In Confidence

Minutes of a meeting of the Public Sector Pensions Authority (PSPA) held in the King Orry Room, 3rd Floor, Main Government Building, Bucks Road and via TEAMS on 25 July 2022 at 12 noon.

Present:	**PSPA**
	Mr M Kiernan (Chair)
	Ms K Lord-Brennan MHK (Vice Chair)
	Mr R Mercer MLC
	Mr I Wright
In Attendance:	Mr IT Murray
	Ms K Brondon (Board Secretariat)
	Mrs J McMillan (Assistant Board Secretariat)
Apologies:	Mrs D Halsall

Minute No.	**Minute**
32/22	**Conflicts of Interest (minutes 12/21, 22/21, 42/21 and 64/21 refer)**
	There were no other conflicts of interests declared in addition to those previously recorded.
33/22	**Minutes**
	The Board approved the Minutes of the meeting held on 23 May 2022.
34/22	**Matters Arising**
	All matters were covered on the Agenda

35/22 **Public Sector Pensions Schemes Actuarial Valuations 2022 – Approval of Actuarial Assumptions**

It was noted that the Hymans Robertson assumptions paper along with other supporting information had been circulated to the Board prior to the meeting.

[redacted] and [redacted] from Hymans Robertson joined the meeting at 12.15.

[redacted] and [redacted] gave a presentation on the proposed Actuarial Assumptions to be adopted for the Public Sector Pensions Schemes Actuarial Valuations as at 31 March 2022.

[redacted] advised that there were several key assumptions;

1. Financial Assumption – Discount Rate
2. Financial Assumption – Salary Increase Rate and Inflation
3. Demographic Assumption – Life Expectancy

[redacted] confirmed that the Discount Rate is used for valuing past service liabilities and future service contribution rates and has no impact on the cashflow projections.

[redacted] advised that as part of the work undertaken, a review of the assumptions made for the 2019 valuation compared with those recommended for 2022 was also undertaken. The Discount Rate used in the 2019 valuation was 4.5%. He advised that to make changes to these rates would require a good body of evidence and appropriate rationale to justify the changes.

[redacted] advised that the 4.5% was made up of two components, 3.5% income growth rate plus 1% additional growth rate (due to an estimated increase in the future population of the island). The 1% additional growth rate had been accepted previously by the

Treasury Board based on future population targets and aspirations.

There was considerable discussion regarding the proposed Discount Rate assumption.
The Board felt that, despite the recently announced Government policy to grow the economically active population by 15,000 over the next 15 years, the 1% additional income for population growth (also used in the 2019 valuation) was at this juncture aspirational whilst polices were being developed and the Board were concerned that recent population growth trends may not currently justify this rate. The Board discussed whether it may be prudent to use a lower additional rate of 0.5% for population growth for the purposes of the valuation given that increases in population could not be certain.

[redacted] advised that while there had been no significant change in population growth, the Treasury, who had been key inputters into the 2016 and 2019 valuations, had not recommended at this stage a change in the additional 1% rate given a real commitment to grow the economically active population.
The Board asked if it would be possible to see what difference it would make to the valuation if a lower additional growth rate, and therefore a lower Discount Rate was used. [redacted] advised that this would be possible. It was agreed that for now, the 4.5% assumption for the Discount Rate would be maintained given no long term evidence that it would not be appropriate but that modelling around alternative rates would be provided as an integral part of the valuation results so that the impact of in particular, a lower discount rate could be assessed.

[redacted] advised that the proposed Salary Increase Rate assumption was 4% i.e. 2% above long term inflation. However, if the additional growth rate component of the Discount Rate was to be lowered then the Salary Increase Rate should also be lowered. This was due to the link between income growth and the ability to pay salary increases from increased revenue.

There followed a discussion on how the Salary Increase Rate could be interpreted and the impact upon the results. The CEO advised that the salary growth assumption has not previously been regarded as an indicator of Government's future pay policy, but rather was a long term assumption for the purposes of the valuation only which has been proved to be accurate via backtesting.

Given the discussions, the Board agreed that the Discount Rate should remain at 4.5% and the Salary Increase rate should remain at 4% as recommended pending final results.

It was also noted by the Board that the long term inflation assumption has been increased by 0.7% to 2.7% for the 2022 valuations given the spike in inflation which was projected to last for at least 2-3 years and would then trend downwards in the long term to 2%. The Board accepted the proposed 2.7% inflation assumption.

[redacted] presented on the Demographic Assumptions and in particular, the assumptions regarding longevity. The starting point for this is the Actuarial Profession's CMI 2021 model, which updated the 2020 results. There was no significant change established from the previous valuation based on both the CMI 2021 model and the assessment of scheme membership experience undertaken by the independent Club Vita. The impact of the CoVid pandemic on long term life expectancy rates was not yet quantifiable and therefore no allowance was made for this at present in the assumptions.

A question was asked as to whether the results of the Select Committee on Rebalancing of Population and the 2021 Census were included as part of the demographic assumption analysis. [redacted] advised that they were not as they were to some extent general in nature and were unrelated to the island's public sector pension scheme experience.

The Board agreed to keep the longevity and other demographic assumptions in line with the 2019 valuation as recommended.

It was noted that the Unified Scheme Rules now required the assumptions to be passed to Treasury for any comments the Treasury Board may have.

36/22 **Isle of Man Government Unified Scheme (Amendment) Scheme 2022 - the Scheme**

The Deputy Chief Executive (DCE) briefly outlined the purpose of the Scheme and the Board noted the accompanying paper 10/22 and consultation response document. The Board agreed that the Scheme be made at the meeting and it was noted that this would be passed to Council for approval and then laid before Tynwald, probably in October 2022.

37/22 **Any Other Business**

The DCE provided the Board with the following verbal updates:

i. **Judicial Cost Sharing** - The DCE advised the Board that consultation on Judicial Cost Sharing had started and would finish at the end of September 2022.

ii. **Teachers' Pensions Advisory Board (TPAB)** – The DCE advised the Board that they had attended the June 2022 meeting with the TPAB, where concerns were raised that, in respect of the tiered Teachers contributions rates, the tiers had not been updated in line with inflation. A paper will be prepared for Board consideration on this matter in due course.

iii. **Compendia Pensions Administration System (the System) –** The DCE advised the Board that the current contract for the system runs out in 2024, and officers were currently commencing the first stage of the procurement process (in line with the Treasury Procurement Process requirements) to re-appoint the current software provider or seek to appoint a different provider. The DCE also advised that the current provider would be seeking to implement a new version of the current system if reappointed. It was noted that the cost of either a new system or an updated system would be significant and that Treasury approval for the cost would be required.

iv. **Actuarial Assumptions 2022** - a point was raised that, as this process is triennial and the political membership of the Board may change during the intervening period, it would be useful if background information regarding the previous assumptions could be made available when considering these in future. It was also pointed out that the actuarial assumptions did not have a "confidence" rating applied to them by the actuaries which would also have been useful. The CEO agreed to raise these points with the actuaries.

v. **Voluntary Defined Contributions Scheme (VDCS)** – The DCE gave the Board an update on the VDCS advising that the VDCS policy and also the various agreements to appoint the PSPA to manage the Aviva contract would be finalised in the next few weeks and go to Council by the end of year. It was expected that the first voluntary members would be contributing from January 2023.

38/22 **Date of the next meeting –** to be advised, along with a proposed schedule of meetings for the remainder of 2022 and 2023.

The meeting closed at 2.15 PM