

In Confidence

Minutes of a meeting of the Public Sector Pensions Authority (PSPA) on 17 September 2018 in the PSPA Meeting Room, Prospect House, Douglas

Present: **PSPA**
Mr J B Carter, (Chairman)
Hon C C Thomas, MHK (Vice Chairman)
Mrs J Poole-Wilson MLC
Mrs D Halsall
Mr I Wright
In Attendance: Mr I T Murray
Mr I W C Burnett, (Secretary)
Ms K C Brondon

Apologies:

Minute No. Minute

45/18 Conflicts of Interest

There were no Conflicts of Interest declared in addition to those previously recorded.

46/18 Minutes

The Minutes of the meeting of 13 August were approved and signed by the Chairman.

47/18 Risk Register Review

The Board considered and noted the contents of the Risk Register.

48/18 Isle of Man Government Unified Scheme 2011 – cost sharing

Mr Rob Bilton, from Hymans Robertson joined the meeting.

The Board considered a memorandum, dated 7 September 2018, from the Chief Executive providing an update on the proposed Cost Sharing legislation, and the briefing papers provided by Hymans Robertson.

The Executive provided brief overview of the background and discussions with Trade Unions which had resulted in the current proposals. The Board noted the key outstanding issue remained the length of the Recovery Period.

The Chief Executive advised that he and Mr Bilton had met with Treasury Board, (hereafter referred to as Treasury), in order to provide it with a summary of the PSPA's cost sharing proposals. The Board noted Treasury's view was that they were not currently supportive of changing the mechanism from the current 75%/25% split set out in the Unified Scheme Rules.

The Board noted that Treasury had not been formally involved in the discussions between the PSPA and Trade Unions, and this was therefore the first occasion Treasury had formally considered the proposals. The Board noted that despite Treasury's view the Executive considered that the proposals had been given a 'fair hearing' by Treasury, who had requested that the PSPA consider developing a revised version of the current 75/25% split based upon a longer valuation period.

The Board sought clarification as to how Treasury's proposed mechanism may work in practice and how it compared to the current PSPA proposals.

It sought to clarify the pros and cons of each approach.

Mr Bilton provided a summary of his briefing papers, including clarification of the pros and cons of the PSPA's proposal and those favoured by Treasury. In relation to the current proposals, the Board noted that the inclusion of a buffer resulted in only significant cost changes required subsequent action to be taken, as opposed to changes being required by even the smallest of variations, and it was considered that this provided greater stability for Scheme Members.

The Board noted the view that frequent changes, which resulted in increased contributions or reduced accrual rates, could result in significant numbers of Scheme Members leaving which in turn would have an impact upon both the Schemes' cash flow and future Scheme cost sharing valuations.

The Board noted that a further impact that would arise as a consequence of more frequent changes would be in relation to the increased complexity of the administration of schemes, more frequent administration system changes and the costs associated with those changes.

Mr Bilton provided the Board with a summary of the results of recent cost sharing valuations in UK Public Service Schemes, which indicated a cost reduction below of the buffer of 2%, even though the underlying long term trend was that contributions were still continuing to rise based on the overall valuation results. HM Treasury has stated that it would honour the results of the cost sharing valuation, but had instructed the Government Actuary's Department to review the assumptions and basis upon which the cost sharing valuations were based. The Board considered that Isle of Man Treasury should be made aware of the UK experience.

In considering its next steps, the Board noted that, as a consequence of the Tynwald Motion following receipt of the Cabinet Office Legacy Report, the PSPA was required to report back to Tynwald on a number of matters. The Board considered that the legacy work and the development of cost sharing proposals were two separate strands of work, albeit that they were running in parallel. The Board noted that the legacy report had shown that, given the reforms that had already been implemented, the long term costs of schemes should come down and that any cost sharing mechanism, once approved, would assist in the future sustainability of the Schemes.

The Board recognised that whilst the current proposals were based upon the UK cost sharing mechanism, the Isle of Man Schemes were different to UK Schemes and therefore the final cost sharing mechanism did not necessarily need to follow the UK model, which could be either the current proposals or those favoured by Treasury.

The Board noted that in order to progress the cost sharing legislation it would require Treasury concurrence before it could be submitted to Tynwald. The Board considered that the approach favoured by Treasury would need to be further investigated to establish what impact it may have, and to establish how this could be implemented if the Board considered it to be the best approach and, in addition, how it compared against the current PSPA proposals.

The Board considered that, having worked with the Trade Unions in order to develop the current proposals, the emergence of Treasury's alternative approach may come as a surprise and may put a strain on the close

working relationship the PSPA had developed, if the Unions were not advised of it ahead of formal consultation.

After due consideration and extensive discussion, the Board determined that the Executive should:

- Advise the Union Technical Advisory Group of the views expressed by Treasury and seek their views on Treasury’s approach;
- Provide appropriate feedback to Treasury on their proposal for a revised approach;
- Finalise draft legislation based upon both approaches;
- Seek the views of CoMIN with regard its preferred approach to a cost sharing mechanism;
- Carry out a consultation exercise upon the draft legislation, seeking views, where appropriate upon, the length of the recovery period;
- Once the consultation is complete, the Board to consider the feedback received and finalise the legislation;
- Seek Treasury concurrence and make draft legislation; and
- Subject to the Board’s approval, submit finalised legislation to Council for consideration and submission to Tynwald seeking approval.

49/18 Quarterly Performance Report – Quarter 1, 2018/19

The Board considered the Quarterly Performance Report for the first quarter of 2018/19, ending June 2018 and received a verbal summary from the Director Operations.

The Board noted that the data showed that the average retirement age had not changed and remained at just over 59 years of age.

The Board noted the ongoing issues relating to the receipt of the annual financial data from employing authorities and that this would in turn result in delays to the issuance of the Annual Benefit Statements. The Board was advised that members would be informed of the possible delays in due course.

The Board noted the levels of performance remained above 85% of target, and in light of the ongoing reform work wished to record their appreciation and thanks to all the staff of the PSPA.

50/18 Equality Act – public sector pension implications

The Board considered a memorandum, dated 7 September 2018, from the Chief Executive, which provided an update to update on the implications of the Equality Act for Isle of Man public sector pensions.

The Board was pleased to note that the Executive had identified the key areas for review and identified the work that would need to be carried out by both the PSPA and other key stakeholders including employing authorities and the Office of Human Resources and the deadlines that needed to be met in order to be compliant with the requirements of the Act.

51/18 Pensions Reform

The Board noted the ongoing work in relation to the reform of Public Sector Schemes.

Judicial Scheme

The Board noted a response to the latest proposals was not anticipated to be received until after the summer holiday period, which would be towards the end of September.

52/18

[REDACTED]

Date of Next Meeting

The next meeting will be held on Monday 8 October 2018 commencing at 10.30.

There being no other business the meeting closed at 12:25.

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