITH ASSET GROWTH • -14.77%**
SEP 2021: **548**, JUN 2021: **643**
- **MEMBERSHIP REMAINED THE SAME**
SEP 2021: **141,606**, JUN 2021: **141,606**
- ↓ **PENSION COVERAGE • -0.78%**
SEP 2021: **11.47%**, JUN 2021: **11.56%**

The industry experienced an average growth of 2.63% per quarter over the past five years.

The employed labour force² increased by 0.75% during the quarter. However, there were no movements in private pension plan membership. Consequently, as at September 30, 2021 active private pension coverage was 11.47% and total pension private coverage was 11.65%. This represents a 3.69% reduction in active private pension coverage since September 2020.

Figure 1.0: Growth Trend of Total Industry Assets

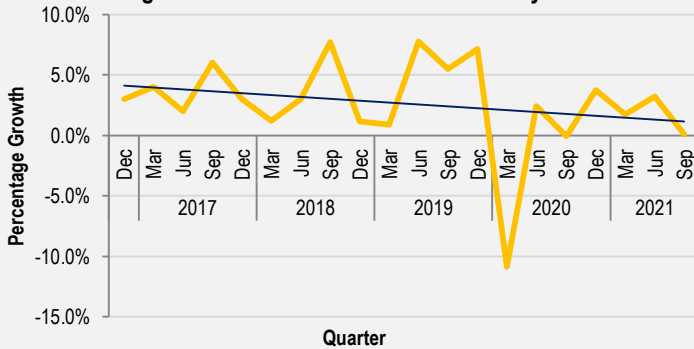


Figure 1.1: Pension Coverage in the Jamaican Private Pensions Industry

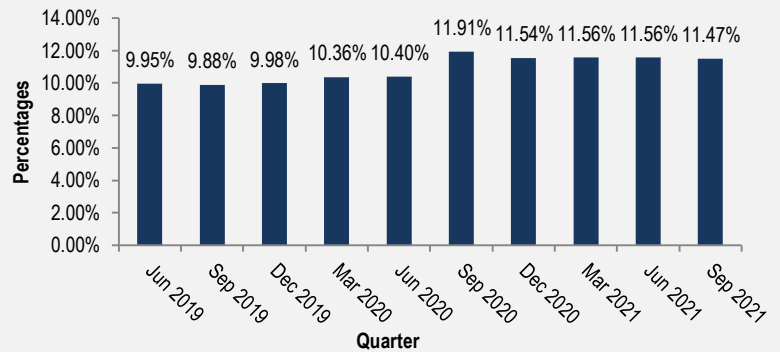
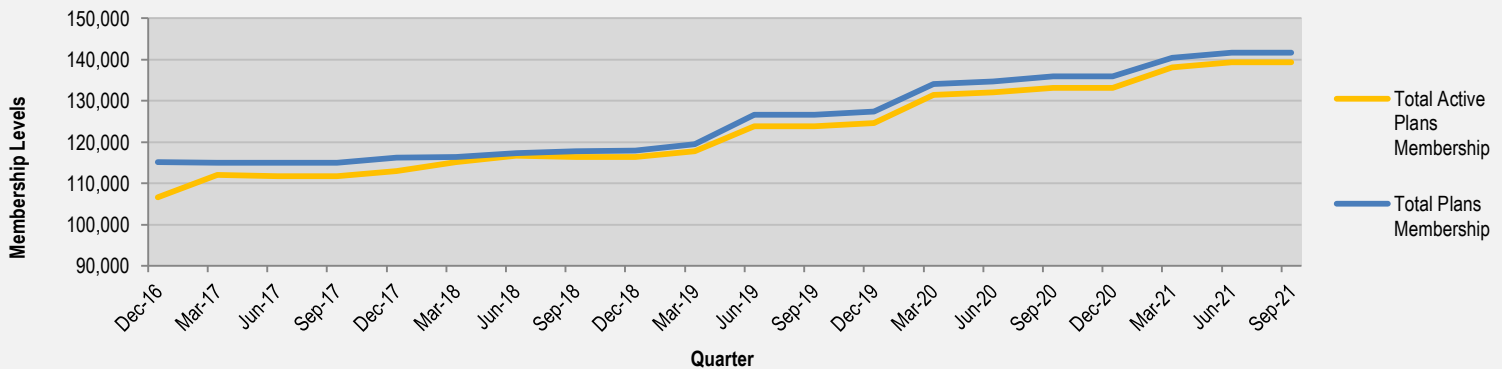


Figure 1.2: Growth Trends in Membership Levels of Active Pension Plans vs All Pension Plans



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

²The Jamaican employed labour force as at July 31, 2021 was 1,215,000 according to the Planning Institute of Jamaica (pioj.gov.jm).

INVESTMENT MIX

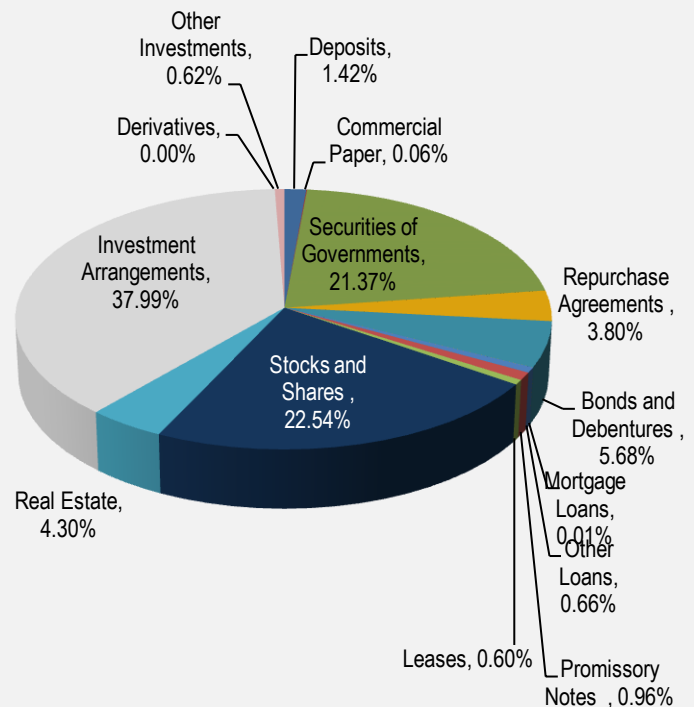
Private Pension Assets

Given the marginal movements in the majority of asset classes over the quarter, there were no fundamental changes to the allocation of total private pension assets as at September 30, 2021. Consequently, pooled investment arrangements (“PIAs”) remained the largest asset class with \$265.18 billion (37.99%), which represented the largest dollar value ever reported for the asset class, having grown by 1.76% and 11.22% over the quarter and year, respectively. Further, while the value of direct investments in stocks and shares and Government of Jamaica (“GOJ”) securities – the second and third largest asset classes – declined by 2.82% and 0.25% respectively over the quarter, both asset classes experienced overall annual growth of 13.15% and 4.18%, respectively. Evidently, investor uncertainty in the market due to the COVID-19 pandemic continued to affect the industry.

Mortgage loans experienced the largest quarterly (66.10%) and annual (57.85%) growth as at September 30, 2021, which was mainly attributed to an increase in asset values for pension plans managed by one investment manager. Notably, mortgage loans have seen the largest oscillations in value over the past two (2) years.

The largest reduction in value during the quarter was seen for direct investments in commercial paper (6.98%), primarily due to the maturity of those investments. (See: Figure 2.0 and Table 1)

Figure: Allocation of Total Private Pension Assets as at September 30, 2021



Key changes:

↑ TOTAL INVESTMENTS IN MORTGAGES • 66.10%
SEP 2021: **\$41.75M**, JUN 2021: **\$25.14M**

↓ TOTAL INVESTMENTS IN COMMERCIAL PAPER • -6.98%
SEP 2021: **\$386.55M**, JUN 2021: **\$415.54M**

↑ TOTAL INVESTMENTS IN STOCKS & SHARES • 13.15%
SEP 2021: **\$157.32B**, SEP 2020: **\$139.04B**
JUN 2021: **\$161.88B**,

↑ TOTAL DEPOSITS • 16.80%
SEP 2021: **\$9.88B**, SEP 2020: **\$8.46B**
JUN 2021: **\$10.26B**

Table 1: Aggregate Investment Portfolio Mix

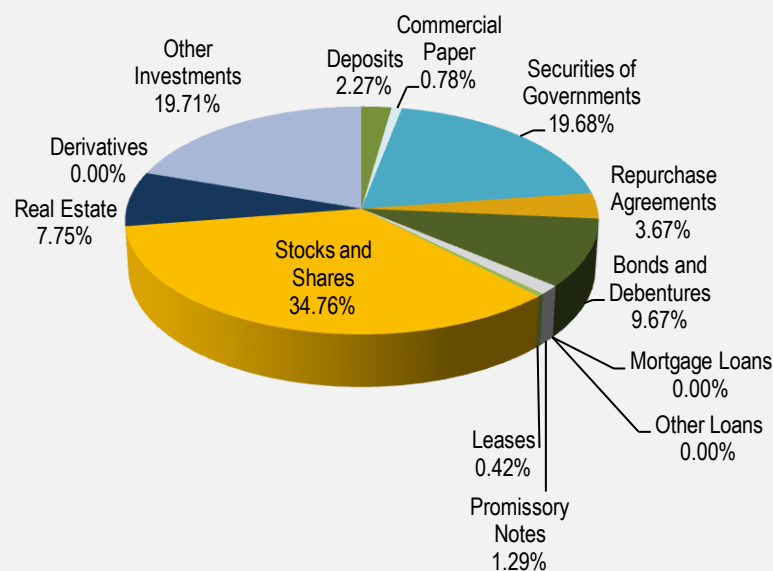
Types of Investment	Amount Invested \$' Millions	% of Total Investments	Amount Invested \$' Millions	% of Total Investments	Quarter over Quarter Growth in Asset Classes	Year over Year Growth in Asset Classes
	Sep-21		Jun-21			
Deposits	9,878.16	1.42%	10,262.45	1.47%	-3.74%	16.80%
Commercial Paper	386.55	0.06%	415.54	0.06%	-6.98%	1.49%
Securities of Governments	149,155.70	21.37%	149,526.46	21.44%	-0.25%	4.18%
Repurchase Agreements	26,550.21	3.80%	25,732.81	3.69%	3.18%	6.22%
Bonds and Debentures	39,623.76	5.68%	39,182.67	5.62%	1.13%	3.11%
Mortgage Loans	41.75	0.01%	25.14	0.00%	66.10%	57.85%
Other Loans	4,610.62	0.66%	4,528.20	0.65%	1.82%	9.49%
Promissory Notes	6,711.89	0.96%	6,898.57	0.99%	-2.71%	8.05%
Leases	4,189.46	0.60%	4,355.75	0.62%	-3.82%	-0.21%
Stocks and Shares	157,320.43	22.54%	161,888.85	23.21%	-2.82%	13.15%
Real Estate	29,978.87	4.30%	29,967.76	4.30%	0.04%	5.37%
Investment Arrangements	265,181.01	37.99%	260,592.66	37.36%	1.76%	11.22%
Derivatives	0.00	0.00%	0.00	0.00%	-	-
Other Investments	4,360.72	0.62%	4,172.10	0.60%	4.52%	14.97%
Total Investments	697,989.13	100.00%	697,548.96	100.00%	0.06%	9.10%
Other Net Assets	-1,424.51		-1,810.27		-21.31%	176.70%
Total Assets	696,564.62		695,738.69		0.12%	8.96%

Pooled Investment Arrangements (“PIAs”)

The value of the PIA portfolio, which is constituted of Type I, Type II Pooled Funds and Deposit Administration Funds, has exceeded pre-pandemic levels by September 30, 2021. There were no notable changes to the portfolio composition of the asset classes during the quarter; as a result, indirect investments in stocks and shares (34.76%), GOJ securities (19.68%) and other investments (19.71%) remained the three largest asset classes. However, marginal changes to the allocation of the PIA portfolio were primarily due to an increase in the value of indirect investments in real estate of 23.27% to \$20.04 billion and bonds and debentures of 16.08% to \$25.02 billion, coupled with reductions in the value of indirect investments in stocks and shares of 2.48% to \$89.90 billion and GOJ securities of 1.27% to \$50.90 billion. Notably, the quarterly and annual movements recorded for indirect investments in stocks and shares and GOJ securities mimicked the movements of direct investments in those asset classes. (See: Tables 1 and 2)

Indirect investments in repurchase agreements saw the largest contraction during the quarter (11.65%), primarily due to the redirection of assets to bonds and debentures and GOJ securities. (See: Table 2)

Figure 2.1: Allocation of Pension Assets in Pooled Investment Arrangements as at September 30, 2021



Key changes over the quarter:





-  **TOTAL INVESTMENTS IN PIA • 1.76%**
SEP 2021: **\$265.18B**, JUN 2021: **\$260.59B**
-  **INDIRECT INVESTMENTS IN REAL ESTATE • 23.27%**
SEP 2021: **\$20.04B**, JUN 2021: **\$16.26B**
-  **INDIRECT INVESTMENTS IN BONDS & DEBENTURES • 16.08%**
SEP 2021: **\$25.02B**, JUN 2021: **\$21.55B**
-  **INDIRECT INVESTMENTS IN REPURCHASE AGREEMENTS • -11.65%**
SEP 2021: **\$9.48B**, JUN 2021: **\$10.73B**

Table 2: Pooled Investment Arrangement Portfolio Mix

Types of Investment	Amount Invested \$' Millions	% of Total Investments	Amount Invested \$' Millions	% of Total Investments	Quarter over Quarter Growth in PIAs	Year over Year Growth in PIAs
	Sep-21		Jun-21			
Deposits	5,871.31	2.27%	5,593.45	2.20%	4.97%	8.99%
Commercial Paper	2,017.74	0.78%	2,127.01	0.84%	-5.14%	11.75%
Securities of Governments	50,901.44	19.68%	51,554.04	20.27%	-1.27%	3.23%
Repurchase Agreements	9,481.39	3.67%	10,731.16	4.22%	-11.65%	-31.39%
Bonds and Debentures	25,015.47	9.67%	21,550.19	8.47%	16.08%	44.70%
Mortgage	0.07	0.00%	0.07	0.00%	0.00%	0.00%
Other Loans	0.00	0.00%	0.00	0.00%	-	-
Promissory Notes	3,336.74	1.29%	3,224.67	1.27%	3.48%	17.75%
Leases	1,093.80	0.42%	1,016.63	0.40%	7.59%	38.83%
Stocks and Shares	89,900.49	34.76%	92,182.29	36.25%	-2.48%	10.70%
Real Estate	20,040.90	7.75%	16,257.11	6.39%	23.27%	42.49%
Investment Arrangements	0.00	0.00%	0.00	0.00%	-	-
Other Investments	50,977.98	19.71%	50,090.49	19.70%	1.77%	10.82%
Total Pooled Investments³	258,637.32	100.00%	254,327.11	100.00%	1.69%	11.24%
Other Net Assets	1,236.01		998.57		23.78%	13.94%
Other Investment Arrangements	5,307.68		5,266.98		0.77%	9.61%
Total Assets	265,181.01		260,592.66		1.76%	11.22%

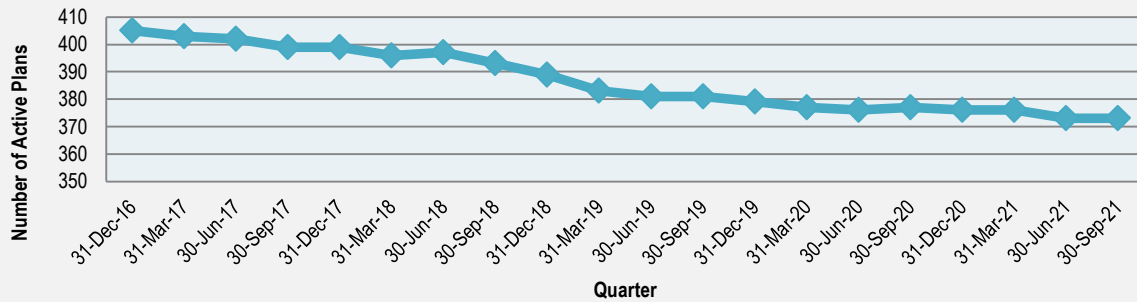
OPERATING STATISTICS

Active Pension Plans

Assets held for active plans (373) within the private pensions industry increased by 0.15% to account for \$687.96 billion or 98.86% of total private pension assets as at September 30, 2021. This marginal movement occurred notwithstanding a decrease in the number of active plans which experienced growth in value of assets over the quarter (Sep 2021: 266 plans, June 2021: 331 plans). Given that there were no terminations during the quarter or reported movements in membership for pension plans, active pension plans continued to account for almost 46% of plans within the private pensions industry, and approximately 98% of membership. (See: Figure 3.0 and Table 3)

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

Figure 3.0: Growth Trend in Number of Active Pension Plans



Active Plans by Type

Defined Benefit vs. Defined Contribution

Continuing the trend, the growth in total assets for Defined Contribution (“DC”) plans (1.22%) superseded that of Defined Benefit (“DB”) plans (-0.56%) during the quarter. Notwithstanding, DB plans continue to account for the majority of active pension plan assets within the industry reporting \$411.35 billion or 59.82% while DC plans reported \$276.61 billion or 40.21%. Conversely DC plans continued to account for the majority of plans (77%) and membership (86%). (See: Table 3)

Table 3: Active Pension Plans by Benefit Type

	Sep 2021	Jun 2021	Mar 2021
Number of Plans			
Defined Benefit	87	87	87
Defined Contribution	286	286	289
Total Active Plans	373	373	376
Membership			
Defined Benefit	19,872	19,872	19,891
Defined Contribution	119,547	119,547	118,275
Total Membership	139,419	139,419	138,166
Asset Values			
Defined Benefit (\$' Millions)	411,352	413,677	401,893
Defined Contribution (\$' Millions)	276,609	273,283	262,999
Total Asset Values (\$' Millions)	687,962	686,960	664,892

Superannuation Funds vs. Retirement Schemes

There were no changes to the number of retirement schemes (“RS”) and superannuation funds (“SF”) for the plans by the end of the quarter. However, assets in RS increased by 1.72% from \$56.46 billion to \$57.43 billion as at September 30, 2021. This movement is in contrast to a negligible increase in SF assets to \$630.53 billion, to result in the overall growth of 0.15% in active plan assets. (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

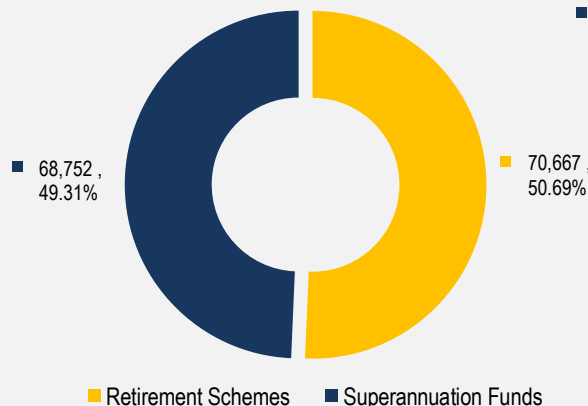


Figure 3.3: Assets in Superannuation Funds vs Retirement Schemes (\$'Millions)

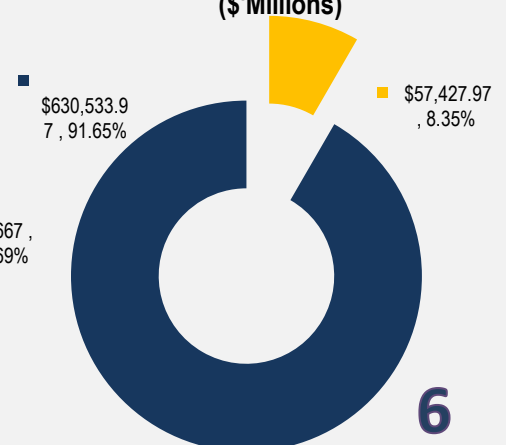


Figure 3.4: Asset Values for Superannuation Funds

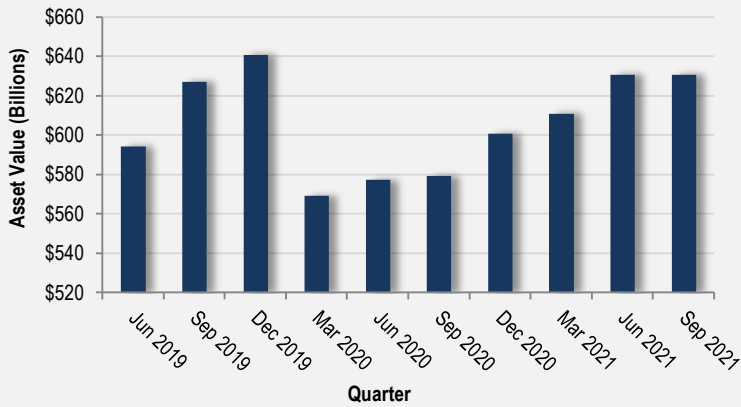
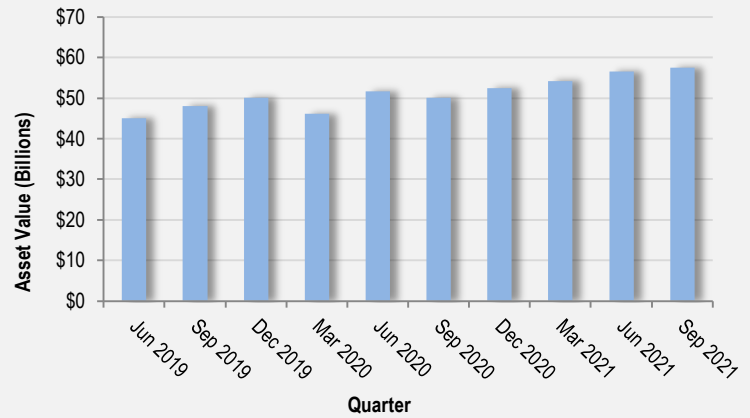


Figure 3.5: Asset Values for Retirement Schemes



Active Superannuation Funds by Industry

Notwithstanding a 0.73% reduction in pension assets over the quarter, the Commerce and Finance sector which accounted for the largest portion of private pension assets (36.71%), ended the quarter with total assets valued at \$231.49 billion. This contrasted the 3% growth reported by the Planning Institute of Jamaica (“PIOJ”) for the sector over the quarter. Similarly, assets for pension plans operating within the Tourism and Agriculture industries was reduced by 0.52% and 1.22% (largest reduction) respectively during the period, a divergence from the positive performance reported by the PIOJ. The Construction industry experienced the largest growth in assets (2.16%). All other industries saw marginal growth during the quarter, resulting in an overall average increase of 0.34%.

The Services sector retained the largest portion of participants (34.82%) and superannuation funds (36.94%), and the second largest portion of private pension assets (\$109.19 billion or 17.32%). The Commerce and Finance sector remained the second largest for participants and number of funds. (See: Figures 3.6 to 3.8)

Figure 3.6: Percentage of Active Funds by Industry

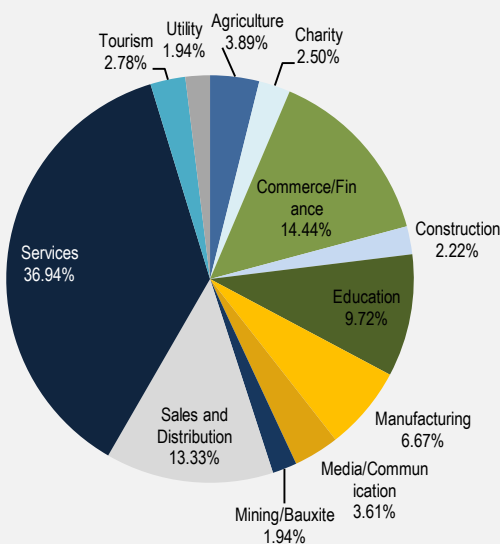


Figure 3.7: Active Membership in Funds by Industry

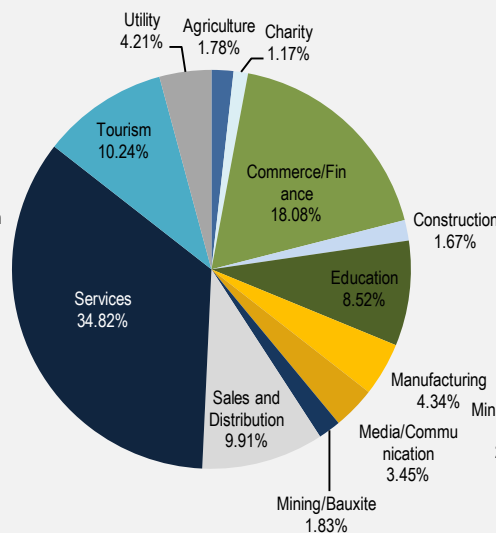
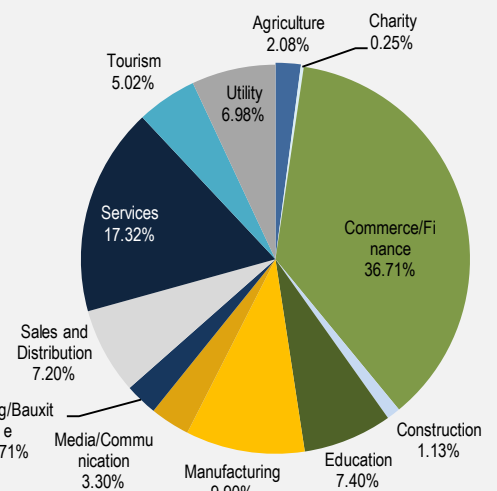


Figure 3.8: Asset Values for Funds by Industry



Solvency of Active Pension Plans

During the quarter, the majority of actuarial valuations received by the FSC revealed that 98% of DB plans and 97% of DC plans were solvent. Overall, 344 or approximately 97% of the 356⁴ plans for which the FSC received solvency data as at September 30, 2021, were solvent. (See Table 4)

While the majority of pension plans reported strong solvency positions, this should not be taken for granted as the pandemic continues to affect all industries. Therefore, trustees must ensure that proper oversight is given to their plans' solvency levels. That includes regularly reviewing the asset allocation and investment strategies of pension plan portfolios, as well as monitoring the remittance of contributions, to increase and maintain the assets available for members' benefits for DC plans. For DB plans, that involves monitoring the plans' liabilities and ensuring that the sponsors quickly address any shortfall in funds available to meet actuarial liabilities.

Table 4: Solvency of Active Pension Plans

Plan Year End	Benefit Type	Solvency Level based on AVR & CFR					% of plans which are solvent
		Number of plans	Less than 100%	Between 100% and 120%	Between 120% and 150%	Greater than 150%	
2021	DB	2	0	1	0	1	100%
	DC	13	0	11	1	1	100%
	Total	15	0	12	1	2	100%
2020	DB	12	1	3	5	3	92%
	DC	56	2	37	15	2	96%
	Total	68	3	40	20	5	96%
2019	DB	27	0	6	9	12	100%
	DC	77	2	56	10	9	97%
	Total	104	2	62	19	21	98%
2018	DB	25	1	4	8	12	96%
	DC	77	3	52	17	5	96%
	Total	102	4	56	25	17	96%
2017 and earlier	DB	20	1	4	4	11	95%
	DC	47	2	33	10	2	96%
	Total	67	3	37	14	13	96%
OVERALL		356	12	207	79	58	97%

Inactive and Terminating Pension Plans

As at September 30, 2021, the number of inactive and terminating plans and membership in those plans remained the same. However, both categories of plans saw reductions in assets. Specifically, total assets reported for the 17 inactive plans decreased by 1.35% to \$291.15 million during the quarter. Similarly, the 425 terminating plans which accounted for 52% of plans in the private pensions industry, reported total assets amounting to \$7.67 billion. This represented a 1.57% reduction from the \$7.76 billion as at June 30, 2021. Notably, five (5) terminating plans reported substantial reductions in assets (over 40%), which reflects the benefits being paid to participants of those plans during the period. (See: Tables 5 and 6)

⁴ This was restated as the previous quarter included a terminating plan.

Table 5: Inactive Pension Plans by Benefit Type

	Sep-21	Jun-21	Mar-21
Number of Plans			
Defined Benefit	4	4	4
Defined Contribution	13	13	13
Total Inactive Plans	17	17	17
Membership			
Defined Benefit	1,668	1,668	1,668
Defined Contribution	56	56	56
Total Membership	1,724	1,724	1,724
Asset Values			
Defined Benefit (\$' Mil)	226	230	205
Defined Contribution (\$' Mil)	65	65	64
Total Asset Values (\$' Mil)	291	295	269

Table 6: Terminating Pension Plans by Benefit Type

	Sep-21	Jun-21	Mar-21
Number of Plans			
Defined Benefit	102	102	102
Defined Contribution	323	323	320
Total Terminating Plans	425	425	422
Membership			
Defined Benefit	98	98	146
Defined Contribution	365	365	330
Total Membership	463	463	476
Asset Values			
Defined Benefit (\$' Mil)	4,552	4,641	4,826
Defined Contribution (\$' Mil)	3,086	3,118	3,175
Total Asset Values (\$' Mil)	7,638	7,760	8,001

Investment Managers

Funds under management (“FUM”) in the private pensions industry were split among two (2) Life Insurance Companies (“LIC”), 15 Securities Dealers (“SDs”) and six (6) other investment managers (“IMs”) as at September 30, 2021. With two (2) licensed credit unions having no FUM, the number of IMs remained at 25 during the quarter. FUM of the LICs, which accounted for the second largest portion of assets managed, grew by 1.15% to \$259.30 billion by September 30, 2021; this was the only category of IMs which experienced growth overall in the period. Notwithstanding a contraction in FUM, SDs continued to manage the largest portion of assets valued at \$381.81 billion. The remaining assets managed by the six (6) other IMs amounted to \$55.46 billion. The movement in assets managed resulted in negligible changes to the IMs’ market share. (See Figure 3.9 and Table 7)

Figure 3.9: Investment Managers' Share of Market Assets

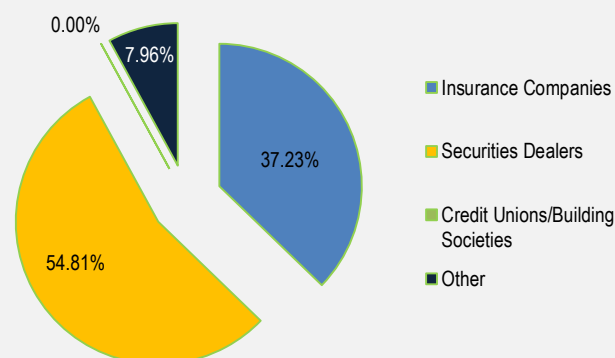


Table 7: Total Assets under Management of Investment Managers

Investment Managers	Number of Entities Jun 2021	Asset Values Jun 2021 (\$'Millions)	Number of Entities Jun 2021	Asset Values Jun 2021 (\$'Millions)	Number of Entities Mar 2021	Asset Values Mar 2021 (\$'Millions)
Insurance Companies	2	259,297	2	256,349	2	249,108
Securities Dealers	15	381,810	15	383,493	15	370,095
Credit Unions	2	-	2	-	2	584
Other	6	55,457	6	55,896	6	54,187
Total	25	696,564	25	695,737	25	673,975

THE BOJ POLICY RATE AND PENSIONS

In a press release dated December 20, 2021, the Bank of Jamaica (“BOJ”) announced its decision to increase the policy interest rate (i.e. the rate offered to deposit-taking institutions on overnight placements with the BOJ) by 50 basis points to 2.50% per annum, effective December 21, 2021. This followed an increase of 50 basis points to 2.0% per annum a month prior. The monetary policy decisions taken by the BOJ have been aimed at guiding inflation back to the Bank’s inflation target of 4.0 to 6.0% over the next two (2) years.

The policy changes implemented by the BOJ are reflective of a reduced accommodative monetary policy⁵. An increase in the policy interest rate could lead to increased lending rates, as deposit-taking institutions have already begun to propose, which may limit consumer demand and may discourage consumer and business loans and depress asset prices. Pension plans are invested in a wide array of asset classes such as equities and fixed income. As a result of the rate increase, which serves to reign in borrowing as well as spending affecting both earnings and stock prices of companies, the equity market may decline making stock ownership for pension plans less desirable. Further, the prices of fixed income securities such as bonds, especially those which are long-term, may also fall which could lead to unrealized capital loss for pension plans and increased demand for new-issue securities with the higher rates. Conversely, the attainment of new short-term interest-bearing instruments could provide investment income for pension plans.

Based on the aforementioned, diversification is paramount and trustees and their investment managers must employ proper risk management strategies to mitigate against any investment risks that the pension plans may face.

RISK OUTLOOK



The Jamaican economy continued to experience improvements over the quarter, as evidenced by the overall real GDP growth of 6.3% reported by the PIOJ. Albeit a reduction from the 12.9% growth reported in the previous quarter, the majority of the industries endured despite the implementation of tighter restrictions given the detection of new COVID variants and the population’s high vaccine hesitancy. Notwithstanding, as the 4th quarter of 2021 is met with a 4th wave of the pandemic accompanied by relaxed protocols, there still exist prospects for regression in the economy, which could filter into a reduction in the number of active pension plans and pension plan membership within the various sectors.



The improvements in the economy trickled down to the labour force, as the Statistical Institute of Jamaica reported an unemployment rate of 8.5% as at July 2021, down from the 9% reported for April 2021. As with many countries in Latin America and the Caribbean, the labour force’s participation in voluntary pension arrangements continues to be minimal. Consequently, it is expected that increasing private pension coverage will continue to be a challenge over the medium term. However, increased efforts to educate the public as well as promote enrolment to approved retirement schemes could serve as a stepping stone.

⁵ An accommodative monetary policy, also known as expansive monetary policy, occurs when a central bank attempts to expand the overall money supply (thus decrease interest rates) in order to boost the economic growth.



Annual inflation was 8.2% as at September 2021, up from 4.3% reported as at June 30, 2021, which was primarily due to large increases in international commodity and shipping prices, a shock to agricultural prices and one-off increases in regulated transportation and energy prices. Over the next eight quarters, inflation is projected to average within a range of 5.5% to 6.5%, which is above the average inflation of 5.0% over the past two years. While the BOJ is working to reduce inflation, the real yields achieved by pension plans and the ensuing rate credited to members' contributions could still be affected in the short to medium term.



Concomitant with the reduction in the value of equity investments within the aggregate investment mix over the quarter, the JSE Main Index declined from 426,551.38 points as at July 1, 2021 to 414,889.96 points by September 30, 2021. As the asset class accounts for the second largest portion of private pension assets, continued oscillations could contribute to short term reductions in asset values. Trustees and agents should therefore continue to conduct fundamental analysis of the companies for which stocks and shares are held to strengthen the monitoring activities of trustees and assist in making informed decisions regarding the investments held, as well as to take advantage of alternative investment opportunities permitted by the Investment Regulations.

SUMMARY

The total value of assets in the Jamaican private pensions industry marginally grew by 0.12% to \$696.56 billion as at September 30, 2021. Also, private pension coverage decreased over the period. Evidently, the industry continues to be affected by the pandemic. The FSC implores 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.