

In Confidence

Minutes of a meeting of the Public Sector Pensions Authority (PSPA) on Wednesday 5 December 2012 at 11.00 a.m. in the PSPA Meeting Room, Goldie House, Douglas.

Present: PSPA

Mr J Carter (Chairman)

Mr A Cannan, MHK (Vice Chairman)

Mr E Holmes

Mr A Shipley

In Attendance: Mr I T Murray

Mr I W C Burnett

Apologies: Mr L I Singer, MHK

Minute No Minute

104/12 Minutes

The minutes of the meeting of 1 November 2012 were approved and signed.

105/12 Matters Arising:

Minute 83/12

Local Government Scheme

The Chief Executive confirmed that ongoing support was being provided to the Department of Infrastructure by himself as agreed with the Board at its last meeting and that the position would be reviewed at six monthly intervals.

Review of Compensation and Injury Benefits

The Vice Chairman provided an update on the current position, which was that a set of draft principles was under discussion and this should then result in a Joint Notice being issued by the Employers' and Employees' sides setting out each sides views. A further meeting had been arranged the following week to progress discussions and negotiations.

Minute 96/12 - x

Minute Not Published.

Minute 99/12 – Firefighters Conversion Terms

The Chief Executive confirmed that the decision made by the Board at its last meeting to grant an uplift in past service to affected firefighters was being implemented. However, some firefighters who would achieve maximum benefits would not be able to benefit from this and therefore an alternative would be to use higher commutation factors which would provide a similar end result and would ensure that past service benefits for affected members therefore met the "broadly similar benefits" test. The Board noted this.

Minute 102/12 – Injury Benefit Appeals

The Deputy Chief Executive reminded the Board that he had circulated a proposal for injury benefit appeals to be heard under the PSPA's Internal Disputes Resolution Procedure. There having been no objections to this, the Deputy Chief Executive confirmed that this would now be put into place.

106/12 Conflicts of Interest

Mr Shipley declared a conflict of interest regarding Agenda item 12 and this was noted by the Board.

107/12 Risk Register review

The Board reviewed the Risk Register and noted the changes that had been made during the course of the previous month.

It was noted that a new risk had been added around the commencement of the new audit processes following the appointment of PWC and that no risks had been removed from the register.

108/12 The Superannuation (Manual Workers) (No. 1) Scheme 1973 – benefit design issues

The Board considered a memorandum from the Chief Executive on this matter.

The Chief Executive outlined the background to the issue which had been raised by a member, and it was noted by all that this was a complex matter covering both the design of the Manual Workers No. 1 Scheme and the “clawback” that was applied at State Pension Age and separately, the deduction made from State Pension benefits as a result of the Scheme being contracted-out for a period.

It was noted that as the Scheme was integrated with the Basic State Pension, a clawback was made from Scheme benefits at State Pension Age (currently 65 for men and 60 for women) of a proportion of the Basic State Pension. This was a feature of integrated pension schemes and the scheme had been specifically designed to utilise a clawback in order to integrate with state benefits. The Chief Executive commented that this type of scheme tended to have been superseded by schemes of a more modern design, such as the Manual Workers 1977 Scheme, and that members of the No. 1 Scheme had been offered membership of this more modern scheme, but many had declined. Whilst some might view the scheme design as “unfair,” benefits for the member concerned had been accurately calculated in accordance with the Scheme rules and it was noted that in return for being in this scheme, members paid a low contribution of 1.5% of pensionable pay compared with 5% under the Manual Workers 1977 Scheme.

The Chief Executive then explained how contracting-out in respect of the Scheme worked, in that in return for being in a contracted-out scheme, members paid lower National Insurance contributions and therefore did not earn State Additional Pension. This was taken into account at State Pension Age when members would see a “contracted-out deduction” from their state pension forecast.

The Chief Executive used various diagrams to illustrate the points made. It was agreed that he should write to the member concerned with a full explanation and relevant figures appertaining to the member’s own position. If the member wished to meet to discuss the matter further, the Chief Executive would arrange this and Mr Holmes agreed that he was also happy to be present

109/12 Isle of Man Government Unified Scheme 2011 (GUS) – cost sharing

The Board considered a memorandum from the Chief Executive concerning cost sharing under GUS. It was noted that the broad principles of cost sharing had been agreed by CoMin and thereafter Tynwald as part of the Scheme design and that the rules of GUS set out in broad terms the various responsibilities with regard to cost sharing. However, now that the PSPA was the Scheme Manager, the Board should determine the detail of the cost sharing mechanism that should be put in place

before this was agreed by Treasury and CoMin.

It was therefore recommended and agreed that a separate meeting should be arranged with the Scheme Actuary to discuss in detail the remaining decisions which were required of the Board and to take his advice, and that this should take place in late January 2013. Following this, it was agreed that the approval of Treasury and CoMin would be sought to the proposed approach and thereafter, it would be determined how this approach will be documented and communicated to members and stakeholders.

110/12 Government Actuary's Department Accounting Valuation Report 2012

The Board consider a memorandum from the Deputy Chief Executive regarding the report, submitted in July 2012, by the UK Government Actuary's Department (GAD) providing an accounting valuation of the Isle of Man's various public sector pension schemes. The Board noted the report attached to the paper at Annex A and that this had informed the content of the consultation response document in respect of the contribution increases under the Teachers Pension Scheme (TPS).

It was noted that the Isle of Man legislation in respect of the TPS had been a direct "lift" from the UK legislation and therefore contained some requirements, such as the need for a regular actuarial valuations, which were less applicable to the Isle of Man. In particular, the legislation as drafted requires any deficit revealed as a result of a formal actuarial valuation of the TPS to be removed over a relatively short period such that the increase in teachers' contributions would be considerably in excess of the current increases. It was proposed therefore that no further actuarial valuation work should be undertaken on the TPS until the future of the scheme was more certain and that for the time being, the report prepared by GAD in July 2012 would be accepted as the valuation of the TPS.

It was also noted that, pending future reforms to the TPS in the UK, the UK was currently consulting on legislation which would remove the current provisions in the TPS covering scheme valuations and "cap and share" arrangements.

111/12 Public Sector Pensions Authority – Business Plan 2012-2015

The Board received a memorandum from the Chief Executive attaching a draft Business Plan for the period 2012-2015 as required by the Chief Secretary's Office. The Board noted the content, much of which they were familiar with via previous service deliver plans and the CoMin presentation earlier in the year. The Chief Executive confirmed that he would welcome any comments, additions or changes to the Plan suggested by the Board. It was noted that a draft had already been submitted to the Chief Secretary's Office who had advised that it appeared in line with the guidance. It was also noted by the Board that elements of the Plan would be used for the PSPA's Annual Report which would be required sometime after April 2013.

Finally, the Board reviewed Annex B of the Business Plan which highlighted the PSPA's Budget for the next three years. It was confirmed that any work outside of the routine annual budget would require additional Treasury funding via a separate business case. It was also noted that from April 2014, three current staff on temporary contracts would leave the PSPA and that as things currently stood, this may leave the Authority significantly short staffed. The Chief Executive advised that the position would be reviewed again closer to April 2014 and that if it was considered that any of the staff should be retained, a further business case would be submitted to Treasury.

112/12 Pension Payment Discrepancy Policy

The Board noted a memorandum from the Deputy Director – Operations, who, due to a prior engagement, had sent her apologies for not being able to present this item to the Board. The Board noted that the paper sought its agreement to a policy on recovery of pension overpayments, which had arisen as a result of an internal audit review of Payroll Shared Services, the team responsible for making pension payments. The Deputy Chief Executive outlined that the Chief Executive held the authority to write off debts but that, given the importance placed on this matter by Internal Audit, policies and procedures should be put in place for the treatment of pension overpayments.

The Board noted the procedure outlined and agreed to the proposals in the memorandum. The Board also noted and agreed the exceptions to the policy where the pensioner is deceased but there is no ongoing spouse's/dependant's or civil partner's pension and that recovery of a small amount through the estate would not be viable. The Board also confirmed that the policy should be communicated with the Chief Accountant, Treasury Finance and the Chief Internal Auditor.

113/12 Consultation on the Miscellaneous (Amendment) Scheme 2012

The Board received a memorandum from the Deputy Chief Executive with regard to a miscellaneous scheme of amendment which covered:

- Forfeiture: the rules of the Unified Scheme currently referred to legislation which had been repealed in the UK. Therefore, in order to rectify the position, an amendment is proposed which sets out the circumstances under which a pension may be forfeited. After some discussion around the proposed wording, it was agreed that a full extract of Rule 71 would be inserted into the consultation document so that consultees could see and then feed back on the proposed amendments in context;
- Interim Compensation Scheme: clarification was required for Section 3 members of GUS to make it clear that they could not claim both compensation benefits and pension benefits under GUS from age 55;
- Certain cross referencing changes.

The Board noted the suggested Scheme of Amendment attached to the paper and confirmed that an eight week consultation period (taking into account the Christmas break) on the Scheme was acceptable.

114/12 Isle of Man Government Unified Scheme 2011 (GUS) – issues around teachers joining GUS

The Board considered a memorandum prepared by the Chief Executive on the subject of teachers and lecturers joining GUS. Mr Shipley reminded the Board at this point about a potential conflict of interest and this was noted and the Board agreed that Mr Shipley should remain for the discussion.

The Chief Executive confirmed that he had recently attended meetings with the relevant unions, the Department and the Minister and there was now a wish from all parties to consider in more detail the circumstances upon which teachers and lecturers might join GUS. It was noted that the Department had no objections to GUS being offered to teachers and lecturers as an alternative to the current Teachers Pension Scheme (TPS) and that the Department would also not object to the link with UK pensions being broken. However, via a letter dated 28 November

2012 from the Department (Annex A), the Board also noted that the Department would probably wish to retain the link with the UK around pay but that this might contradict Isle of Man Government's wish to move towards a Public Sector Employing Authority. Therefore, the Department was seeking further guidance on this matter.

Various options for the teachers and lecturers joining GUS were discussed in line with the memorandum. It was agreed that the guidance of Council of Ministers should be sought on the various issues raised before further discussions were entered into with the unions and the Department. However, broadly, the Board's preference was that existing teachers and lecturers should join GUS in a Protected section (thus broadly maintaining current benefits) but with overall contributions reflecting those which would have been expected under the proposed UK reforms to the TPS such that income to the Isle of Man Government did not fall.

The Board also acknowledged that in the absence of any current agreement to offer GUS to teachers and lecturers, the UK led changes to both contributions from April 2013 and benefits from 2015 would currently proceed.

115/12 Dates of future meetings

It was note that the next meeting was scheduled for 10 am on 14 January 2013. Mr Shipley asked if the time could be moved back by two hours.

It was also agreed that suitable dates for a meeting with the Scheme Actuary would be circulated in due course.

116/12 Any other Business

Minute not Published.

The meeting closed at 1.40 p.m.

Chairman

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Date