

In Confidence

Minutes of a meeting of the Public Sector Pensions Authority (PSPA) on 13 November 2019 at 10.30 am 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
Mr I Wright
Mrs D Halsall

In Attendance:

Mr I T Murray
Mr I W C Burnett, (Secretary)
Ms K C Brondon
Mrs J Mooney (Assistant Secretary)

Apologies:

Minute No. Minute

65/19 Conflicts of Interest

There were no other conflicts of interest declared in addition to those previously recorded.

66/19 Minutes

The minutes of the meeting of 14 October 2019 were approved and signed by the Chair.

67/19 Matters Arising

The Chief Executive advised the Board that the issue of Public Sector Pensions Transfers (**Minute ref 59/19**) had been considered at the meeting of the Technical Advisory Group (TAG) in October and that no concerns had been raised. Accordingly the matter was now being dealt with by the Treasury in terms of developing draft regulations and a copy of these had been passed to the PSPA Executive for a view.

68/19 Risk Register Review

The Board reviewed the Risk Register and noted and approved the revisions that had been made, in particular in relation to the addition of the mitigation and residual risk columns which it considered provided a better sense of the degree of the risks at hand. It was agreed that the Risk Register would be reviewed in full at the December meeting of the Board in line with the agreed schedule for it to be reviewed on a quarterly basis.

69/19

Governance Workshop Update

The Board considered a memorandum from the Governance and Legislation Manager dated 5 November 2019 (paper ref 19/19) in relation to the proposed training programme for Board members and agreed to the proposed content of the programme. In addition, the Chief Executive proposed that half day information sessions, delivered by the PSPA's actuaries, focussing specifically on actuarial valuations and cost sharing, be added to the programme.

70/19 Administration Issues

The Board considered the monthly report from the PSPA Systems Manager and OHR Director of HR Services (paper ref 20/19) on progress in relation to the delivery by OHR of the Annual Financial Information and ongoing Monthly Financial Information to the PSPA.

The Board discussed, at length, the challenges being faced by both OHR and the PSPA in resolving these issues. However it concluded that, whilst acknowledging the extensive efforts being made by both parties, there remained fundamental issues in relation to the integrity and consistency of the data being provided by OHR and this, in turn, impacted on the reports which are required by the PSPA. The most immediate effect of this is that the PSPA cannot currently produce the Annual Benefit Statements (ABS) that it is statutorily required to provide to members.

The Executive, whilst acknowledging that the problems are probably far more complex than OHR had anticipated, is concerned that the new system will never work in the way it is intended.

The Board concluded that the current approach is not working. Given that this is resulting in the Board being unable to undertake its statutory duties and at risk of reputational damage and claims via the Pensions Ombudsman, a different approach needs to be undertaken.

It agreed that the following action should be taken:

- i. The PSPA is to write to OHR, and, acknowledging the concerns on both sides with regards to the data and reporting functionality of the system, suggest that a joint proposal, from OHR and the PSPA, should be submitted to the Council of Ministers with a view to requesting the additional resources necessary to address the problems.
- ii. A decision as to whether or not the PSPA should issue ABS for the year to 31 March 2019 is to be made at the December meeting of the Board. It was noted that the AFI was normally received in June each year with the ABS then being issued in October/November - receipt of the AFI by the end of November would mean that it would not be possible to issue the ABS until February/March 2020 at the earliest, so the information included would effectively be one year out of date.

71/19 Establishment of a Voluntary Defined Contribution Scheme

The Board received a verbal update from the Chief Executive in relation to the progression of the Tynwald motion by the PSPA to establish a Voluntary Defined Contribution Scheme by 31 December 2020. The Executive had attended presentations by both Aviva and the IOM Post Office Board which had provided information and design ideas that might be considered.

The Vice Chair requested that it be recorded in the Minutes that the Trade Union representatives in attendance at the recent TAG meeting had all agreed that they did not support the establishment of a Voluntary Defined Contribution scheme in principle and so did not wish to be involved with it going forward.

The Board noted the work which had been carried out thus far, and considered the next step should be for the Executive to report back to the Council of Ministers with the information received; cost implications; and potential design ideas in order to receive its approval to proceed.

72/19 Cost sharing – UK Overview

The Board noted a memorandum from the Chief Executive dated 31 October 2019 (Paper no. 21/19) providing an update with regard to the position on cost sharing in the UK unfunded public sector pension schemes.

73/19 Cost Sharing

The Board noted the memorandum from the Chief Executive dated 4 November 2019 (paper ref 22/19) which updated it in relation to further discussions with the Technical Advisory Group.

The following three options for cost sharing were discussed at length:

Option1: 2% of pay buffer

Option 2: 75%:25% share of costs

Option 3: 75%:25% share of costs with a small buffer of 0.5% of pay

Concern was expressed by some that the 2% buffer option presented the risk of a “cliff edge” position whereby the cost for any increase above that level would be borne entirely by employees which could have a particularly negative impact on lower paid employees. The view of the Treasury was that the 75%:25% option was fairer to members in that there was a “sharing” of any cost changes (which would not all fall entirely to the employee) and therefore this could be regarded as true cost sharing. It was noted that the provision for a 75%:25% split already existed within the Rules of GUS (Rule 83.5).

Mrs Halsall requested that it be recorded that the Unions had always come to the table prepared to discuss alternative options and their members were aware of the option preferred by their Union representatives (i.e. 2% of pay buffer). It should also be noted that whilst there had been provision for, for example, Administrative Assistant grade civil servants to receive a rebate on the inception of the Unified Scheme this was not applicable to manual workers on similar salary levels. If an alternative approach were to be taken to cost sharing the possibility of industrial unrest could not be ignored.

Further discussion followed in relation to the length of the recovery period. The Board’s view was that the 8 year recovery period had been arrived at scientifically being based on the average future working life of scheme members. They were not minded to extend the recovery period to, for example, the 15 year period used in the UK cost sharing model; in addition there would be challenges to implementation by Government should the recovery cycle be extended.

The question was raised as to whether there could be an “asymmetric” option with, for example, a buffer of 1% one way (for cost savings) and 3% the other way (for cost increases). The Executive confirmed that this could be a possible option however introducing another basis for cost sharing options would delay its implementation further.

The Chair reiterated the need for sustainability for both the schemes/Government and the members and there were again concerns expressed that the 2% buffer would unfairly impact members on lower salaries.

Mrs Halsall referred to the position reached at the meeting of TAG on 28 October 2019 which indicated that TAG may be able to support a cost sharing basis with a 50%:50% split and a buffer of 1.75%. This was discussed but not taken

further by the Board.

In conclusion the Board agreed the following:

- i. Three members of the Board supported Option 3 (a 75%:25% split with a small 0.5% of pay buffer) with it being noted that Mrs Halsall (on behalf of the employee representatives) supporting Option 1 (2% buffer);
- ii. The Recovery Period should remain at 8 years but should be tested by the actuaries at each cost sharing valuation to ascertain whether the average future working lifetime of scheme members remained at 8 years;
- iii. One Board member indicated they were not averse to Option 3 as well;
- iv. The Executive should formalise the Amending Scheme and implement a three month consultation period with stakeholders;
- v. Questions regarding the confidence interval used by the actuaries in the calculation of the 0.5% buffer are to be posed to the actuaries;
- vi. Information on the basis of calculation of the Recovery Period is to be included within the consultation documents;
- vii. The Executive is to ensure as far as possible that all members, including those without access to email, receive notification of the consultation. Taking account of the feedback received from the previous consultation process it is proposed that use will be made of the Global email; posters; provision of accessibility to hard copy versions; and the Internal Newsletter. The Executive would also ensure that the message was distributed collectively to the Unions. The possibility of notification of the consultation being included in PiP payslips would also be explored;
- viii. Acknowledgement should be made of the goodwill of all parties within the consultation process so far and also of the difference of opinions held by the different parties.

74/19 Public Sector Pensions (Amendment) Bill 2019

The Board noted a memorandum from the Director of Operations dated 1 November 2019 (paper ref 23/19) in relation to the above Bill and also that the Bill was progressing through the Branches and was due to be considered by the Legislative Council on 3 December 2019.

75/19 The Judicial Pension Scheme

The Board considered a memorandum from the Deputy Chief Executive dated 31 October 2019 (paper ref 24/19) in relation to the Judicial Pension Amendment Scheme.

The Board agreed that, subject to the Public Sector Pensions (Amendment) Bill progressing as expected, the formal consultation process on the proposed reforms should be instigated.

It was considered that it would be necessary to make the Amending Scheme in advance of the Appointed Day order for the Public Sector Pensions (Amendment) Bill. It was agreed that the Chairmen had the delegated authority to sign the Amending Scheme at or in advance of the relevant Board meeting once appropriate consent to the Scheme was received.

76/19

Any Other Business

The Chief Executive updated the Board in relation to the current staffing position – six new staff had joined the PSPA however there were also two members of

staff currently on sick leave.

A strategy update document was being prepared which would be presented to the Board at its next meeting.

The Director of Operations notified the Board that there was currently an issue with GMP equalisation which was being considered both here and in the UK. The PSPA's actuaries were due to report to the Executive on this matter early next year.

Date of next meeting

The next meeting will be held on Monday 9 December 2019 commencing at 10.30 am.

There being no other business the meeting closed at 12.35.

Date