

In Confidence

Minutes of a meeting of the Public Sector Pensions Authority (PSPA) on 11 July 2014 at 16.00 in the Boardroom, Goldie House, Douglas.

Present: PSPA

Mr J Carter (Chairman)

Hon C R Robertshaw, MHK (Vice Chairman)

Mr A Shipley

In Attendance: Mr I T Murray

Apologies: Mr T P Wild, MLC

Mr E Holmes

Mr I Burnet (Secretary)

Minute No Minute

57/14 Minutes

The minutes of the meeting of 25 June 2014 were approved and signed by the Chairman.

Conflicts of Interest

Mr Shipley declared a Conflict of Interest in relation to any items concerning the Teachers' Pension Scheme.

58/14 Matters Arising 25 June 2014:

This was held over until the next full meeting.

59/14 Risk register review

This was held over until the next full meeting.

60/14 Teachers Compensation Scheme 2014

The Board considered a memorandum dated 4 July 2014 from the Legislation and Compliance Manager seeking the Board's approval for the making of the Teachers Compensation Scheme 2014.

It was noted that there had only been four responses to the consultation and that in general, there was support for the changes which would provide teachers in the Island with redundancy compensation benefits in excess of the current statutory minimum. There was unanimous agreement to make the Scheme (which was duly signed by the Chairman) and to finalise and distribute the Consultation Response document. It was also noted that the Scheme would go forward to the October 2014 sitting for approval by Tynwald.

61/14 Declaration of Relationship forms

It was noted that these were required by the Schemes' Auditor's and individual forms were completed and signed by those present and returned to the Executive for safekeeping.

Public Sector Schemes – Actuarial Valuations

The Board received a presentation in respect of an actuarial valuation of the Government Unified Scheme, Tynwald Members' Pension Scheme and other relevant Isle of Man Government public sector pension schemes for Police, Teachers, the Judiciary and the small Manual Workers No. 1 Scheme undertaken by the actuary to the PSPA, Mr Summers. The presentation provided the following broad information:

- Background to the process of reform;
- A reminder of the "Affordability criteria" used in the original GUS design some 5-6 years ago;
- Details of data, assumptions and results for Past Service Liabilities and Cost of Accruing future benefits;
- Cashflow projections with and without the inclusion of Employer Contributions – these demonstrated that the "affordability gap" has widened since the original assumptions i.e. the schemes had become less affordable overall against the original criteria;
- Run-off of the Pensions Reserve – rather than reducing but not running off for some years as originally anticipated, based on the assumptions and data for 2013, the Reserve was now projected to have been run off by 2020 if all of the shortfall between income and expenditure was met by the Reserve, by 2026 if 25% of the Reserve was used and by 2030 if 30% of the reserve was used each year.
- Revised figures were then provided around sensitivities to data changes (e.g. inflation, lower numbers of new entrants, a spread of early retirements) and the planned reforms of the Police and Teachers Schemes. It was noted that some of these changes may lead to long term savings but with little impact on short term cashflows;
- It was noted that the GUS reforms had achieved greater overall contributions, lower benefits for new members and the future introduction of a cost sharing mechanism but the question was posed as to whether this was enough;
- Other ways of reducing future costs were discussed, including the impact of cost sharing, reducing the cost of future benefits, moving to a CARE basis and imposing later working;
- It was noted that a move to CARE in itself would not save costs unless this was coupled with a future lower accrual rate;
- It was noted that the reforms in the UK (move to CARE, higher contributions and later working) would not result in any cashflow savings for many years and in fact, future expenditure would continue to rise steeply as members continued to retire early based on their higher/protected accrued benefits.

A hand-out of the presentation slides was circulated and this is attached to these Minutes.

The Board noted the sensitivity around the information contained in the presentation and that it should not be discussed externally until an update had been provided to the Council of Ministers and until the Working Group had further considered the implications. It was noted that overall, there had been a big drop in the affordability of schemes due to the lower than expected GDP growth coupled

(in GUS) with significantly more people choosing the Protection option (85% compared with the assumed 50%) and the numbers of people within Government currently taking earlier retirement. It was also noted that the changes to the Police and Teachers schemes planned for 2015 would not lead to savings for some years due to the "10 year" protection granted.

Mr Shipley queried why, on the graph on page 25 of the Hymans Robertson presentation, there was a "spike" which if it could be replicated, might keep costs down in some way. Mr Summers agreed to investigate further.

It was noted that if there was to be significant future contribution increases, then the unions should be briefed as soon as possible in order to prepare them and their members for the likelihood of future bad news. It was also noted that a similar presentation had been given to the Working Group earlier that day by Mr Summers which had provided considerable food for thought.

Any Other Business

Other PSPA consultations

The Board noted that the consultation with regard to the proposed amendments to GUS and the Pensions Act (allowing outsourced public sector employees to remain in their scheme) had recently ended. A request was made to have a further short Board meeting to discuss the feedback and next steps. Mr Murray agreed that he would arrange this in the next week.

Date of Next Meeting

The next meeting of the Board will be held on a date to be advised.

The meeting closed at 17:40