

IOPS COUNTRY PROFILE: JAMAICA



DEMOGRAPHICS AND MACROECONOMICS

Nominal GDP (JMD bn)	2 121
GDP per capita (USD)	5 354
Population (000s)	2 727
Labour force (000s)	1 370
Employment rate (%)	92.70
Population over 65 (%)	4.83
Dependency ratio ¹ (%)	9.16

Data from 2018 or latest available year.
 1. Ratio of over 65-year-olds the labour force.
 Source: STATIN, World Bank.

JAMAICA: COUNTRY PENSION DESIGN

STRUCTURE OF THE PENSION SYSTEM

Public pensions

- The public pensions covers all employed and self-employees
- Both employers and employees make contributions

Private pensions: occupational (voluntary)

- The Superannuation Fund (SF) is a group retirement arrangement, often called as an occupational fund or a company pension fund
- Contribution is from employer, not necessarily from employee
- It can be a DC or DB arrangement

Private pensions: personal (voluntary)

- A RS scheme exist, which is an individual plan for the following categories, i.e. self-employees, employees who are not active members of an approved SF, and employers who have not set up an approved SF
- It is a DC plan in nature

Source: OECD Global Pension Statistic.

JAMAICA: THE PENSION SYSTEM'S KEY CHARACTERISTICS

PUBLIC PENSION

The public pension tier covers all employed persons and the self-employed. Employees and employers each contribute 3% of gross earnings, with maximum earnings for contribution purposes amounting to J\$28,846 a week or J\$1,500,000 a year. The self-employed pay J\$200 a week plus a maximum of 6% of insurable annual earnings.

Old-age pension benefits become payable at age 65 (men) or 60 (women) where there have been 156 or more contributions, including an annual average of 39 weeks of paid or credited contributions. A partial pension is paid for annual average contributions of between 10 and 38 weeks. There is no early pension, but it is possible to defer the pension. A lump sum (grant) is paid if the insured has at least 52 weeks of contributions, but does not meet the qualifying conditions for an old-age pension.

The old-age pension is a basic benefit of J\$3,400 a week with an annual average of 39 weeks of paid or credited contributions. It is reduced to J\$1,125 a week with annual average contributions of between 26 and 38 weeks, and to J\$750 for 10 to 25 weeks, plus an earnings-related benefit of J\$0.06 a week for every J\$13 of employer-employee contributions paid during the working lifetime. A spouse's supplement of J\$900 is paid for a dependent wife aged 55 or a disabled husband aged 60 or older.

OCCUPATIONAL VOLUNTARY

Coverage

Generally, when a superannuation fund (SF) plan is established all permanent full-time employees of the sponsor are required to be members of the plan and are afforded coverage. The eligibility criteria for membership may stipulate a minimum age and period of service prior to enrolment.

Contributions

The sponsor(s) will establish a contributory or non-contributory SF i.e. determines whether or not employees will contribute to the SF. The employer must be an ordinary annual contributor to the SF. Contributions on behalf of a member should not exceed 10% of the member's annual salary or wages, except where the employer makes special payments to meet minimum funding and solvency requirements. In this case, approval must be obtained from the tax authorities. The legislation does not address a legal minimum rate for the sponsor, but it must be higher than 0%.

In a contributory SF, the typical required contribution rate for members is 5% of pensionable salaries. Members are given the option to make additional contributions such that the total member and employer contributions for that member do not exceed 20% of the member's annual salary.

Benefits

Superannuation funds can be Defined Benefit or Defined Contribution in nature. The main purpose of the superannuation fund is to provide retirement benefits however superannuation funds may make provisions to provide termination, death, and disability benefits. Retirement (pension) benefits may be paid as an annuity with the option for a tax-free lump sum to be taken and a reduced pension received. The lump-sum is subject to a legal maximum amount.

There is no minimum or maximum age for the payment of retirement benefits from the superannuation fund. However,

- Superannuation funds must set the normal retirement age between 60 and 65 years;
- Early retirement is typically available within the 10 year period before the normal retirement age;
- Retirement may be deferred (plan rules permitting) until five years after the normal retirement age.

For the case of a death benefit, if the named beneficiary is a minor the benefit will be paid to the appointed trustees on behalf of the minor or payment will be delayed until the beneficiary becomes of age.

The payment of the disability benefit is dependent on certification from a medical examiner.

Taxation

Contributions (members and employer) are exempt from income tax, provided that the plan is approved by the Tax Authorities. Investment income earned on the contributions is also tax-exempt. However, tax is deducted at the source, and a claim submitted to the Tax Authorities for a refund. Benefits paid on termination of service. Annuity payments are taxed subject to a threshold.

PERSONAL VOLUNTARY

Coverage

A RS (retirement solution) is an individual pension plan to which the following category of persons can make contributions toward a pension:

- self-employed individuals;
- employees who are not active members of an approved superannuation fund (SF); and
- employers who have not set up an approved SF for their employees

An RS must also be registered and approved by the FSC. In addition, these schemes can only be set up by a registered life insurer or a licensed Investment Manager.

Contributions

The annual rate of contribution by each member cannot exceed 20% of pensionable salaries.

Unlike an approved SF, employers of persons who contribute to an approved RS are not required to make contributions to the scheme. They may however do so voluntarily. If the employer decides to contribute to the plan, total contributions on behalf of a member should not exceed 20% of pensionable salaries.

Benefits

Plans are Defined Contribution in nature. Benefits are paid out as a pension or an annuity.

MARKET INFORMATION

There are 376 active pension plans; 13 of these plans are retirement schemes while 363 are superannuation funds. Most superannuation funds are defined contribution plans. The total number of approved licensees and registrants was 2,562 as at March 31, 2020. This includes Superannuation Funds, Retirement Schemes, Administrators, Investment Managers, Trustees, and Responsible Officers. Of the approved licensees, 26 are administrators and 26 are investment managers.

The legislation does not currently address fees charged by investment managers, administrators, and other service providers.

PHASE II OF PENSION REFORM

General trends of the pension reform have led to:

- Greater transparency due to disclosure requirements;
- Increased awareness among members, participants, and other pension stakeholders;
- Adoption of international “best practices” in pension plan management;
- Winding-up of small pension plans;
- Increased demand for retirement scheme products due to perceived cost-effectiveness.

The second phase of the Jamaican pension reform focuses on safeguarding the level of benefits to be received by pension plan members upon retirement. Phase II referred to as the “adequacy phase”, seeks to address the under-listed provisions:

- Vesting (i.e. members’ entitlement to their employer’s contributions after completion of a prescribed period of membership in the approved superannuation fund);
- Locking in of compulsory contributions (preserve compulsory contributions of members);
- Portability (i.e. giving members the right to transfer their accrued benefits to and from an approved superannuation fund, approved retirement scheme, or any other pension plan as may be prescribed);
- Distribution of surplus in continuing pension plans;
- Interest on benefits paid late;
- Eligibility of part-time employees to participate in approved superannuation funds;
- Non-discrimination;
- Merger of approved pension plans;
- Late Retirement Benefits;
- Indexation of pensions;
- Optional forms of Pensions;
- Civil penalty regime for contravention of the Act and Regulations by trustees;
- Regulations for Retirement Schemes; and
- Regulations for the winding up of approved pension plans.

Additionally, outstanding issues raised by Stakeholders during Phase I, and to which the Government had committed at the commencement of the pension reform process, were also addressed namely:

- Amendments to Act and existing regulations;
- Funding & Solvency Regulations.

REFERENCE INFORMATION

KEY LEGISLATION

The Pensions (Superannuation Funds and Retirement Schemes) Act of 2004 gives the Financial Services Commission the mandate to supervise and regulate superannuation funds and retirement schemes and to carry out activities essential to the regulatory function. The Pensions Act has been supplemented by a number of Regulations. The Financial Services Commission Act, 2001 lays down the powers and responsibilities of the Financial Services Commission. The Income Tax Act and associated Regulations and the Trustee Act also apply.

KEY REGULATORY AND SUPERVISORY AUTHORITIES

The Ministry of Labor and Social Security

<https://www.mlss.gov.jm/departments/national-insurance-scheme/>

Financial Services Commission (FSC)

<http://www.fscjamaica.org/>