

In Confidence

Minutes of a meeting of the Public Sector Pensions Authority (PSPA) on 15 May 2013 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
Mr J R Turner, MLC

In Attendance: Mr I T Murray

Mr I W C Burnett

Apologies:

Minute No Minute

24/13 Mr Turner was welcomed to the PSPA by the Board, who looked forward to working with him on public sector pension matters.

The remaining members of the Board noted that this was the third change to the Political make up of the Board, and expressed their concern that, as Public Sector pensions were complex in nature, and it took time for new members to become conversant on the various issues, the frequent changes to the membership of the Board were disruptive to the running of the Authority.

It was agreed that the Chief Executive would write to the Chief Secretary, expressing the Board's concern.

Mr Turner advised the other Board members that he had a previously arranged appointment and would need to leave the meeting by 15.30.

Owing to the importance of the Cost Sharing Paper, the Board agreed that it would take this item first.

25/13 Isle of Man Government Unified Scheme 2011 – cost sharing decisions

The Board considered a memorandum dated 7 May 2013 from the Chief Executive seeking to gain agreement to the basis for a cost sharing mechanism under the Government Unified Scheme 2011 (GUS) appropriate for consultation with the Treasury and subsequently, Council of Ministers.

The Chief Executive summarised the content of the paper and the various aspects of cost sharing that needed to be considered and where decisions were required. The Board noted that cost sharing was not in place to address any fundamental Scheme design issues, but rather to determine and apportion any changes in the cost of providing benefits as assessed at regular intervals by the Scheme Actuary based on the factors agreed by the Board and ratified by Treasury and CoMin.

The Board sought clarification as to what mechanisms were in place in other Jurisdictions. The Board noted that within the UK Public Sector Schemes, cost sharing mechanisms were commonly in place across the majority of schemes but had not been adopted in full given the proposed changes to current schemes. However, cost sharing is a requirement of the recently passed UK Public Sector Pensions Act, which would put amended mechanisms in place going forward. With

regard to the Private Sector, it was noted that because private sector schemes were funded, it was a legislative requirement to have regular actuarial valuations and for any increase in costs to be addressed via a recovery plan requiring increased contributions or reduced benefits.

The Board acknowledged that there was a fundamental tension between fairness and impact in the design of a cost sharing mechanism. The Board recognised that if the cost sharing mechanism was so ineffective that it sought to negate the impact of likely future cost increases, in particular due to mortality improvements, wider criticism of the Scheme would be invited therefore perhaps bringing about early, and possibly enforced, changes to the benefit structure.

The Board also considered that some aspects of the cost sharing mechanism once in place could be considered as part of the future Scheme design (e.g. future benefit changes) rather than simply as a contribution increase.

After due consideration the Board unanimously agreed following with regard to the cost sharing mechanism:

1. that cost sharing will only take effect through changes in member contributions;
2. that the costs associated with benefits going forward would include service prior to the commencement of GUS from 1/4/2012;
3. that the split of any shared cost will be 75% to employees and 25% to employers as previously agreed by Council of Ministers as part of the GUS Scheme design;
4. that a cost sharing valuation will be carried out every three years (subject to suitable funding being agreed with Treasury);
5. that any future member contribution changes will be restricted to +1%/-1% per annum where possible, in line with current transitional provisions;
6. that the factors to be included in the cost sharing mechanism should **include** changes in mortality assumptions arising from observed experience, pay increase experience, benefit changes, member options and other demographic experience and should **exclude** investment returns, changes in financial assumptions, changes in assumed retirement patterns and actual price inflation, as previously recommended by the officer led Project Steering Group and ratified by the Council of Ministers;
7. the measure of mortality improvement for cost sharing purposes should be all improvements from "today";
8. in line with a wish to see "early action" in order to maintain sustainability and to ensure that any potential phased change in contributions do not overlap with the following cost sharing valuation, the Board agreed that a period of three years should be adopted to recover any future required increase in contributions. If a degree of flexibility is required to cope with large impacts, the preferred option might be extended to "a period to be agreed not exceeding five years";
9. the Board noted that the effect of changing future mortality will be a significant part of the cost sharing mechanism and that the amount of work involved in tracking observed mortality rates and setting assumptions for future improvements should not be underestimated. The Board agreed that the Chief Executive takes this up with suitable qualified consultants and thereafter Treasury, to establish both the cost of such monitoring and the benefits which

would result if such monitoring was undertaken;

10. that the detail of the cost sharing mechanism is documented in the GUS Rules. This will mean that the PSPA will go out to consultation with affected members and stakeholders on the detail in the rules once approved by Treasury and Council of Ministers.

11. It was noted that the next step in the process was to obtain Treasury concurrence to the proposed cost sharing basis and that the Chief Executive would seek this.

Mr Turner left the meeting

26/13

Minutes

The minutes of the meetings of 14 and 30 January 2013 were approved and signed by the Chairman. The minutes of the meeting on 15 May 2013 were signed by the Vice Chairman given the absence of the Chairman from that meeting.

27/13

Matters Arising:

Manual Workers (No.1) Scheme

The Board was informed that the individual member to whom this issue related did not hold the PSPA responsible for the problems the member considered they had experienced, given that they relate to matters in the 1970s-80s.

The Board noted that the pensioner member of this scheme who had initially contacted the PSPA with an issue had yet to respond to the PSPA's subsequent reply. However, it is understood that the member will respond in due course having sought his own advice.

The Board agreed that until any further developments were forthcoming, the item would be removed from the agenda..

Teachers Joining GUS

Mr Shipley declared a conflict of Interest.

The Board noted that a meeting had recently taken place between a number of Teaching Trade Unions, with view to discussing what approach should be taken in relation to the proposed changes to the UK Scheme, due to be implemented in April 2015. It was considered that the unions would await the outcome of discussions on the final scheme design in the UK before seeking to establish whether Isle of Man Teachers would seek to join the Unified Scheme or remain linked to the UK Teachers Scheme.

The executive confirmed the Board's previous view that unless the position changed, the UK changes would be applied from April 2015 and that the drafting of appropriate amending legislation would commence at the beginning of 2014.

It was agreed that the Department of Education and Children should be contacted by the Chief Executive to highlight the PSPA's position and that if it wished to seek different arrangements that did not follow the UK, that this should be raised with the PSPA before the end of 2013.

Insurance against Death Benefits

The Board noted that work on developing proposals for insuring the payment of Death Benefits and managing Ill Health Retirements remained on going.

Pension Scheme Accounts

The Board agreed that PWC be invited to attend the July meeting of the Board. It was noted that the basis for the first set of Report and Audited Accounts had been finalised and agreed with Treasury.

PSPA Interim Report

The Board noted that the report had been submitted for consideration at the May sitting of Tynwald.

28/13 Risk Register Review

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

The Board discussed the various Voluntary Redundancy Schemes that were being offered across the Public Sector, and noted that this caused increase workloads for the Administrative staff, which in turn may impact upon service delivery. Whilst the Board acknowledged that PSPA staff were working closely with Employers, it was considered that this potential risk should be recorded on the risk register and kept under review.

29/13 Review of Compensation Benefit Provisions for Public Servants

The Board considered a memorandum dated 7 May 2013 from the Chief Executive seeking the Board's approval to the proposed changes to Public Sector Compensation arrangements.

The Board noted the work that had been carried out by its Committee and considered the proposals it had put forward for future Compensation Arrangements for certain Public Service Employment Groups. In addition that the Board considered the draft Scheme.

After due consideration the Board agreed that the proposals and draft Scheme should be forwarded to the Council of Ministers for its consideration, with a recommendation that Council:

- Approve that the Public Sector Pensions Authority (PSPA) consult upon the enclosed draft scheme for a period of three months;
- during such consultation, negotiation takes place within the various joint negotiating fora by the Office of Human Resources (OHR) supported by the PSPA, with a view to agreeing the new compensation arrangements;
- subject to feedback received, the draft scheme is finalised by the PSPA for Council's consideration; and
- thereafter, subject to Council's approval, the scheme is submitted to Tynwald for approval.

30/13 Police Pension (Amendment) Regulations 2013

The Board considered a memorandum dated 24 April 2013 from the Deputy Chief Executive seeking the Public Sector Pensions Authority's approval for the making of the Police Pension (Amendment) Regulations 2013.

The Board noted that, as previously advised, these amendments included the changes made to the UK Scheme via the UK Police Pensions (Amendment) Regulations 2010, dealing with AVCs and Added Years, and parts of the UK Police Pensions (Amendment) Regulations 2006 which cover voluntary retirement ages

and the treatment of contributions whilst members are on Maternity Leave.

The Board noted that only one response had been received during the consultation exercise, and that this had been both positive and supportive of the amendment scheme.

After further consideration, the Board approved the draft the Police Pension (Amendment) Regulations 2013, and agreed that it be signed by the Chairman, and thereby made, and would be laid before the July Tynwald by the Vice-Chairman.

31/13 Public Sector Pension Schemes – Isle of Man Government Unified Scheme (Amendment) Scheme 2013

The Board considered a memorandum dated 24 April 2013 from the Deputy Chief Executive seeking the Public Sector Pensions Authority's approval for the making of the Isle of Man Government Unified (Amendment) Scheme 2013.

The Board noted that the amendments fell into two categories of those which are broadly clarifying in nature, based on the PSPA's experience of running the Scheme for a year, and those which provide technical updates to current provisions.

After due consideration, the Board approved the Isle of Man Government Unified (Amendment) Scheme 2013, and agreed that it be signed by the Chairman, and thereby made, and would be laid before the July Tynwald by the Vice-Chairman.

32/13 Public Service Commission Consultation

Mr Cannan, as Chairman of the Civil Service Commission declared an interest.

The Board consider the Civil Service Commission's consultation document regarding a proposal to establish a Public Services Commission.

The Board discussed the proposals put forward by the Commission and identified both pros and cons to the proposals.

The Board noted the considerations put forward by the Executive which considered that the PSPA should remain outside of the proposed Commission for practical reasons, given the unique nature of the PSPA's role and the clear determination made by Tynwald when it established the PSPA, through the Public Sector Pensions Act 2011, as an independent Authority directly accountable to the Council of Ministers.

After due consideration the Board did not consider it was in a position to reach a consensus of opinion. The Board therefore requested that the Executive respond on behalf of the Staff of the PSPA in line with the position set out by the Executive during the meeting.

33/13 Future Meetings

The next meeting will be held at Wednesday 17 July 14.00.

Any Other Business

There was no further business

The meeting closed at 16:20