

Pension Industry Association of Jamaica (PIAJ)
Annual Luncheon
Remarks
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Salutations:

Distinguished Presenters & Discussants; Fellow

Regulators; Ladies & Gentlemen... Good Afternoon.

Body

Welcome everyone, to this luncheon. It is my pleasure to open the discussion on the theme at hand, **'Designing a Multi-Pillar Pension System for a High- Informality Environment'**. This topic is very germane, particularly on the back- end of the COVID-19 pandemic, which up-ended strategies, and prescribed a **new normal**. The pandemic exposed existing vulnerabilities and created new challenges in the pensions industry, while accelerating the pace of change to an extent that was once unimaginable. The work force, as well as the pensionable population that existed pre-pandemic, is almost unrecognizable.

As pension plan supervisors and stakeholders, our responsibility is immense as pension systems play a critical role in providing financial security for retirees. This role is one that continues to increase as populations grow older, share of workers diminishes and persons choose to retire at an earlier age. These factors, coupled with increased life expectancy, suggest that current and future generations will spend a greater period of their life in retirement than previous generations.

This is extremely important, as we have seen that as at 2023, pension plans, like any other financial system, were affected by spikes in market volatility. As a result of this, pension funds were impacted globally, with the severity of shocks varying from country to country and plan to plan. Examples include, inter alia:

- a. Worsened credit risks: individuals, corporate entities, and governments saw less revenue, that resulted in increased non-performing loans, deficits, and national debt;
- b. Lower investment returns: lower returns diminish asset values, while low yields on public debt instruments

increase the present value of liabilities;

- C. Negative operating cash flows: the disruption in economic activities impacted the capacity of sponsors and members to make contributions, resulting in a significant decline in contributions and investment returns; and
- d. Asset price shocks: the value of liabilities exceeded the value of assets, causing a deterioration in funding and solvency positions for pension plans.

The theme of this luncheon is therefore timely, as we will discuss how retirement income systems can best serve the needs of current and future cohorts of retirees, especially in a developing country like Jamaica, where a large share of our labor force is employed in the informal market. The share of the population covered by a pension system (both legal and effective coverage) is consequently an important concept, as the country's retirement income system provides adequate income at retirement to a certain (often quite small) subpopulation which is formally employed but leaves those working in the informal market unprotected.

In that vein, the time is opportune to take stock of our current pensions industry and adapt where necessary, while balancing near-term crisis solutions with the treatment of risks over the medium- and long-term. But what do we know of multi-pillar pension systems?

We know that, inter alia:

1. An efficient pension system is expected to provide adequate benefits in a sustainable manner while supporting labour market policies and economic growth of a country, but it has now become questionable as to whether all these objectives can be achieved through a single program.
2. There is of course no unique solution or one size fits all approach that can be adopted to our country's needs. This is why the exploration of a multi-pillar pension system is necessary. The objectives of such a system are to address different aspects of what constitutes adequate and sustainable pension benefits. And;
3. Designing a pension system or introducing pension reforms is not a trivial exercise. It requires assessing our primary goals and determining their interconnectivity with each part of the system. Objectives and considerations will be numerous as a single pension program will not achieve all the

desired objectives.

That being said, the strength of multi-pillar pension systems must reside in the interaction of the pillars, in how the multiple objectives of the pension system can be attributed to different pillars, how the risk of one particular pillar can be mitigated by the others, and how, in the end, retirees can gain the advantage of having diversified sources of income.

We can assist the financial future of countless individuals who rely on pension plans for their retirement security. By embracing sustainable investing practices, leveraging technological advancements, managing risks, fostering transparency, and committing to on-going professional development, we can ensure that pension funds remain robust and resilient in the face of an ever-changing financial landscape.

Preparedness and resilience are therefore paramount, not just in the face of shocks, but in the face of the rapidly changing nature of the financial services sector itself. Regulation is about supporting positive outcomes. As stakeholders, our focus is simple: we want to enable the benefits of change, innovation and competition for consumers, investors and the economy as a whole, while ensuring risks are managed.

I will now turn over to our distinguished presenter to delve further into these areas surrounding a multi-pillar setting and assist in ensuring that we are in fact prepared by providing us with apt technical solutions. I appreciate the invitation to speak here today and wish you all the best in your endeavours. Thank you for your dedication to the well-being of pension fund members and beneficiaries. I am sure we all value this time together as we debate today's theme.

Thank you for your attention.