



**Survey of Private Pension Plans in The Bahamas
(2000 & 2001)***

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SURVEY OF PRIVATE PENSION PLANS IN THE BAHAMAS (2000 & 2001)

The Central Bank of The Bahamas' latest survey on private pension arrangements cover results obtained for 2000 and 2001, and extends the available data series collected since 1992. From just over \$300 million in 1992, indications are that assets are on course to surpass the \$1 billion mark by 2005. Growth in domestic savings in pension schemes since 1995 corresponded chiefly to strengthening in the economy and employment gains that added to the base of active participants, particularly within the tourism sector. For most of this period, invested pension assets also benefited from gradually firming rates of returns.

At end-2001, accumulated pension fund assets were equivalent to approximately 16.1% of GDP, a ratio which rose steadily during most of the last decade. This rivaled invested domestic savings of the National Insurance Board of \$991.5 million (20.2% of GDP) in 2001, exceeded the amalgamated assets of domestic insurance companies which approached \$650.0 million (see Table 1) but fell significantly short of private individuals' savings in bank deposits of \$2,009.1 million (40.9% of GDP) in 2001. Credit unions, which represented the other sizeable pool of savings, had estimated assets of \$120.4 million (2.4% of GDP) in 2001.

Private pension benefits are generally expected to supplement retirement income received from the National Insurance Board (NIB), and could add significantly to such disposable income, as the ceiling for insurable

earnings at the National Insurance Board is \$20,800. While the NIB ceiling is currently lower for civil servants, the Government provides a supplementary pension for such retirees. Hence, for public servants and the fraction of the private sector workforce covered by pension plans, expected retirement income will generally exceed amounts received from NIB.

A similar generalization cannot be made about the likely coverage from retirement benefits in the other savings structures identified above. In particular, the invested domestic assets of insurance companies mainly cover future benefits from annuities and life insurance policies, on which no data exist concerning the average coverage contracted by private individuals. In the case of banking sector deposits, savings are unevenly distributed with the majority of balances (73.9%) concentrated in a minority of accounts (2.7%), as opposed to an average balance significantly below \$10,000 held in the 90.9% of accounts, which approximate a majority of individual depositors.

Against this backdrop, this article reviews the results of the latest pension survey, highlighting recent overall trends in the industry and among sector groupings which sponsor private schemes. The article also examines selected trends among the various types of private schemes and concludes with a discussion on the economic outlook and regulatory issues facing domestic private schemes.

Table 1: Selected Indicators of Domestic Savings

| | 1998 | 2000 | 2001 | 1998 | 2000 | 2001 | Avg. Increase |
|---|---------------|---------|---------|------------|-------|-------|---------------|
| | (B\$ Million) | | | (% of GDP) | | | 98-01 (%) |
| Private Pension Funds | 628.6 | 763.3 | 793.5 | 15.0% | 15.5% | 16.1% | 8.1% |
| National Insurance Fund (Cash and Investments) ¹ | 746.2 | 959.4 | 991.5 | 17.8% | 19.5% | 20.2% | 9.9% |
| Insurance Companies (Current Assets and Inv) ² | 483.0 | 593.6 | 648.7 | 11.5% | 12.1% | 13.2% | 10.3% |
| Private Individuals (Bank deposits) ³ | 1,510.8 | 1,918.1 | 2,009.0 | 36.1% | 39.0% | 40.9% | 10.0% |
| Credit Unions (Deposit and Shares) ⁴ | 87.2 | 110.9 | 120.4 | 2.1% | 2.3% | 2.4% | 11.4% |

Sources:

¹The National Insurance Board, Annual Statement of Accounts, ²The Registrar of Insurance Companies (except 1998, which is a Central Bank estimate), ³The Central Bank of The Bahamas and ⁴The Department of Cooperative Development

PROFILE OF PRIVATE SCHEMES AND SURVEY METHODS

The 2001 survey covered 131 pension plans, with responses obtained from 72. Respondents represented a broad cross-section of the industry, and provided updated information that accounted for 85% of the identified assets of the industry. Broad sectoral trends observed in these reports provided a base for projecting the assets for remaining plans. The overall results obtained indicate that, since 1995, less than 5% of the total dollar increase in assets in any year was due to the inclusion of new schemes in the survey.

The surveyed pension funds fall into three categories, according to the nature of the retirement benefit offered: defined benefit, defined contribution and provident funds. Defined benefit schemes offer participants a guaranteed periodic pension over their retirement lives, or the same in combination with a lump-sum payment on the retirement date. Given this guarantee, such plans are required to maintain an actuarial balance between the present value of expected future benefits payable (liabilities) and the present value of assets, as accumulated from historical savings and expected future contributions and earnings. A plan is said to be fully-funded when it maintains such actuarial balance; under-funded, when the actuarial value of liabilities is greater, and over-funded, when there is an actuarial excess of assets. Such actuarial valuations are particularly sensitive to assumptions made about the expected future rates of return on invested assets, life expectancy of pensioners, and the maturity of schemes relative to the division between active plan contributors and pensioners. Hence, maintaining a fully funded status for guaranteed benefits, in the context of shifts in these variables, often impose unpredictably high costs for plan sponsors.

While there is less uncertainty over the cost of maintaining defined contribution and provident plans, with the periodic contribution rates specified in advance, the value of retirement benefits cannot be similarly assured. Such payouts are based entirely on the accumulated value of savings in each participant's account at such date, and are disbursed as annuities over the life of pensioners in the case of define contribution schemes, or in a lump sum payment in the case of provident funds. Given this similarity on the determination of benefits, the analysis that follows treats both types of plans as defined contribution.

Defined contribution (provident) schemes appear to be the most prevalent in The Bahamas, accounting for 64.8% of the 131 plans surveyed, as compared to 35.1% for defined benefit schemes. Nevertheless, an overwhelming percentage of the industry participants (87.8%) were covered under defined benefit schemes. Indicative of the extent to which these schemes have decreased in importance over the years, these accounted for only 17.0% of the plans established after 1980 versus some 47.0% of those formed before this date.

As to funding status, of the 23 defined benefits plans for which new data was obtained, 7 indicated that they were over funded by an aggregate amount of \$24.8 million. Another 5 were under-funded by a total of \$26.8 million and the others were fully funded.

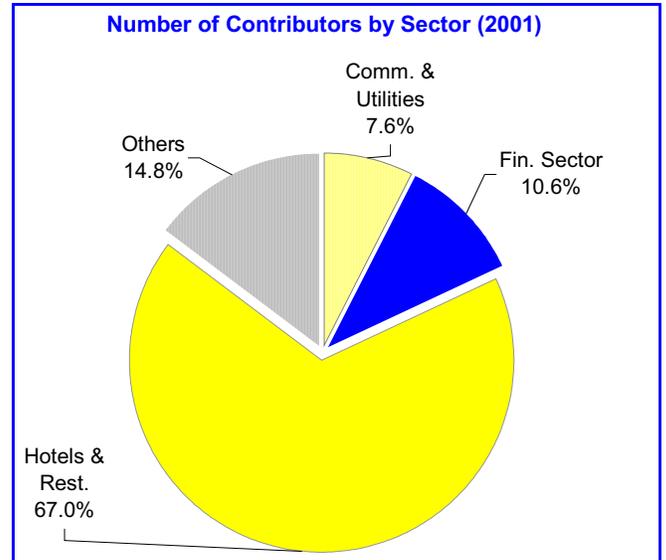
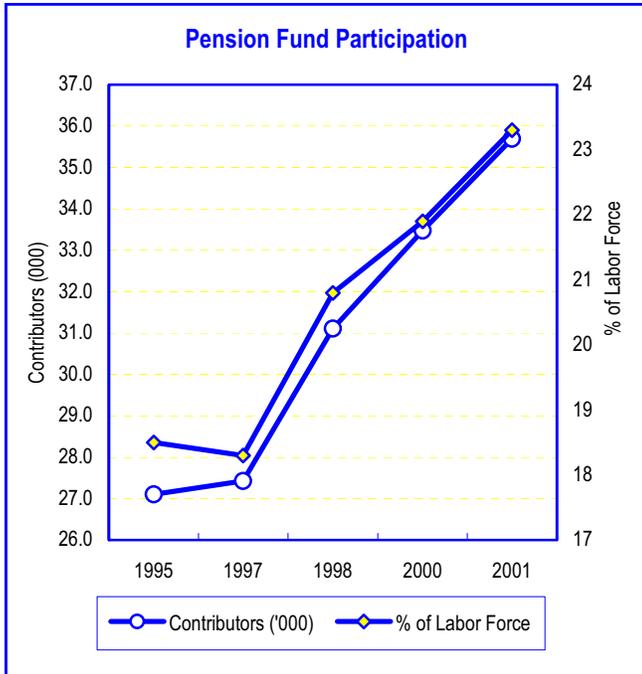
Among existing plans in the Central Bank's survey, 38.9% were administered professionally by insurance companies and 24.4% by banks and other entities. Another 36.6% of the private schemes were managed in-house, corresponding in the majority of cases to plans sponsored by financial institutions or by accounting firms that possessed internal expertise. Proper financial audits and actuarial assessments are also commonly observed. Some 80.2% of plans indicated that audits were done at least annually and another 4.6%, at least once every two years. Remaining plans either did not provide this information or did not report new information for 2000 and 2001. Actuarial audit assessments are applied in all instances where plans offer pre-defined or guaranteed future benefits.

Employee participation was mandated in approximately half of all plans, although the incidence was higher for defined benefit schemes (85.0%), as compared to a lower occurrence among defined contribution and provident plans (44.7%). Compulsion also varied according to size of sponsoring firms. In particular, this incidence for the 43 sponsors with at least 100 employees was 60.5%, as compared to 45.5% for the remaining 88 sponsors with fewer employees.

The largest number of funds in the survey (54) was established during the 1980s, accounting for 35.9% of reported pension industry assets. Only 10 funds, inclusive of the three largest sponsored by public corporations, were in existence since at least 1970, and represented the largest block of total assets (38.7%). Another

14, controlling 13.7% of industry assets, were established during the 1970's and the remaining 53, holding 11.7% of assets, on or after 1990.

tion packages in preparation for the privatization of the state owned telephone company, reduced active contributors by almost 30.0% since 1998.



LABOUR FORCE PARTICIPATION

After ebbing to 18.3%% in 1997, the percentage of the employed work force covered by surveyed private pension schemes rose to 18.5% in 2001, compared to 23.3% in 1995. This corresponded to cyclical employment trends in the hotel sector in particular, which strengthened significantly during the second half of the 1990's. Since the 1998 survey, the number of participants covered rose by 7.6% to 33,475 in 2000 and further by 6.6% to 35,693 in 2001. Approximately 67.0% of all participants were employed in the hotel and restaurant sector, where 4,516 contributors were added since 1998.

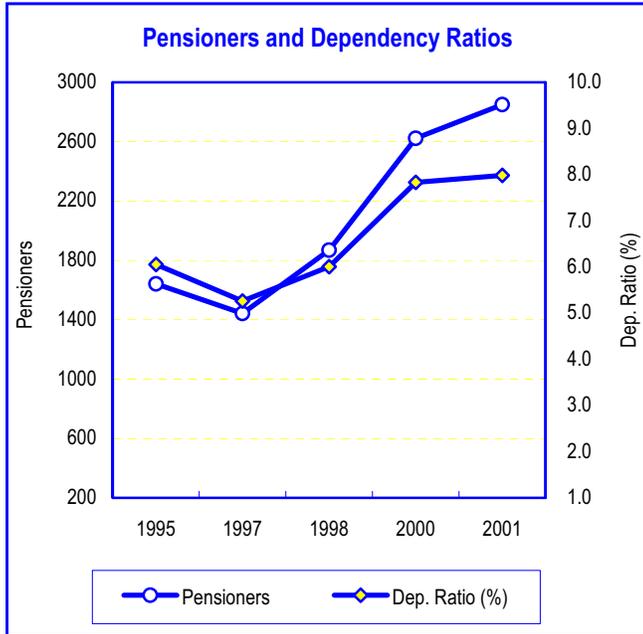
Although moderately improved, the second largest share of coverage, accounted for by the financial sector (10.6%), understated actual participation, since a sizeable number of bank employees, not represented in the survey, participate in the international plans of parent companies, for which a local apportionment of assets was not available. The third largest number of contributors was in the communications and utilities sector (7.6%), mainly representing public corporations, where separa-

CONTRIBUTION RATIO

Although marginally fluctuating, the average paid in contribution to plans, as a percentage of participants' salaries, remained close to 10.0% during the 1990's and the most recent survey years. Weighted by asset size, the combined employer and employee contribution approximated 9.9% in 2001 as compared to 10.1% in 1998, and 9.5% in 1995. In a pattern that was also consistent throughout all survey periods, payments into defined benefit schemes approximated a lower 9.3% of salaries in 2001 as compared to the 13.4% average being paid into defined contribution schemes. In the context of the prevalence of some non-contributory schemes and the onus placed on employers to make additional contributions to maintain the funded status of defined benefit schemes, employer payments averaged a larger 8.1% of the 2001 salary component.

Among defined benefit plans, the weighted average employer contribution firmed to 8.4% in 2001 from an average 8.2% in both 1998 and 1995. For defined contribution schemes, employers paid an average amount equivalent to 6.8% of salary in 2001, relative to a lower ratio in 1995 (6.5%) but a larger fraction in 1998 (7.6%). Ignoring weighted average calculations, in all types of

schemes where employees made contributions, it was most commonly at 5.0% of salary. Instances of employer payments also frequently occurred at 5.0%, but fluctuated within a range of 2.5% - 10.0%.



PENSIONS AND BENEFITS PAYOUT

Since the 1998 survey, the number of pensioners increased by 44.3% to 2,695, as retirees in the communications and utilities sector nearly doubled. Annual pension payments rose over the two periods, from \$10.8 million to \$12.5 million. With the increase in the number of early retirees, the ratio of pensioners to active plan participants rose significantly, to approximately 1:13 in 2001, from a decade low of less than 1:20 in 1992, and 1:17 in 1998. As a result, the average dependency rate for pensioners as a percentage of contributors rose over the decade, to 8.0% in 2001 from 3.3% in 1992 and 6.0% in 1998. Concentration of the high dependency ratio in the communications and utilities sector suggest that the attendant issues of liquidity management and sustainability of funding status, particularly for defined benefit scheme, is not a general concern for the industry at this time.

ASSET SIZE AND DISTRIBUTION

During 1998-2000, total pension assets rose by 21.4% to \$763.3 million and further by 4.0% to \$793.5 million in 2001 (Table 3). On an average annual basis,

the increase was 8.1% since 1998, moderated in comparison to the 1995-1998 sub-period average annual advance of 10.5% when average returns on investments were higher. In particular, while the average annual increase in participants was stable at 4.7% vis-à-vis 1995-1998, the weighted average rates of return softened to 4.0% in 2001, from decade highs of 8.1% and 9.2% in 1998 and 2000, respectively. As returns outpaced the increase in contributors for most of the period, the average savings per active participant improved to \$22,230 in 2001 from \$20,208 in 1998—but was reduced from \$22,801 in 2000.

The sectoral analysis showed that, even though the corresponding share of active participants in the industry was much less, communications and utilities sector schemes amassed the largest amount of assets, at \$277.4 million (35.0% of the total), an outcome favoured by the longer period of time that these schemes were in existence. Conversely, hotel and restaurant sector schemes accounted for two-thirds of all active participants, although the respective asset concentration was only \$164.6 million (20.7%). Financial sector plans reported assets of \$195.6 million (24.6% of the total), more than doubled the participation share. Significant asset concentration, although less than \$20 million in most instances, was also observed for the remaining sectors, which represented a combined 19.6% of the total assets and a less divergent 14.8% of active participants.

The distribution of plan assets by type of investment for 1995-2001 is also shown in Table 3. In recent years, schemes have become more heavily invested in equities and loans, which currently account for portfolio shares of 14.4% and 10.0%, as compared to 8.0% and 1.8%, respectively in 1995. Mutual funds also firmed to 4.6% of total investments from approximately 1.0% in 1995. Although still the dominant holdings, investments in public sector securities (mainly registered stocks) and deposits at 25.7% and 23.1%, respectively, decreased steadily since the mid-1990's. Another noteworthy shift was the almost halving in the asset share for mortgages, to 10.7% since 1995. Remaining pension fund assets, including real estate, investments in employer businesses, and private companies' bonds, accounted for 11.4% of assets, slightly below the mid-decade estimate of 12.0%, but recovered vis-à-vis the intervening period.

Table 2
Private Pension Investments By Industry

| | 1995 | 1997 | 1998 | 2000P | 2001P |
|----------------------------|------------------|----------------|----------------|----------------|----------------|
| INDUSTRY | (B\$'000) | | | | |
| Construction | 480 | 428 | 505 | 742 | 2,859 |
| Communications & Utilities | 190,877 | 222,898 | 241,662 | 272,395 | 277,438 |
| Education | 5,498 | 6,015 | 7,613 | 9,084 | 9,883 |
| Financial Sector | 113,790 | 138,826 | 152,206 | 186,331 | 195,577 |
| Health | 511 | 590 | 656 | 1,126 | 1,225 |
| Hotel & Restaurants | 86,154 | 86,154 | 129,568 | 154,325 | 164,621 |
| Manufacturing | 13,738 | 15,895 | 20,537 | 40,840 | 39,280 |
| Non - Profit Organizations | 304 | 304 | 304 | 805 | 832 |
| Oil Companies | 13,676 | 14,507 | 15,049 | 15,250 | 15,250 |
| Other Services | 9,822 | 16,230 | 18,492 | 25,988 | 27,863 |
| Private Distributions | 11,323 | 12,223 | 14,484 | 17,040 | 18,569 |
| Professional Services | 4,174 | 5,282 | 5,706 | 8,920 | 9,116 |
| Real Estate | 2,584 | 3,548 | 4,582 | 6,584 | 5,831 |
| Transportation | 12,478 | 15,583 | 17,206 | 23,832 | 25,112 |
| TOTAL | 465,407 | 538,483 | 628,571 | 763,262 | 793,457 |

| | 1995 | 1997 | 1998 | 2000 | 2001 |
|----------------------------|-------------------------|---------------|---------------|---------------|---------------|
| INDUSTRY | (% Distribution) | | | | |
| Construction | 0.10 | 0.08 | 0.08 | 0.10 | 0.36 |
| Communications & Utilities | 41.01 | 41.39 | 38.45 | 35.69 | 34.97 |
| Education | 1.18 | 1.12 | 1.21 | 1.19 | 1.25 |
| Financial Sector | 24.45 | 25.78 | 24.21 | 24.41 | 24.65 |
| Health | 0.11 | 0.11 | 0.10 | 0.15 | 0.15 |
| Hotel & Restaurants | 18.51 | 16.00 | 20.61 | 20.22 | 20.75 |
| Manufacturing | 2.95 | 2.95 | 3.27 | 5.35 | 4.95 |
| Non - Profit Organizations | 0.07 | 0.06 | 0.05 | 0.11 | 0.10 |
| Oil Companies | 2.94 | 2.69 | 2.39 | 2.00 | 1.92 |
| Other Services | 2.11 | 3.01 | 2.94 | 3.40 | 3.51 |
| Private Distributions | 2.43 | 2.27 | 2.30 | 2.23 | 2.34 |
| Professional Services | 0.90 | 0.98 | 0.91 | 1.17 | 1.15 |
| Real Estate | 0.56 | 0.66 | 0.73 | 0.86 | 0.73 |
| Transportation | 2.68 | 2.89 | 2.74 | 3.12 | 3.16 |
| TOTAL | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |

Source: The Central Bank of the Bahamas Survey on Pension Funds & Central Bank estimates

Table 3
Private Pension Investments

| | Total | | | | |
|---------------------|-------------------------|---------|---------|---------|---------|
| | 1995 | 1997 | 1998 | 2000P | 2001P |
| Total Fund | 465,407 | 538,483 | 628,571 | 763,262 | 793,457 |
| of which: | (B\$'000) | | | | |
| BGRS | 141,277 | 166,616 | 188,232 | 192,075 | 204,197 |
| Bank Deposits | 127,447 | 152,523 | 203,123 | 186,051 | 183,624 |
| Real Estate | 3,251 | 3,751 | 4,716 | 7,925 | 7,647 |
| Employer's Business | 3,245 | 3,455 | 3,698 | 7,216 | 7,146 |
| Mortgages | 90,587 | 78,594 | 77,375 | 78,067 | 84,813 |
| Bonds | 3,582 | 16,195 | 1,749 | 644 | 663 |
| Equities | 37,371 | 53,871 | 76,132 | 107,034 | 114,404 |
| Mutual Funds | 4,654 | 6,361 | 9,885 | 26,160 | 36,701 |
| Loans | 8,245 | 9,771 | 9,562 | 90,408 | 79,170 |
| Contributor Arrears | 2,232 | 5,610 | 9,005 | 3,480 | 5,103 |
| Dividends | 4,800 | 6,109 | 7,723 | 4,777 | 4,865 |
| Other Investment | 38,716 | 35,627 | 37,371 | 59,426 | 65,124 |
| | 1995 | 1997 | 1998 | 2000 | 2001 |
| | (% Distribution) | | | | |
| Total Fund | 100 | 100 | 100 | 100 | 100 |
| of which: | | | | | |
| BGRS | 30.36 | 30.94 | 29.95 | 25.16 | 25.74 |
| Bank Deposits | 27.38 | 28.32 | 32.32 | 24.38 | 23.14 |
| Real Estate | 0.70 | 0.70 | 0.75 | 1.04 | 0.96 |
| Employer's Business | 0.70 | 0.64 | 0.59 | 0.95 | 0.90 |
| Mortgages | 19.46 | 14.60 | 12.31 | 10.23 | 10.69 |
| Bonds | 0.77 | 3.01 | 0.28 | 0.08 | 0.08 |
| Equities | 8.03 | 10.00 | 12.11 | 14.02 | 14.42 |
| Mutual Funds | 1.00 | 1.18 | 1.57 | 3.43 | 4.63 |
| Loans | 1.77 | 1.81 | 1.52 | 11.84 | 9.98 |
| Contributor Arrears | 0.48 | 1.04 | 1.43 | 0.46 | 0.64 |
| Dividends | 1.03 | 1.13 | 1.23 | 0.63 | 0.61 |
| Other Investment | 8.32 | 6.62 | 5.95 | 7.79 | 8.21 |

Memorandum Items:

* Weighted Avg. Rate of Return

* Weighted Avg. Contrib. Rate

| | | | | | |
|--|------|-------|-------|------|------|
| | 6.92 | 6.95 | 8.1 | 9.19 | 4.01 |
| | 9.45 | 10.36 | 10.09 | 9.87 | 9.87 |

Source: The Central Bank of the Bahamas Survey on Pension Funds & Central Bank estimates

**Table 3A
Private Pension Investments By Fund Type**

| | Defined Benefit | | | | | Defined Contribution | | | | |
|---------------------|-----------------|----------------|----------------|----------------|----------------|----------------------|---------------|---------------|----------------|----------------|
| | 1995 | 1997 | 1998 | 2000P | 2001P | 1995 | 1997 | 1998 | 2000P | 2001P |
| Total Fund | 402,422 | 466,925 | 547,003 | 660,120 | 681,987 | 62,985 | 71,557 | 81,568 | 103,142 | 111,470 |
| of which: | | | | | | | | | | |
| BGRS | 132,518 | 157,270 | 178,610 | 179,387 | 188,299 | 8,760 | 9,346 | 9,622 | 12,688 | 15,898 |
| Bank Deposits | 107,241 | 128,091 | 173,842 | 155,790 | 148,907 | 20,206 | 24,432 | 29,281 | 30,260 | 34,717 |
| Real Estate | 1,108 | 1,300 | 1,357 | 1,029 | 1,189 | 2,143 | 2,451 | 3,359 | 6,896 | 6,458 |
| Employer's Business | 2,650 | 2,650 | 2,500 | 6,168 | 6,058 | 595 | 805 | 1,198 | 1,048 | 1,088 |
| Mortgages | 84,308 | 71,354 | 70,387 | 74,395 | 81,253 | 6,279 | 7,240 | 6,988 | 3,673 | 3,559 |
| Bonds | 2,371 | 15,919 | 1,729 | 40 | 40 | 1,210 | 276 | 19 | 604 | 623 |
| Equities | 34,121 | 46,323 | 66,074 | 92,067 | 100,058 | 3,250 | 7,548 | 10,058 | 14,966 | 14,346 |
| Mutual Funds | 3,048 | 3,632 | 6,558 | 16,460 | 27,123 | 1,606 | 2,730 | 3,327 | 9,700 | 9,577 |
| Loans | 3,563 | 4,504 | 2,401 | 83,319 | 72,204 | 4,682 | 5,267 | 7,161 | 7,089 | 6,967 |
| Contributor Arrears | 1,988 | 4,902 | 8,126 | 3,183 | 4,418 | 244 | 708 | 879 | 297 | 685 |
| Dividends | 4,470 | 5,580 | 7,257 | 3,759 | 3,639 | 330 | 529 | 466 | 1,018 | 1,226 |
| Other Investment | 25,036 | 25,401 | 28,163 | 44,524 | 48,799 | 13,680 | 10,226 | 9,208 | 14,903 | 16,326 |
| | 1995 | 1997 | 1998 | 2000 | 2001 | 1995 | 1997 | 1998 | 2000 | 2001 |
| Total Fund | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| of which: | | | | | | | | | | |
| BGRS | 32.93 | 33.68 | 32.65 | 27.17 | 27.61 | 13.91 | 13.06 | 11.80 | 12.30 | 14.26 |
| Bank Deposits | 26.65 | 27.43 | 31.78 | 23.60 | 21.83 | 32.08 | 34.14 | 35.90 | 29.34 | 31.14 |
| Real Estate | 0.28 | 0.28 | 0.25 | 0.16 | 0.17 | 3.40 | 3.43 | 4.12 | 6.69 | 5.79 |
| Employer's Business | 0.66 | 0.57 | 0.46 | 0.93 | 0.89 | 0.94 | 1.12 | 1.47 | 1.02 | 0.98 |
| Mortgages | 20.95 | 15.28 | 12.87 | 11.27 | 11.91 | 9.97 | 10.12 | 8.57 | 3.56 | 3.19 |
| Bonds | 0.59 | 3.41 | 0.32 | 0.01 | 0.01 | 1.92 | 0.39 | 0.02 | 0.59 | 0.56 |
| Equities | 8.48 | 9.92 | 12.08 | 13.95 | 14.67 | 5.16 | 10.55 | 12.33 | 14.51 | 12.87 |
| Mutual Funds | 0.76 | 0.78 | 1.20 | 2.49 | 3.98 | 2.55 | 3.81 | 4.08 | 9.40 | 8.59 |
| Loans | 0.89 | 0.96 | 0.44 | 12.62 | 10.59 | 7.43 | 7.36 | 8.78 | 6.87 | 6.25 |
| Contributor Arrears | 0.49 | 1.05 | 1.49 | 0.48 | 0.65 | 0.39 | 0.99 | 1.08 | 0.29 | 0.61 |
| Dividends | 1.11 | 1.19 | 1.33 | 0.57 | 0.53 | 0.52 | 0.74 | 0.57 | 0.99 | 1.10 |
| Other Investment | 6.22 | 5.44 | 5.15 | 6.74 | 7.16 | 21.72 | 14.29 | 11.29 | 14.45 | 14.65 |

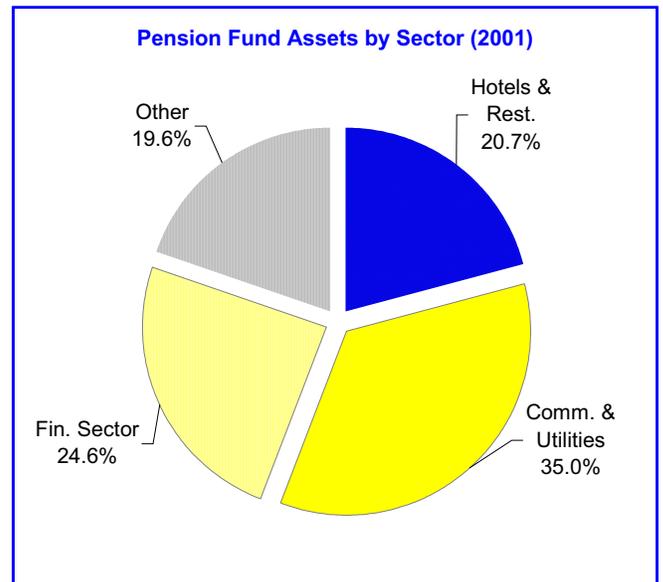
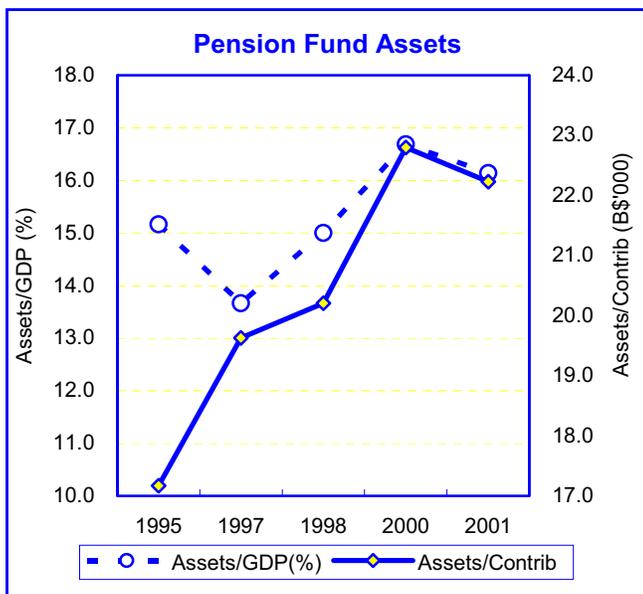
Memorandum Items:

| | | | | | | | | | | |
|--------------------------------|------|------|------|------|------|-------|-------|-------|-------|------|
| * Weighted Avg. Rate of Return | 6.88 | 6.82 | 8.43 | 9.22 | 4.18 | 7.28 | 7.51 | 6.58 | 8.99 | 2.78 |
| * Weighted Avg. Contrib. Rate | 9.18 | 9.52 | 9.36 | 9.37 | 9.24 | 11.26 | 13.98 | 13.51 | 12.88 | 13.4 |

Source: The Central Bank of the Bahamas Survey on Pension Funds & Central Bank estimates

On a sectoral basis, the three largest industry groupings dominated the portfolio structure observed (see Tables 4A and 4B). Communications and public utilities schemes held their largest concentration of investments in loans (25.2%) and mortgages (26.0%), with reduced investment shares for public sector securities (11.7%) and bank deposits (18.6%). Conversely, financial sector plans invested more aggressively in public sector bonds (31.8%), with a similar distribution for deposits (31.3%), and the third largest combined concentration in mutual funds and private equities (21.7%)—a moderate increase in importance since the mid-1990s. As a practice, most

On a locational basis, \$123.1 million (15.5%) of the reported private pension assets were invested outside The Bahamas, more than doubled since 1995 and 54.2% higher than the 1998 estimate. As to the portfolio breakdown, holdings were dominated by expanded shares for foreign government securities (23.9%) and the combination of mutual funds and equities (48.8%); followed by “other uncategorized” assets (15.2%) and deposits (10.9%), which were both reduced in relative importance.



financial sector plans do not provide mortgages and loans to participants, because such facilities are generally available from the employer at concessional interest rates. Meanwhile, hotel sector funds also showed an increased emphasis on equities and mutual funds, which more than doubled in portfolio share to 35.8% since 1995. Holdings were also slightly boosted for public sector securities (39.8%), whereas the fraction of investments in deposits (20.8%) was reduced by approximately one-third since 1995. On a combined basis, the remaining private sector schemes, reported enlarged holdings of public sector securities (28.1%) and equities (21.4%) relative to the mid-1990s, while the dominance of deposits holdings (23.5%) was reduced overall.

DEFINED BENEFIT VS. DEFINED CONTRIBUTION

Between 1998 – 2001, total assets invested by defined benefit scheme grew at an average annual pace of 7.6% to \$682.0 million, compared to more accelerated growth for defined contribution schemes of 11.0% to \$111.5 million. In this regard, defined contribution schemes enjoyed faster growth of 7.4%, in the number of active contributors as compared to 4.3% for defined benefit schemes. Both the high average rates of return and pay-in contribution rates during 1998-2001 allowed defined contribution schemes to maintain a higher average savings per participants of \$25,508, this compared with \$21,773 for participants in defined benefit schemes, also having grown at an accelerated average annual pace of 3.4% vis-à-vis 3.2% for the latter.

In terms of the invested portfolio shares, defined benefit schemes exhibited a stronger preference for public sector securities, relative to the other schemes

**Table 4A
PRIVATE PENSION INVESTMENTS: BY INDUSTRY/ASSET ALLOCATION**

| | (B\$'000) | | | | | | | | | | | | |
|----------------------------|----------------|----------------|--------------|---------------------|---------------|--------------|----------------|---------------|---------------|---------------------|--------------|---------------|--------------------|
| | Securities | Deposits | Real Estate | Employer's Business | Mortgages | Bonds | Equities | Mutual Funds | Loans | Contributor Arrears | Dividends | Investments | Other Total Assets |
| 1998P | | | | | | | | | | | | | |
| (Private) Distribution | 3,122 | 5,155 | 118 | 1,197 | 3,356 | 0 | 756 | 0 | 39 | 38 | 309 | 393 | 14,484 |
| Communications & Utilities | 81,434 | 73,861 | 648 | 0 | 64,788 | 400 | 12,178 | 0 | 418 | 3,700 | 3,678 | 556 | 241,662 |
| Construction Companies | 217 | 101 | 8 | 0 | 147 | 0 | 23 | 0 | 0 | 0 | 8 | 0 | 505 |
| Education | 499 | 1,266 | 133 | 0 | 2,584 | 0 | 893 | 450 | 1,474 | 0 | 105 | 210 | 7,613 |
| Financial Sector | 46,189 | 48,470 | 1,411 | 2,501 | 3,501 | 1,000 | 16,396 | 2,787 | 810 | 529 | 520 | 28,091 | 152,206 |
| Health | 30 | 282 | 192 | 0 | 11 | 0 | 132 | 0 | 0 | 0 | 11 | 0 | 656 |
| Hotels & Restaurants | 34,445 | 49,431 | 0 | 0 | 0 | 0 | 30,309 | 3,384 | 0 | 4,023 | 2,770 | 5,206 | 129,568 |
| Manufacturing Companies | 7,355 | 2,316 | 19 | 0 | 451 | 308 | 7,518 | 2,450 | 0 | 0 | 118 | 0 | 20,537 |
| Non-Profit | 10 | 62 | 11 | 0 | 107 | 0 | 11 | 0 | 0 | 0 | 0 | 103 | 304 |
| Oil Companies | 1,988 | 8,166 | 13 | 0 | 267 | 0 | 1,327 | 0 | 1,909 | 0 | 3 | 1,376 | 15,049 |
| Other Services | 9,538 | 4,049 | 83 | 0 | 1,523 | 0 | 2,914 | 0 | 97 | 54 | 80 | 154 | 18,492 |
| Professional Services | 1,233 | 2,864 | 597 | 0 | 55 | 40 | 74 | 350 | 224 | 138 | 6 | 126 | 5,706 |
| Real Estate | 207 | 2,721 | 10 | 0 | 185 | 0 | 705 | 464 | 34 | 0 | 9 | 247 | 4,582 |
| Transportation | 1,964 | 4,379 | 1,474 | 0 | 400 | 0 | 2,895 | 0 | 4,556 | 523 | 106 | 909 | 17,206 |
| Total | 188,232 | 203,123 | 4,716 | 3,698 | 77,375 | 1,749 | 76,132 | 9,885 | 9,562 | 9,005 | 7,723 | 37,371 | 628,571 |
| 2000P | | | | | | | | | | | | | |
| (Private) Distribution | 3,715 | 6,342 | 141 | 1,046 | 4,003 | 0 | 901 | 0 | 55 | 0 | 368 | 469 | 17,040 |
| Communications & Utilities | 32,566 | 59,325 | 736 | 0 | 65,247 | 0 | 8,481 | 0 | 81,049 | 3,000 | 2,174 | 19,819 | 272,395 |
| Construction Companies | 243 | 121 | 8 | 0 | 147 | 0 | 215 | 0 | 0 | 0 | 9 | -2 | 742 |
| Education | 350 | 287 | 3 | 0 | 913 | 0 | 588 | 515 | 0 | 0 | 45 | 6,384 | 9,084 |
| Financial Sector | 60,587 | 56,808 | 1,220 | 6,169 | 4,030 | 604 | 15,188 | 14,472 | 777 | -20 | 1,521 | 24,975 | 186,331 |
| Health | 333 | 105 | 0 | 0 | 0 | 0 | 688 | 0 | 0 | 0 | 0 | 0 | 1,126 |
| Hotels & Restaurants | 58,905 | 35,536 | 0 | 0 | 0 | 0 | 49,174 | 5,455 | 0 | 0 | 0 | 5,256 | 154,325 |
| Manufacturing Companies | 13,506 | 5,749 | 93 | 0 | 918 | 0 | 15,346 | 4,987 | 0 | 0 | 241 | 0 | 40,840 |
| Non-Profit | 621 | 69 | 0 | 0 | 0 | 0 | 115 | 0 | 0 | 0 | 0 | 0 | 805 |
| Oil Companies | 2,364 | 7,065 | 16 | 0 | 317 | 0 | 1,578 | 0 | 2,270 | 0 | 4 | 1,636 | 15,250 |
| Other Services | 12,501 | 6,129 | 99 | 0 | 1,811 | 0 | 4,832 | 0 | 116 | 14 | 143 | 343 | 25,988 |
| Professional Services | 2,018 | 3,624 | 710 | 0 | 65 | 40 | 1,246 | 456 | 173 | 153 | 57 | 377 | 8,920 |
| Real Estate | 256 | 1,363 | 2,320 | 0 | 140 | 0 | 2,031 | 275 | 0 | 0 | 40 | 160 | 6,584 |
| Transportation | 4,110 | 3,529 | 2,580 | 0 | 475 | 0 | 6,651 | 0 | 5,968 | 332 | 176 | 11 | 23,832 |
| Total | 192,075 | 186,051 | 7,925 | 7,216 | 78,067 | 644 | 107,034 | 26,160 | 90,408 | 3,480 | 4,777 | 59,426 | 763,262 |
| 2001P | | | | | | | | | | | | | |
| (Private) Distribution | 4,059 | 6,950 | 146 | 1,087 | 4,164 | 0 | 975 | 247 | 61 | 0 | 382 | 498 | 18,569 |
| Communications & Utilities | 32,566 | 51,563 | 658 | 0 | 72,133 | 0 | 10,604 | 0 | 69,934 | 4,348 | 2,151 | 33,481 | 277,438 |
| Construction Companies | 1,108 | 1,141 | 10 | 0 | 186 | 0 | 383 | 20 | 0 | 0 | 12 | -2 | 2,859 |
| Education | 372 | 318 | 3 | 0 | 1,027 | 0 | 542 | 560 | 0 | 0 | 48 | 7,012 | 9,883 |
| Financial Sector | 62,251 | 61,138 | 1,230 | 6,060 | 3,447 | 623 | 16,902 | 25,622 | 618 | 292 | 1,561 | 15,834 | 195,577 |
| Health | 425 | 63 | 0 | 0 | 0 | 0 | 647 | 90 | 0 | 0 | 0 | 0 | 1,225 |
| Hotels & Restaurants | 65,531 | 34,295 | 0 | 0 | 0 | 0 | 53,512 | 5,364 | 0 | 0 | 0 | 5,919 | 164,621 |
| Manufacturing Companies | 13,439 | 4,506 | 321 | 0 | 883 | 0 | 15,102 | 4,797 | 0 | 0 | 231 | 0 | 39,280 |
| Non-Profit | 720 | 9 | 0 | 0 | 0 | 0 | 103 | 0 | 0 | 0 | 0 | 0 | 832 |
| Oil Companies | 2,364 | 7,065 | 16 | 0 | 317 | 0 | 1,578 | 0 | 2,270 | 0 | 4 | 1,636 | 15,250 |
| Other Services | 15,077 | 5,476 | 106 | 0 | 1,942 | 0 | 4,919 | 0 | 124 | 34 | 113 | 73 | 27,863 |
| Professional Services | 2,378 | 3,609 | 718 | 0 | 66 | 40 | 1,600 | 0 | 175 | 0 | 54 | 477 | 9,116 |
| Real Estate | 264 | 1,501 | 1,858 | 0 | 146 | 0 | 1,845 | 0 | 5,988 | 0 | 31 | 186 | 5,831 |
| Transportation | 3,643 | 5,990 | 2,581 | 0 | 501 | 0 | 5,691 | 0 | 79,170 | 430 | 277 | 12 | 25,112 |
| Total | 204,197 | 183,624 | 7,647 | 7,146 | 84,813 | 663 | 114,404 | 36,701 | 79,170 | 5,103 | 4,865 | 65,124 | 793,457 |

Source: The Central Bank of the Bahamas Survey on Pension Funds & Central Bank estimates

Table 4B
DISTRIBUTION OF PRIVATE PENSION INVESTMENTS: BY INDUSTRY/ASSET ALLOCATION

| | (BS'000) | | | | | | | | | | | | |
|----------------------------|-------------|----------|-------------|---------------------|-----------|-------|----------|--------------|-------|---------------------|-----------|-------------|--------------------|
| | Securities | Deposits | Real Estate | Employer's Business | Mortgages | Bonds | Equities | Mutual Funds | Loans | Contributor Arrears | Dividends | Investments | Other Total Assets |
| | 1998 | | | | | | | | | | | | |
| (Private) Distribution | 21.55 | 35.59 | 0.81 | 8.27 | 23.17 | - | 5.22 | - | 0.27 | 0.26 | 2.14 | 2.72 | 100.00 |
| Communications & Utilities | 33.70 | 30.56 | 0.27 | - | 26.81 | 0.17 | 5.04 | - | 0.17 | 1.53 | 1.52 | 0.23 | 100.00 |
| Construction Companies | 42.93 | 20.07 | 1.60 | - | 29.19 | - | 4.55 | - | - | - | 1.65 | - | 100.00 |
| Education | 6.56 | 16.63 | 1.74 | - | 33.94 | - | 11.73 | 5.91 | 19.35 | - | 1.38 | 2.76 | 100.00 |
| Financial Sector | 30.35 | 31.84 | 0.93 | 1.64 | 2.30 | 0.66 | 10.77 | 1.83 | 0.53 | 0.35 | 0.34 | 18.46 | 100.00 |
| Health | 4.55 | 42.93 | 29.19 | - | 1.60 | - | 20.08 | - | - | - | 1.65 | - | 100.00 |
| Hotels & Restaurants | 26.58 | 38.15 | - | - | - | - | 23.39 | 2.61 | - | 3.10 | 2.14 | 4.02 | 100.00 |
| Manufacturing Companies | 35.82 | 11.28 | 0.09 | - | 2.20 | 1.50 | 36.61 | 11.93 | - | - | 0.58 | - | 100.00 |
| Non-Profit | 3.39 | 20.28 | 3.55 | - | 35.34 | - | 3.72 | - | - | - | - | 33.72 | 100.00 |
| Oil Companies | 13.21 | 54.26 | 0.09 | - | 1.77 | - | 8.82 | - | 12.68 | - | 0.02 | 9.14 | 100.00 |
| Other Services | 51.58 | 21.90 | 0.45 | - | 8.24 | - | 15.76 | - | 0.53 | 0.29 | 0.43 | 0.83 | 100.00 |
| Professional Services | 21.60 | 50.18 | 10.46 | - | 0.96 | 0.70 | 1.29 | 6.13 | 3.93 | 2.42 | 0.10 | 2.22 | 100.00 |
| Real Estate | 4.53 | 59.40 | 0.22 | - | 4.04 | - | 15.40 | 10.12 | 0.74 | - | 0.19 | 5.38 | 100.00 |
| Transportation | 11.42 | 25.45 | 8.57 | - | 2.32 | - | 16.83 | - | 26.48 | 3.04 | 0.61 | 5.28 | 100.00 |
| Total | 29.95 | 32.32 | 0.75 | 0.59 | 12.31 | 0.28 | 12.11 | 1.57 | 1.52 | 1.43 | 1.23 | 5.95 | 100.00 |
| | 2000 | | | | | | | | | | | | |
| (Private) Distribution | 21.80 | 37.22 | 0.82 | 6.14 | 23.49 | - | 5.29 | - | 0.32 | - | 2.16 | 2.75 | 100.00 |
| Communications & Utilities | 11.96 | 21.78 | 0.27 | - | 23.95 | - | 3.11 | - | 29.75 | 1.10 | 0.80 | 7.28 | 100.00 |
| Construction Companies | 32.72 | 16.36 | 1.09 | - | 19.86 | - | 28.98 | - | - | - | 1.26 | (0.27) | 100.00 |
| Education | 3.85 | 3.16 | 0.03 | - | 10.05 | - | 6.47 | 5.66 | - | - | 0.50 | 70.28 | 100.00 |
| Financial Sector | 32.52 | 30.49 | 0.65 | 3.31 | 2.16 | 0.32 | 8.15 | 7.77 | 0.42 | (0.01) | 0.82 | 13.40 | 100.00 |
| Health | 29.57 | 9.33 | - | - | - | - | 61.10 | - | - | - | - | - | 100.00 |
| Hotels & Restaurants | 38.17 | 23.03 | - | - | - | - | 31.86 | 3.53 | - | - | - | 3.41 | 100.00 |
| Manufacturing Companies | 33.07 | 14.08 | 0.23 | - | 2.25 | - | 37.58 | 12.21 | - | - | 0.59 | - | 100.00 |
| Non-Profit | 77.09 | 8.58 | - | - | - | - | 14.33 | - | - | - | - | - | 100.00 |
| Oil Companies | 15.50 | 46.33 | 0.10 | - | 2.08 | - | 10.35 | - | 14.88 | - | 0.02 | 10.73 | 100.00 |
| Other Services | 48.11 | 23.58 | 0.38 | - | 6.97 | - | 18.59 | - | 0.45 | 0.06 | 0.55 | 1.32 | 100.00 |
| Professional Services | 22.62 | 40.63 | 7.96 | - | 0.73 | 0.45 | 13.97 | 5.11 | 1.94 | 1.72 | 0.64 | 4.23 | 100.00 |
| Real Estate | 3.89 | 20.70 | 35.23 | - | 2.13 | - | 30.84 | 4.18 | - | - | 0.61 | 2.42 | 100.00 |
| Transportation | 17.25 | 14.81 | 10.83 | - | 1.99 | - | 27.91 | - | 25.04 | 1.39 | 0.74 | 0.05 | 100.00 |
| Total | 25.16 | 24.38 | 1.04 | 0.95 | 10.23 | 0.08 | 14.02 | 3.43 | 11.84 | 0.46 | 0.63 | 7.79 | 100.00 |
| | 2001 | | | | | | | | | | | | |
| (Private) Distribution | 21.86 | 37.43 | 0.79 | 5.85 | 22.42 | - | 5.25 | 1.33 | 0.33 | - | 2.06 | 2.68 | 100.00 |
| Communications & Utilities | 11.74 | 18.59 | 0.24 | - | 26.00 | - | 3.82 | - | 25.21 | 1.57 | 0.78 | 12.07 | 100.00 |
| Construction Companies | 38.77 | 39.92 | 0.36 | - | 6.52 | - | 13.40 | 0.70 | - | - | 0.40 | (0.07) | 100.00 |
| Education | 3.76 | 3.22 | 0.03 | - | 10.39 | - | 5.49 | 5.66 | - | - | 0.49 | 70.96 | 100.00 |
| Financial Sector | 31.83 | 31.26 | 0.63 | 3.10 | 1.76 | 0.32 | 8.64 | 13.10 | 0.32 | 0.15 | 0.80 | 8.10 | 100.00 |
| Health | 34.69 | 5.14 | - | - | - | - | 52.82 | 7.35 | - | - | - | - | 100.00 |
| Hotels & Restaurants | 39.81 | 20.83 | - | - | - | - | 32.51 | 3.26 | - | - | - | 3.60 | 100.00 |
| Manufacturing Companies | 34.21 | 11.47 | 0.82 | - | 2.25 | - | 38.45 | 12.21 | - | - | 0.59 | - | 100.00 |
| Non-Profit | 86.54 | 1.06 | - | - | - | - | 12.40 | - | - | - | - | - | 100.00 |
| Oil Companies | 15.50 | 46.33 | 0.10 | - | 2.08 | - | 10.35 | - | 14.88 | - | 0.02 | 10.73 | 100.00 |
| Other Services | 54.11 | 19.65 | 0.38 | - | 6.97 | - | 17.65 | - | 0.45 | 0.12 | 0.41 | 0.26 | 100.00 |
| Professional Services | 26.08 | 39.59 | 7.87 | - | 0.72 | 0.44 | 17.55 | - | 1.92 | - | 0.59 | 5.23 | 100.00 |
| Real Estate | 4.53 | 25.75 | 31.86 | - | 2.50 | - | 31.64 | - | - | - | 0.54 | 3.19 | 100.00 |
| Transportation | 14.51 | 23.85 | 10.28 | - | 1.99 | - | 22.66 | - | 23.85 | 1.71 | 1.10 | 0.05 | 100.00 |
| Total | 25.74 | 23.14 | 0.96 | 0.90 | 10.69 | 0.08 | 14.42 | 4.63 | 9.98 | 0.64 | 0.61 | 8.21 | 100.00 |

Source: The Central Bank of the Bahamas Survey on Pension Funds & Central Bank estimates

(27.6% versus 14.3%); mortgages (11.9% versus 3.2%) and loans (10.6% versus 6.3%). Conversely, defined contribution schemes emphasized deposits more (31.1% versus 21.8%) equities and mutual funds (21.5% vs. 18.6%) and real estate & "other" combined investments (20.4% vs. 7.3%).

CONCLUSION

As the more recent slowing in pension fund assets growth underscores, these schemes are extremely sensitive to changes in the general economic climate. Asset growth and rates of earnings are expected to have remained sluggish during 2002 and 2003. With the outlook for the economy gradually improving, schemes are likely to experience stronger asset accumulation beginning in 2004. Hotel sector employment in particular, is expected to increase over the short to medium term, providing the bulk of growth to the active participants base.

While private pension schemes remain the most unregulated of domestic savings structures in The Bahamas, the need for oversight is becoming more important, particularly given the expanding range of investment opportunities, touching more frequently on riskier capital market instruments. If the experience of other regulated jurisdictions is any indication, legislation is likely to address issues related to asset management and fund administration and affirm international norms, already widely observed in the local industry.

The portfolio distribution of assets is one of the issues typically addressed in regulations. As the survey results indicate, funds have, on average, taken on more risks in capital market investments. While there is no evidence that average holdings of these investments is excessive, the issue could become more important for the industry, as larger allocations and market volatility have a greater impact on total returns and funding status, particularly for defined benefit schemes.

Another interesting aspect of the assets distribution, particularly among non-financial sector plans, is the high

concentration of mortgages and other loans which create significant exposure to the performance of the same sectors in which participants are employed and to sponsors' business in particular. Weakness on either front could impede debtors' ability to maintain loans in good standing. While from a cashflow perspective liquidity is still not a serious concern, given the low dependency ratio and minimal payout requirements against total assets, faced with mounting non-performance, such loan exposures could impede earnings flows. Moreover, forced liquidations on any significant scale could raise questions about the recoverability rate for exposed assets.

The portability of savings when participants change employment might also be considered in legislation. One of the ways in which the US and Canada achieve such portability is by allowing employees and employers to make annual tax-exempt contributions to individually registered retirement savings plans. However, if done locally, portability could enhance the dynamics of the labour force, allowing more flexible flow of skills among sectors, and enabling uninterrupted accumulation of retirement savings. While this feature is likely to be more suited for defined contribution schemes, it could also lead to the conversion of some defined benefit schemes to this structure in the future

With regulatory issues addressed, and continued assets growth, private pension schemes are expected to play an increasing role in the development of the domestic capital markets, providing additional savings on which to draw for economic development. Other than facilitating more private equity issues, these resources could also provide more avenues for the development of the private debt market, and marketing of pooled investment instruments. Beyond this, the sector will continue to reinforce the importance of personal savings, and foster stronger linkages between domestic savings and broadening of the ownership base in the economy.