



Survey of Private Pension Plans in The Bahamas (2004)

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Introduction

The Central Bank of The Bahamas' latest survey on sponsored (mainly private) pension arrangements obtained results for 2004 and extends the available data coverage, which begins at 1992. Indications are that assets have grown nearly three fold since 1992, from just over \$300 million to \$833 million in 2004. Growth in pension assets remains strongly correlated with periods of heightened expansion in the economy and the tourism sector in particular, supporting steady increments in the share of the labour force participating in such schemes. Results from the 2004 survey reveal that the share of sponsored pension assets invested in public sector securities and in private capital market instruments continued to increase, while the proportion allocated to bank deposits and holdings such as real estate de-

creased further. Plans, meanwhile, benefited from steady firming in the average rate of return on investments.

Private pension benefits are generally intended to supplement retirement income received from the National Insurance Board (NIB). However, as opposed to NIB's coverage capped at a wage ceiling of \$400 per week, private schemes vary benefits without such limits, in proportion to the earnings of the individual. A non-contributory supplementary scheme also exists for retired civil servants, which is funded by the Government. Grouping the approximately 17,000 central Government employees with those covered by private schemes, therefore, placed the estimated share of the employed Bahamian workforce entitled to supplementary retirement income near 36.0% in 2004.

Table 1: Selected Indicators of Domestic Savings

	2001	2002	2003	2004	2001	2002	2003	2004	Avg. Growth 01-04
	(B\$ Million)				(% of GDP)				(%)
Private Pension Funds	728.1	748.6	795.6	833.6	14.2%	13.9%	14.5%	14.7%	3.6%
National Ins. Board (Cash and Investments) ¹	991.5	1,069.3	1,152.8	1,242.7	19.3%	19.8%	20.9%	22.0%	6.7%
Life & Health Ins. Cos.(Current Assets and Inv) ²	530.41	551.3	617.2	666.5	10.3%	10.2%	11.2%	11.8%	8.4%
Private Individuals (Bank deposits) ³	2,009.0	2,059.7	2,100.3	2,383.4	39.2%	38.2%	38.2%	42.1%	5.6%
Credit Unions (Deposit and Shares) ⁴	120.4	132.5	150.1	170.2	2.3%	2.5%	2.7%	3.0%	11.3%

Sources:

¹The National Insurance Board, Annual Statement of Accounts (Except 2004, which is a Central Bank estimate), ²The Registrar of Insurance Companies (except 2004, which is a Central Bank estimate), ³The Central Bank of The Bahamas and ⁴The Department of Cooperative Development

Private or sponsored pension funds are gradually gaining in importance as vehicles for domestic savings (see Table 1).

The accumulated assets in these schemes represented a relatively stable 14.7% of GDP in 2004. While these were appreciably less than the collective savings held by NIB, estimated at 22.0% of GDP in 2004, they exceeded the corpus held by insurance companies, which approximated 11.8% of GDP. A smaller share of domestic savings, representing some 3.0% of GDP is attributed to credit unions.

By far, nevertheless, the bulk of financial savings of private individuals are held in deposits at banks, equivalent to an elevated 42.1% of GDP in 2004 compared to 38.2% in 2003. However, total deposits reflect a significantly skewed savings pattern, as approximately three-quarters of the balances are held in less than one quarter of the accounts. Although based on individuals' salaries, the distribution of savings in private pension funds is much less skewed, while average NIB benefit entitlements are almost evenly distributed among eligible contributors.

Against this backdrop, this article analyzes the results of the 2004 pension survey, highlighting overall trends in the industry and various sub-groupings according to the nature of funds and sectors of sponsors. First, a brief overview of the survey and estimation methodology is discussed, followed by an outline of the characteristics of the various schemes. The article then reviews trends in investment patterns among pension plans and concludes with a discussion on the outlook for the industry.

Categorization of Sponsored Plans

Fund pension schemes commonly fall into three categories, according to either the nature of benefits provided or how they are financed. These are defined benefit, defined contribution and provident funds.

Defined Benefit plans guarantee the payment of specified benefits at retirement, proportionate to participants' earnings age, and the number of years employed with the sponsor. To determine adequacy of funding or long-term solvency of such plans, actuarial estimates of the present value of future benefits payable are sub-

tracted from the present value of assets, represented from expected contributions and earnings on accumulated assets. Fully-funded plans are those for which the present value of assets equals or exceeds that of liabilities, while under-funded plans are those for which actuarial liabilities exceed the present value of assets. Although defined benefit schemes maintain the certainty of retirement benefits, annual costs can vary significantly, as shifts occur in actuarial assumptions about workforce demographics, and the expected future rates of return on investments. Costs differentials normally fall within the ambit of the plan sponsors, who are responsible for maintaining their funded status.

Having features in common, both defined contribution and provident fund plans establish savings and contribution rates upfront, but offer no guaranteed retirement benefit. The costs of maintaining these plans are therefore more predictable than for defined benefit schemes. However, uncertainty arises over future value of benefits, which depend entirely upon the contributions to the schemes and related investment returns. The only difference between the two types of schemes is that provident schemes disburse participants' benefits as lump sum payments upon retirement, while the defined contribution plans convert at least some of this entitlement into annuities, payable in installments. Since lump-sum benefits from provident schemes can also be converted to annuities, this subtle distinction is ignored and these are grouped with defined contribution plans in the analysis below..

Survey and Estimation Methodology

The 2004 pension survey was sent to 150 existing and potential plan sponsors in The Bahamas. This excluded some 137 companies, mostly offshore banks and trust companies which, according to the Central Bank's 2003 survey, either did not sponsor local plans or enrolled their employees in globally sponsored schemes, for which a separate apportionment of local employees' entitlement was not possible. Some 88 returns were received, of which 79 respondents revealed some level of local plan sponsorship and 9 firms disclosed that they did not sponsor such schemes. The respondents that reported schemes were responsible for total plan assets which approximated 72.5% of the estimated aggregates for 2004. From these responses, the average sector

Table 2
Private Pension Investments By Industry

	2000R	2001R	2002R	2003R	2004P
INDUSTRY	(B\$'000)				
Construction	742	939	926	1,101	1,101
Communications & Utilities	239,874	250,780	256,741	270,986	273,723
Education	9,084	9,883	10,630	11,728	12,765
Financial Sector	179,556	188,349	182,999	190,076	200,083
Health	1,126	1,225	1,093	1,042	1,319
Hotel & Restaurants	154,325	164,621	170,980	185,126	197,140
Manufacturing	40,839	7,854	6,895	7,561	8,093
Non - Profit Organizations	805	832	833	1,044	1,167
Oil Companies	15,250	15,250	15,808	16,689	18,202
Other Services	25,988	27,864	31,177	35,652	40,102
Private Distribution	17,040	18,569	23,891	26,715	29,859
Professional Services	8,920	9,116	10,900	11,694	12,845
Real Estate	6,584	5,831	4,885	5,173	5,745
Transportation	23,832	27,033	30,885	31,006	31,409
TOTAL	723,965	728,146	748,643	795,593	833,553
INDUSTRY	(% Distribution)				
Construction	0.10	0.13	0.12	0.14	0.13
Communications & Utilities	33.13	34.44	34.29	34.06	32.84
Education	1.25	1.36	1.42	1.47	1.53
Financial Sector	24.80	25.87	24.44	23.89	24.00
Health	0.16	0.17	0.15	0.13	0.16
Hotel & Restaurants	21.32	22.61	22.84	23.27	23.65
Manufacturing	5.64	1.08	0.92	0.95	0.97
Non - Profit Organizations	0.11	0.11	0.11	0.13	0.14
Oil Companies	2.11	2.09	2.11	2.10	2.18
Other Services	3.59	3.83	4.16	4.48	4.81
Private Distributions	2.35	2.55	3.19	3.36	3.58
Professional Services	1.23	1.25	1.46	1.47	1.54
Real Estate	0.91	0.80	0.65	0.65	0.69
Transportation	3.29	3.71	4.13	3.90	3.77
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

growth rates were calculated and used to estimate the remaining 27.5% of plan assets for 2004. Estimation through this methodology does not carry forward the assets from discontinued schemes, which occurred most frequently from ceased operations among offshore manufacturing companies and in the financial sector.

Characteristics of Local Pension Plans

Defined contribution (including provident fund) plans are the most commonly used sponsored pension arrangements in The Bahamas, accounting for 71.0% of the surveyed schemes, as compared to 29.0% for defined benefit schemes. Nevertheless, individuals covered by such plans only accounted for 11.8% of overall private pension participants in 2004; and the respective assets, schemes was less, at 53.0%. Defined benefit schemes were therefore utilized more frequently in the earlier mix (47.0%) relative to the latter period (13.9%), and included those sponsored by the public corporations and a few large financial institutions. Both this longer average period of existence and the larger average number of employees help to explain why, over the years, defined benefit schemes have amassed the majority of private pension assets.

As regard asset management arrangements, approximately two thirds of sponsors (mainly outside of the financial sector) have their plans professionally administered. An estimated 42.8% of pension plans were administered by insurance companies, while 17.9% were managed by banks or trust companies and 7.6% by other professional managers.

Plans are also distinguishable on the basis of how funding is shared between the employee and employer and whether employee participation is compulsory or voluntary. Of the schemes surveyed, almost half (49.0%) required mandatory participation by employees. Defined benefit schemes had a compulsion rate of 59.5% while for defined contribution plans, participation was compulsory in 44.7% of the cases. Meanwhile, larger companies with more than 100 participants were more likely to require mandatory participation of their employees (58.5%), as compared to a smaller percentage of companies (45.2%). Contributory schemes, which share funding between employers and employees represented 89.0% of all schemes surveyed, and made participation

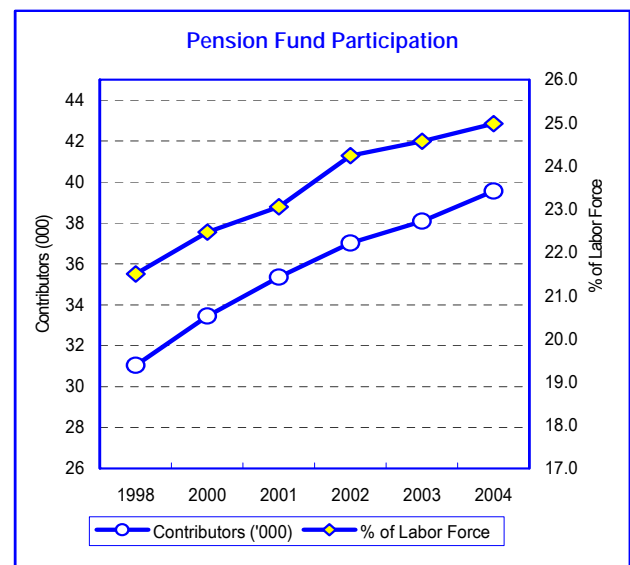
only 18.3% of the industry's total. Given the less costly nature of funding, these plans are more favoured by smaller size companies. In particular, the average number of employees in firms reporting defined contribution plans in 2004 was approximately 213, relative to 71 for defined benefit schemes (excluding the amalgamated hotel sector plans).

Use of defined contribution plans has increased in popularity over the years, as more private firms added this benefit for employees. The majority of the sponsored schemes surveyed (54.4%), were started after 1989, with the proportion of defined contribution plans in this total at 86.1%. Among plans established during or before 1989, the fraction classified as defined contribution or provident

compulsory in only 46.5% of the cases while non-contributory schemes (11.0% of plans) had a compulsion rate of 68.8%.

Labour Force Participation

During 2004, the estimated number of participants in private pension schemes increased by 3.9% to 39,554. Over this period, the employed labour force rose by 2.2% to an estimated 158,340.

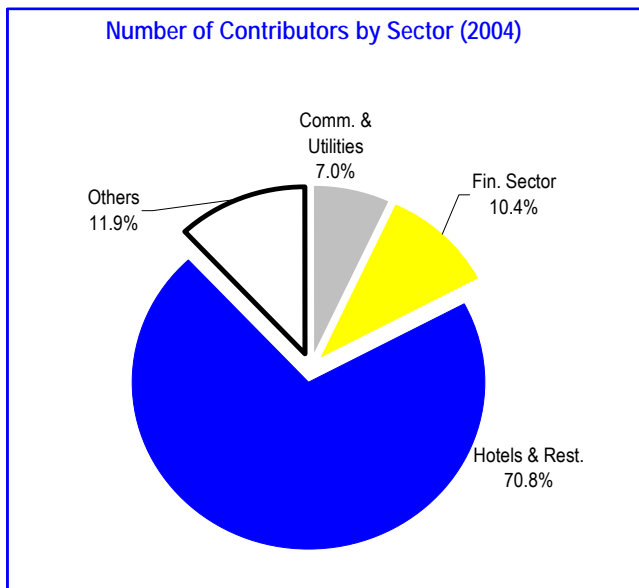


As such, the estimated labour force participation in private pension schemes firmed incrementally to 25.0% in 2004 from 24.6% in 2003, and extended the gradual

annual improvement noted vis-à-vis the 2001 coverage rate of 23.1%. The largest share of pension participants (70.8%) were employed in the tourism sector (hotels and restaurants), followed by employees in the financial services sector (10.4%), and the communication and utilities sector (7.0%), while the other eleven (11) sectors identified accounted for 11.8% of participants.

Contribution Ratios

Amid strengthened returns on plan investment, the average funding rates for pension plans, as a fraction of salaries, softened further during 2004. Weighted by asset size, the combined employer and employee contributions approximated 11.6% of participants' salaries, compared to 11.9% in 2003 and 12.0% in 2002. However, the rate stayed well above the estimated range of 8.0% - 10.0% for 1992-2001, when plans experienced higher returns on investments.



Contributions paid into defined contribution schemes during 2004 decreased to an average 11.0% of salary, compared to 12.9% in 2003 and 13.3% in 2002. For the third consecutive year, the average funding rate defined benefit schemes remained near 11.7%, continuing to be elevated against average rates estimated during the 1990s.

The average employer's portion of the funding contribution softened to 9.8% of salaries from 10.4% in 2002 and 10.3% in 2003, but stayed well above the 8.0% level observed for earlier periods. For defined contribution schemes, the average employer funding rate eased further to 5.8% of average salary from 7.1% in 2003 and 7.4% in 2002. Conversely, the corresponding contribution rate for defined benefit plans was lowered slightly to 10.8% from 11.0% in both 2002 and 2003, while remaining above the average rate observed prior to 2002 of around 8.0%.

For employees, the average contribution rate firmed incrementally to 1.8% of salary from a slight drop to 1.6% in 2002 and 2003. Those in defined benefit schemes paid at a slightly higher average rate of 1.0%, outweighing an easing in the comparative rate for defined contribution schemes, to 5.2% from approximately 5.8% in each of the previous three years.

The weighted average return on investment among plans which reported new data advanced to 7.3% in 2004 from 5.9% in 2003 and 4.0% in 2002. Trends continued to be favoured by the upturn in valuations on equity investments. For the second year in a row, defined benefit plans experienced an improved average return on investments of 7.4% vis-à-vis 6.1% in 2003 and 4.0% in 2002. This outperformed the average rate of return for defined contribution schemes which was, nevertheless, estimated at an improved 6.7% in 2004, from 4.0% and 4.8% respectively, in 2002 and 2003.

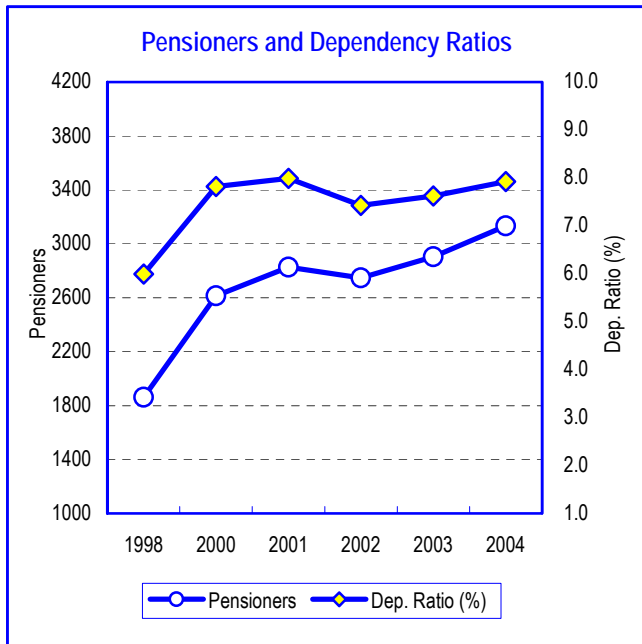
Pension Benefits and Payouts

Compared to 2003, the number of pensioners increased by 7.9% to 3,134 during 2004, with the majority of new retirees added in the tourism and communications & utilities sectors. Annual pension payments rose by almost a third, from \$13.3 million to \$19.6 million in 2004, mainly due to termination packages in the tourism sector. Consequently, the dependency ratio, which measures the average number of pensioners as a percentage of active plan participants, rose slightly to 7.9% from 7.6% in 2003 and 7.4% in 2002. Similarly, the average dependency rate, or pensions paid as a percentage of funding contributions, firmed to 30.8% from a relatively stable 21.7% in the previous two years.

Table 3
Private Pension Investments

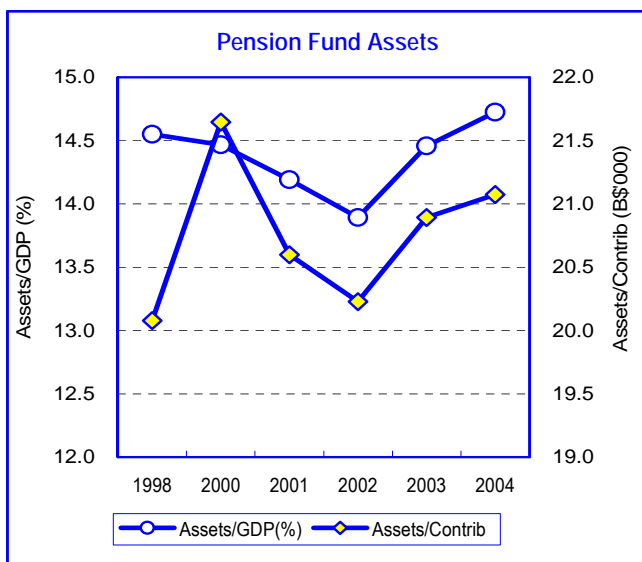
	Total				
	2000	2001R	2002R	2003R	2004P
Total Fund	723,964	728,143	748,643	795,592	833,555
(BS'000)					
of which:					
Government Bonds	232,286	236,611	266,275	289,270	336,634
Bank Deposits	201,453	210,404	194,328	195,705	168,357
Real Estate	7,332	7,060	12,675	12,788	8,017
Employer's Business	7,216	7,146	6,674	7,077	4,918
Mortgages	43,795	38,207	35,370	32,021	30,159
Private Sector Bonds	644	663	3,253	3,105	21,489
Equities	119,197	114,020	119,533	127,962	132,193
Mutual Funds	48,156	43,477	35,489	38,118	57,215
Loans	9,359	9,236	10,124	11,510	17,865
Contributor Arrears	3,480	5,103	5,290	10,368	5,031
Dividends	9,345	10,136	10,553	10,049	5,689
Other Investment	41,701	46,080	49,079	57,619	45,987
Total Fund	2000	2001R	2002R	2003R	2004P
(% Distribution)					
of which:					
Government Bonds	32.09	32.50	35.57	36.36	40.39
Bank Deposits	27.83	28.90	25.96	24.60	20.20
Real Estate	1.01	0.97	1.69	1.61	0.96
Employer's Business	1.00	0.98	0.89	0.89	0.59
Mortgages	6.05	5.25	4.72	4.02	3.62
Private Sector Bonds	0.09	0.09	0.43	0.39	2.58
Equities	16.46	15.66	15.97	16.08	15.86
Mutual Funds	6.65	5.97	4.74	4.79	6.86
Loans	1.29	1.27	1.35	1.45	2.14
Contributor Arrears	0.48	0.70	0.71	1.30	0.60
Dividends	1.29	1.39	1.41	1.26	0.68
Other Investment	5.76	6.33	6.56	7.24	5.52
Memorandum Items:					
* Weighted Avg. Rate of Return	9.19	4.01	4.00	5.86	7.29
* Weighted Avg. Contrib. Rate	9.77	9.78	12.02	11.93	11.57

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



Asset Size and Distribution

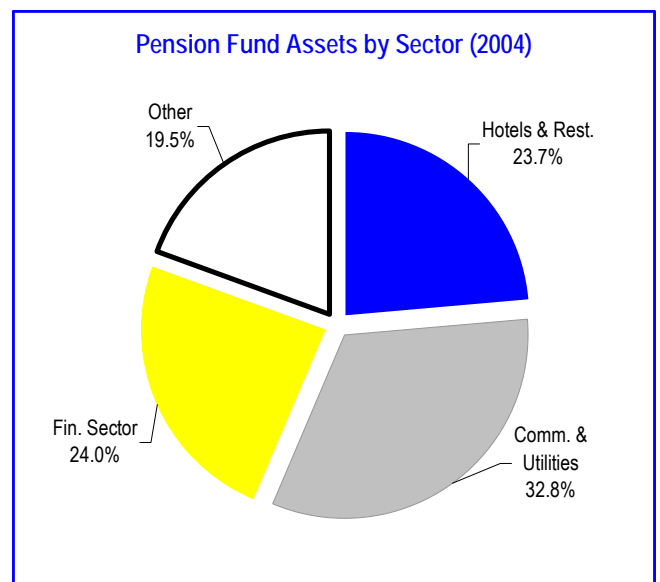
During 2004, private pension assets increased by an estimated 4.8% to \$833.6 million. While pacing below a stronger gain of 6.3% in 2003, this resulted in an average yearly uptrend of 5.5% over the two years, significantly improved from the slowdown to an average annual 1.7% during the recessionary period of 2001 and 2002.



Added to strengthened rates of return on plan assets, these trends continued to be favoured by growth in the economy and in increased participation rates, espe-

cially within the tourism sector. As asset growth still outpaced the increase in the number of participants (3.9%), average savings per active participant rose marginally to \$21,074 from a revised \$20,891 in 2003.

A sectoral analysis (see Table 2) reveals that plans sponsored by the communications and utilities sector retained the largest share of total estimated assets (32.8%), closely followed by financial (24.0%) and tourism sector (23.7%) plans; while the other sectors accounted for a combined 19.5% of assets.



The distribution of assets by type of investment is shown in Table 3. On average, the portfolio allocated to government securities, which remained the largest, increased further to 40.4% from 36.4% in 2003. Influenced by capital appreciation and higher dividend yields, more risky private capital market investments (mutual funds, bonds and equity) collectively moved into the second position in the asset mix at 25.3%, compared to 21.3% the previous year. Correspondingly, the investment share was further reduced for bank deposits, to 20.2% from 24.6% in 2003. Remaining assets, which included investments in real estate, employers' business, loans to participants, mortgages and contribution arrears, also occupied a reduced portfolio share of 14.1% compared to 17.7% in 2003.

In line with overall trends, the 2004 survey revealed a further 6.3% increase in reported investments outside of The Bahamas to \$114.5 million (13.7% of total estimated assets), largely representative of savings accumu-

Table 4A

PRIVATE PENSION INVESTMENTS: BY INDUSTRY/ASSET ALLOCATION

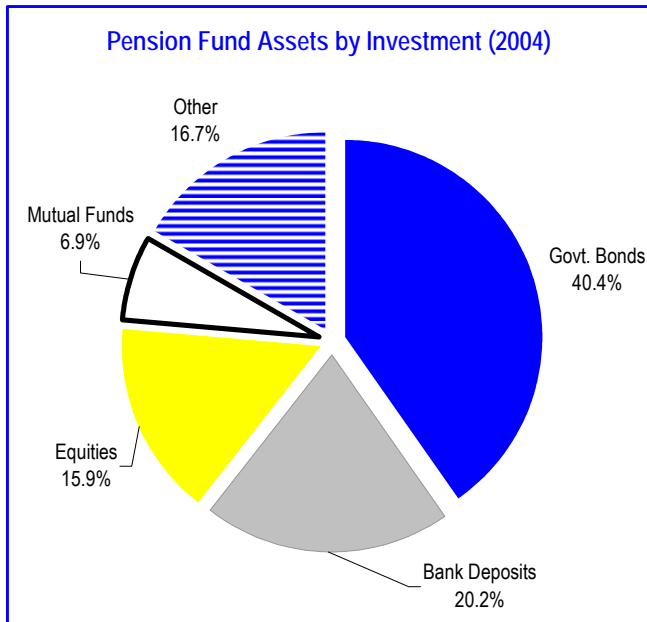
	Securities	Deposits	Real Estate	Employer's Business	Mortgages	Bonds	Equities	Mutual Funds	Loans	Contribution Arrears	Dividends	Investments	Other Assets
													(B\$'000)
2003R													
Communications & Utilities	103,264	92,762	0	0	16,291	0	25,606	1,152	0	9,146	6,225	16,540	270,986
Construction Companies	370	136	17	0	195	0	372	0	0	0	12	-2	1,100
Education	502	354	11	0	1,213	20	547	693	0	35	57	8,296	11,728
Financial Sector	60,291	41,197	1,279	5,373	4,517	3,045	18,108	36,038	619	346	1,664	17,598	190,076
Health	413	4	0	0	0	0	363	81	0	0	6	175	1,042
Hotels & Restaurants	80,633	27,307	5,900	0	0	0	62,086	0	0	0	1,046	8,154	185,126
Manufacturing Companies	1,690	717	105	0	653	0	1,268	0	0	0	84	3,043	7,561
Non-Profit	710	201	0	0	0	0	98	0	0	0	11	25	1,044
Oil Companies	4,357	5,724	17	0	354	0	1,809	40	2,530	0	34	1,823	16,689
Other Services	19,694	7,416	135	0	2,485	0	5,043	0	159	19	152	548	35,651
Private Distribution	6,540	7,616	256	1,634	5,914	0	3,386	114	0	0	513	743	26,717
Professional Services	3,922	5,231	12	0	73	40	1,361	0	211	288	31	524	11,693
Real Estate	203	1,834	1,431	0	112	0	1,421	0	0	0	24	147	5,172
Transportation	6,680	5,205	3,624	70	213	0	6,492	0	7,991	535	190	5	31,006
Total	289,270	195,705	12,788	7,077	32,021	3,105	127,962	38,118	11,510	10,368	10,049	57,619	795,592
2004P													
Communications & Utilities	121,818	85,888	0	0	13,102	18,004	9,602	1,216	0	4,514	2,156	17,422	273,722
Construction Companies	370	136	17	0	195	0	372	0	0	0	12	-2	1,100
Education	325	437	0	0	1,236	0	503	724	0	35	57	9,447	12,766
Financial Sector	67,419	36,572	1,407	3,046	4,821	3,445	19,551	48,204	1,020	379	624	13,599	200,085
Health	522	25	0	0	0	0	425	173	0	0	9	165	1,319
Hotels & Restaurants	92,065	11,603	239	0	0	0	79,878	6,634	5,250	0	1,451	20	197,140
Manufacturing Companies	3,714	784	105	0	653	0	1,242	0	0	0	99	1,495	8,093
Non-Profit	865	150	0	0	0	0	108	0	0	0	0	44	1,167
Oil Companies	6,413	4,657	19	0	384	0	1,961	0	2,745	0	45	1,978	18,202
Other Services	23,241	7,715	152	0	2,795	0	5,459	0	179	19	166	376	40,102
Private Distribution	7,368	8,609	282	1,817	6,546	0	3,790	264	0	0	573	611	29,861
Professional Services	4,210	4,993	581	0	80	40	1,623	0	549	6	101	662	12,844
Real Estate	226	2,031	1,589	0	125	0	1,578	0	0	0	27	170	5,745
Transportation	8,078	4,758	3,626	55	223	0	6,101	0	8,122	77	371	0	31,409
Total	336,634	168,357	8,017	4,918	30,159	21,489	132,193	57,215	17,865	5,031	5,689	45,987	833,555

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

	(BS'000)												
	Govt. Bonds	Deposits	Real Estate	Employer's Business	Mortgages	Private Bonds	Equities	Mutual Funds	Loans	Contributor Arrears	Dividends	Investments	Total Assets
2003R													
Communications & Utilities	38.11	34.23	-	-	6.01	-	9.45	0.43	-	3.38	2.30	6.10	100.00
Construction Companies	33.64	12.36	1.56	-	17.76	-	33.83	-	-	-	1.07	(0.22)	100.00
Education	4.28	3.02	0.10	-	10.34	0.17	4.66	5.91	-	0.29	0.48	70.74	100.00
Financial Sector	31.72	21.67	0.67	2.83	2.38	1.60	9.53	18.96	0.33	0.18	0.88	9.26	100.00
Health	39.64	0.38	-	-	-	-	34.84	7.77	-	-	0.58	16.79	100.00
Hotels & Restaurants	43.56	14.75	3.19	-	-	-	33.54	-	-	-	0.57	4.40	100.00
Manufacturing Companies	22.36	9.49	1.39	-	8.64	-	16.77	-	-	-	1.11	40.25	100.00
Non-Profit	67.99	19.23	-	-	-	-	9.35	-	-	-	1.06	2.37	100.00
Oil Companies	26.11	34.30	0.10	-	2.12	-	10.84	0.24	15.16	-	0.21	10.93	100.00
Other Services	55.24	20.80	0.38	-	6.97	-	14.15	-	0.45	0.05	0.43	1.54	100.00
Private Distribution	24.48	28.51	0.96	6.12	22.13	-	12.68	0.43	-	-	1.92	2.78	100.00
Professional Services	33.54	44.73	0.10	-	0.62	0.34	11.64	-	1.80	2.46	0.27	4.48	100.00
Real Estate	3.93	35.46	27.66	-	2.17	-	27.47	-	-	-	0.47	2.85	100.00
Transportation	21.55	16.79	11.69	0.22	0.69	-	20.94	-	25.77	1.73	0.61	0.01	100.00
Total	36.36	24.60	1.61	0.89	4.02	0.39	16.08	4.79	1.45	1.30	1.26	7.24	100.00
2004P													
Communications & Utilities	44.50	31.38	-	-	4.79	6.58	3.51	0.44	-	1.65	0.79	6.36	100.00
Construction Companies	33.64	12.36	1.56	-	17.76	-	33.83	-	-	-	1.07	(0.22)	100.00
Education	2.55	3.42	-	-	9.68	-	3.94	5.68	-	0.28	0.45	74.01	100.00
Financial Sector	33.69	18.28	0.70	1.52	2.41	1.72	9.77	24.09	0.51	0.19	0.31	6.80	100.00
Health	39.58	1.90	-	-	-	-	32.22	13.12	-	-	0.68	12.51	100.00
Hotels & Restaurants	46.70	5.89	0.12	-	-	-	40.52	3.37	2.66	-	0.74	0.01	100.00
Manufacturing Companies	45.90	9.69	1.30	-	8.07	-	15.35	-	-	-	1.22	18.47	100.00
Non-Profit	74.13	12.86	-	-	-	-	9.28	-	-	-	-	3.73	100.00
Oil Companies	35.23	25.58	0.10	-	2.11	-	10.77	-	15.08	-	0.24	10.87	100.00
Other Services	57.95	19.24	0.38	-	6.97	-	13.61	-	0.45	0.05	0.41	0.94	100.00
Private Distribution	24.68	28.83	0.95	6.09	21.92	-	12.69	0.88	-	-	1.92	2.05	100.00
Professional Services	32.78	38.87	4.52	-	0.62	0.31	12.63	-	4.28	0.05	0.78	5.15	100.00
Real Estate	3.93	35.35	27.66	-	2.17	-	27.47	-	-	-	0.47	2.96	100.00
Transportation	25.72	15.15	11.54	0.18	0.71	-	19.42	-	25.86	0.24	1.18	-	100.00
Total	40.39	20.20	0.96	0.59	3.62	2.58	15.86	6.86	2.14	0.60	0.68	5.52	100.00

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

lated in financial sector sponsored plans. These holdings continued to be dominated by capital market investments, where the allocation share was boosted to 63.3% from 55.1% in 2003. Holdings of foreign government securities accounted for a rebounded asset share of 27.9%, while the reduced emphasis was placed on deposits, which represented less than 4.6% of the total, compared to being moderately above 10.0%, on average, for years surveyed prior to 2001.



The investment patterns continue to differ according to the sector of the plan sponsors (see Tables 4A and 4B). Assets sponsored by communications and utilities sector firms were invested most heavily in public sector securities (44.5%), which increased in importance; and in bank deposits, with a modestly reduced share (31.4%) vis-à-vis 2003. Reallocations also marginally increased the collective amounts in capital market investments (10.5%), while residual allocations to other assets (13.6%) were reduced relative to 2003. As regards financial sector plans, assets shares in public sector securities (33.7%) and bank deposits (18.3%) retained generous positions, with similar portfolio shifts as in the communications and utilities sector plans. The investment share for capital market instruments (35.6%) rose slightly, whereas other investments decreased in importance (12.4%). For tourism sector plans, aggregate portfolios remained almost evenly split between modestly

raised fractions in public sector securities (46.7%) and private capital markets instruments (43.9%). However, the shares for deposits and residual portfolio investments were more than halved to 5.9% and 3.5%, respectively. For all remaining sectors combined, public sector securities (34.0%) dominated the portfolios, followed by bank deposits (21.1%); while private capital market investments constituted a slightly decreased share (15.0%). These schemes collectively placed greater emphasis on residual investments (29.9%), such as lending to participants and investments in real estate.

Defined Benefit vs. Defined Contribution

During 2004, total assets within defined benefit schemes rose by 5.0% to \$681.3 million, pacing moderately below growth of 6.9% in the previous year. However, this exceeded estimated gains for defined contribution schemes, which stabilized at 3.7% to \$152.2 million. Relative to 2003, some of the slowing for defined benefit plans was due to a mild softening in funding contribution rates, which outweighed an increase in the number of participants (4.8%) and firmer average return on investments. For defined contribution schemes, stable growth was attributed to improved returns on assets, which countered some decrease in the number of participants (2.5%, mainly among financial sector plans) and in the average contribution rates. On an annual basis, average savings per participant increased for both schemes—marginally in defined benefit schemes by 0.2% to \$19,525, and by 6.4% to \$32,679 for defined contribution schemes.

Portfolio allocation patterns in both plans mirrored the general trend observed for the industry (see Table 5). However, this was more obvious for defined benefit plans where the share represented by government bonds (44.5%) increased and the share for deposits (18.8%) softened. The portfolio share in private capital market investments (26.1%) was also augmented, whereas the balance of the assets (10.6%), held in real estate, employers business, and loans, was reduced in importance. Among defined contribution plans, the largest allocation, albeit reduced, continued to be in the form of banks deposits (26.6%), with an increased allocation for public sector securities (21.9%) and capital market instruments (21.6%).

Conclusion

Growth in sponsored pension assets and labour force participation in these schemes is expected to continue over the medium term, consistent with the anticipated firming in economic expansion linked to tourism sector developments. While this should support added coverage among new entrants to the workforce, coverage is also expected to increase among existing employees in smaller businesses. The latter trend is being encouraged by the growing availability of individually tailored retirement plans marketed by domestic insurance companies and investment management firms. These plans impose minimal administrative costs on sponsors and are portable in many instances, allowing uninterrupted savings as individuals change jobs. However, reforms anticipated in support of the National Insurance Fund, could moderate trends in private sponsorship, as these would provide for an increase in the insurable wage ceiling and, conse-

quently, employer costs associated with such funding. NIB funding would nevertheless increment the level of retirement security provided to the portion of the workforce not covered by supplementary schemes.

While a formal regulatory structure does not yet exist for sponsored pension plans, management of existing schemes in The Bahamas generally adhere to internationally accepted standards. These include prudential guidelines on the manner in which assets are invested and standards for the financial accounting and auditing of plans. However, regulation could eventually address, inter alia, whether the provision of such plans ought to be mandatory for all private sector employers and the extent to which pension savings would be become portable. Regulation, within the overall context of pension reform, could also stimulate and increase the level of domestic savings and the proportion of such savings which support productive investments and capital markets development.

**Table 5
Private Pension Investments By Fund Type**

	Defined Benefit					Defined Contribution				
	2000R	2001R	2002R	2003R	2004P	2000R	2001R	2002R	2003R	2004P
Total Fund	609,562	604,534	607,040	648,825	681,338	114,402	123,609	141,603	146,767	152,217
of which:										
Government Bonds	219,598	220,713	240,837	261,580	303,253	12,688	15,898	25,439	27,691	33,381
Bank Deposits	160,321	163,938	147,165	151,186	127,823	41,131	46,466	47,163	44,519	40,534
Real Estate	436	602	6,322	6,301	672	6,896	6,458	6,353	6,487	7,345
Employer's Business	6,168	6,058	5,379	5,371	3,044	1,048	1,088	1,295	1,706	1,874
Mortgages	40,123	34,647	29,850	26,006	23,669	3,673	3,559	5,520	6,015	6,491
Private Sector Bonds	40	40	876	844	18,458	604	623	2,377	2,261	3,031
Equities	104,231	99,674	100,752	107,573	113,939	14,966	14,346	18,781	20,389	18,254
Mutual Funds	38,195	33,639	29,056	31,924	45,626	9,960	9,838	6,433	6,194	11,589
Loans	2,270	2,270	2,396	2,530	8,330	7,089	6,967	7,727	8,980	9,535
Contributor Arrears	3,183	4,418	4,241	9,253	4,627	297	685	1,049	1,115	403
Dividends	8,327	8,909	9,191	8,741	4,666	1,018	1,226	1,361	1,308	1,024
Other Investment	26,669	29,625	30,975	37,516	27,230	15,032	16,455	18,105	20,104	18,757
Total Fund	100	100	100	100	100	100	100	100	100	100
of which:										
Government Bonds	36.03	36.51	39.67	40.32	44.51	11.09	12.86	17.96	18.87	21.93
Bank Deposits	26.30	27.12	24.24	23.30	18.76	35.95	37.59	33.31	30.33	26.63
Real Estate	0.07	0.10	1.04	0.97	0.10	6.03	5.22	4.49	4.42	4.83
Employer's Business	1.01	1.00	0.89	0.83	0.45	0.92	0.88	0.91	1.16	1.23
Mortgages	6.58	5.73	4.92	4.01	3.47	3.21	2.88	3.90	4.10	4.26
Private Sector Bonds	0.01	0.01	0.14	0.13	2.71	0.53	0.50	1.68	1.54	1.99
Equities	17.10	16.49	16.60	16.58	16.72	13.08	11.61	13.26	13.89	11.99
Mutual Funds	6.27	5.56	4.79	4.92	6.70	8.71	7.96	4.54	4.22	7.61
Loans	0.37	0.38	0.39	0.39	1.22	6.20	5.64	5.46	6.12	6.26
Contributor Arrears	0.52	0.73	0.70	1.43	0.68	0.26	0.55	0.74	0.76	0.27
Dividends	1.37	1.47	1.51	1.35	0.68	0.89	0.99	0.96	0.89	0.67
Other Investment	4.38	4.90	5.10	5.78	4.00	13.14	13.31	12.79	13.70	12.32
Memorandum Items:										
* Weighted Avg. Rate of Return	9.34	4.16	4.00	6.12	7.41	8.50	3.13	4.00	4.79	6.74
* Weighted Avg. Contrib. Rate	9.30	9.19	11.76	11.73	11.71	11.95	12.42	13.31	12.91	11.01

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