



BPSU REPORT: PUBLIC SERVICE SUPERANNUATION FUND (PSSF)

This report, developed by Bro. Jason P. Hayward, President of the BPSU, seeks to inform members of the status of the Public Service Superannuation Fund.

*Report on the PSSF
July 2018*

TABLE OF CONTENTS

I. PUBLIC SECTOR EMPLOYEE PENSIONS:	4
II. PUBLIC SERVICE SUPERANNUATION BOARD	4
III. RETIREMENT ON PENSION.....	5
IV. ACTUARIAL VALUATION.....	6
V. STATEMENT FROM THE MINISTER OF FINANCE (<i>June 22, 2018</i>)	6
VI. RECOMMENDATIONS TO THE BPSU	8
<i>i. Joint Trustee Pension Model.....</i>	<i>9</i>
<i>ii. Increase Contributions.....</i>	<i>9</i>
<i>iii. Improving Investment Returns on Assets</i>	<i>10</i>
<i>iv. Reducing Benefits to Ensure Equity to All Plan Contributors.....</i>	<i>10</i>
VII. PENSION AND BENEFITS WORKING GROUP	10
<i>i. Background.....</i>	<i>11</i>
<i>ii. Roles of the Working Group</i>	<i>11</i>
<i>iii. Membership.....</i>	<i>12</i>
<i>iv. General Discussion.....</i>	<i>12</i>
<i>v. Proposed Action Plan.....</i>	<i>13</i>

PUBLIC SECTOR EMPLOYEE PENSIONS

PUBLIC SERVICE SUPERANNUATION FUND (PSSF)

I. PUBLIC SECTOR EMPLOYEE PENSIONS:

The Public Sector Employee Pensions (PSSF) is the public sector employee pension plan. The purpose of the PSSF is to provide contributory defined benefit pensions for retired employees of the Government of Bermuda and the employees of various quasi-autonomous non-Governmental organizations. This plan is governed by the Public Service Superannuation Act, 1981 (as amended by the Amendments Act 1983, 1984, 1985, 1986, and 2007 or any other subsequent amendments) and the Pensions Act, 1970.

II. PUBLIC SERVICE SUPERANNUATION BOARD

i. Membership

The Public Service Superannuation Board was established under the Public Service Superannuation Act, 1981. Its membership comprises of representatives from both the Government and Union representatives.

ii. Functions

The Board considers the claim of every employee who retires from the Public Service in circumstances entitling him to either a pension or refund of his contributions, and performs any other function assigned by the Minister of Finance.

iii. Contributions

The basis of the Act is to provide the right to a pension for every contributor to the fund who satisfies the requirements of the Act.

iv. Employee Contributions

The contributions, which are automatically deducted from monthly salary or weekly wages, currently comprise an 8% deduction. Essential services will have an automatic deduction of 9.5%.

v. Employer Contributions

All employee contributions are matched 100% by the Government of Bermuda.

vi. Calculation of Pension

The annual rate of pension is computed on the basis of one eight-hundredth of final annual wage/salary for each month of service (up to a maximum of 480 eight-hundredths, i.e., 60% of final wage/salary). This has the effect of producing a pension of 1.5% of final wage/salary for each year of service.

Example of a Pension Computation

An employee who retires on a final wage/salary of \$50,000 per annum after 40 years of employment in Government would receive a pension of \$30,000 per annum.

Equation:

$$\begin{aligned} \$50,000 \times 1.5\% &= \$750 \\ \$750 \times 40 \text{ years} &= \$30,000 \text{ per annum} \end{aligned}$$

III. RETIREMENT ON PENSION

Any employee with a minimum of eight years contributory service becomes entitled to retire with a pension payable on or after attaining the age of 60 years. Retirement is compulsory for any employee upon attaining the age of 65 years. In special circumstances, an employee may be permitted by the Head of Civil Service to continue in the public service until a later age, not exceeding the age of 70 years. An employee will become entitled to the payment of a pension upon his retirement if any of the following circumstances prevail:

a) Bermuda Police Service and Fire & Rescue Service

A police officer or fire officer on attaining the age of 55 years, or if below the rank of Superintendent or Divisional Officer on attaining that age, or on completing 25 years of service as a police officer or fire officer, whichever comes first. Any police officer or fire officer may, in special circumstances, be permitted by the Commissioner of Police or the Chief Fire Officer to continue in the public service until a later age, not exceeding the age of 60 years.

b) Bermuda Department of Corrections

A prison officer on attaining the age of 55 years, or if below the rank of Deputy Commissioner on attaining that age, or on completing 21 years of service as a prison officer, whichever comes first. Any prison officer may, in special circumstances, be permitted by the Commissioner of Prisons to continue in the public service until a later age, not exceeding the age of 60 years.

c) Royal Bermuda Regiment Staff

A member of the Bermuda Regiment staff, on attaining the age of 60 years.

Note: In respect of the above three categories of Government employees, an officer of the Bermuda Police Service, or the Bermuda Fire & Rescue Service who chooses to retire after 25 years service or an officer of the Bermuda Department of Corrections who chooses to retire after 21 years service will not receive a pension until they attain the age of 50 years. Such officers required to retire after 25 or 21 years service, as applicable, will receive a pension immediately upon retirement.

d) Any Other Employee

Any other employee, on or after attaining the age of 60 years.

e) Due to Redundancy

On the abolishment of the employee's job/office.

f) Due to Compulsory Retirement

On compulsory retirement of the employee for the purpose of facilitating improvement in the organization of the Department or Government Board to which the employee belongs, by which greater efficiency or economy can be affected.

g) On Medical Grounds

On medical evidence to the satisfaction of the Governor that the employee is incapable by reason of some infirmity of the mind or body of discharging the duties of his job/office and that such infirmity is likely to be permanent.

h) By Agreement

On termination of employment by agreement between the Bermuda Government and the employee.

IV. ACTUARIAL VALUATION

The current actuaries are Morneau Shepell Limited. In their latest report to the Bermuda Government in November 2017, they presented the results of the actuarial valuation as at March 31, 2017 of the Public Service Superannuation Fund (PSSF).

The report was prepared for the following purposes:

- To determine the going-concern financial position of the PSSF;
- To estimate the costs of the benefits being accrued under the PSSF during the period up until the next valuation;
- To determine the adequacy of the PSSF's contribution rates; and
- To provide the information and actuarial opinion required by the standards of practice of the Canadian Institute of Actuaries.

Financial Position as at March 31, 2017

The PSSF is not fully funded on the going-concern basis. The actuarial liabilities exceed the actuarial value of the assets by \$848,332,000 (*see below*).

PUBLIC SERVICE SUPERANNUATION FUND

Financial Position
as at March 31, 2017

Assets (smoothed value)	\$ 595,713,000
Liabilities	
• Active members	\$ 719,220,000
• Deferred vested members	\$ 52,526,000
• Retirees and beneficiaries	<u>\$ 672,299,000</u>
Total liabilities	<u>\$1,444,045,000</u>
Actuarial unfunded liability	(\$848,332,000)

V. STATEMENT FROM THE MINISTER OF FINANCE *(June 22, 2018)*

Mr. Speaker, in accordance with section 8A of the Public Service Superannuation Act 1981, I have tabled the Public Service Superannuation Fund Actuarial Report as at March 31, 2017.

Mr. Speaker, The Public Service Superannuation Fund (PSSF) was established on April 1, 1982 by the Public Service Superannuation Act, 1981 ("the Act"). Members will be aware that the purpose of the Public Service Superannuation Fund (PSSF) is to provide retirement pensions for retired employees of the

Government of Bermuda and the employees of various quasi autonomous non-governmental organisations.

The plan is a typical Defined Benefit plan. Mr. Speaker, a Defined Benefit (DB) pension scheme is often regarded as more valuable than a Defined Contribution (DC) scheme. This is because the benefits from a DB scheme are often calculated as a proportion of final salary, with the employer carrying the investment risk, while DC benefits depend on the investment performance of the participant's account or "pension pot".

Mr. Speaker, the most significant events disclosed in the Actuarial Valuation are as follows:

- The market value of assets as at March 31, 2017 was \$574.1 million compared to \$572.7 million in 2014 when the last review was conducted. The asset value of \$574.1 million represents roughly 7.9 times more than the annual projected payout of some \$72.5 million in pensions for 2017.
- The actuarial liability was \$1.444 billion as at March 31, 2017 compared to \$1.360 billion in 2014. The actuarial liability is based on the benefits earned up to the valuation date assuming the PSSF continues indefinitely;
- The unfunded liability was \$844.3 million as at March 31, 2017 compared to \$796.6 million in 2014. The unfunded liability is the difference between the actuarial liability and the actuarial value of assets;
- The ratio of pension assets-to liabilities, or funding ratio, for the PSSF was 41.3% as at March 31, 2017 compared to 41.4% in 2014.

Mr. Speaker, as mentioned above, the latest actuarial review shows a funded ratio of 41.3% for the PSSF as at 31 March 2017. Honourable Members are aware that the PSSF has a guarantor in the Government as far as benefit security goes. However, because of the risk that these unfunded liabilities present to the Government, it is fiscally prudent for the Government to adequately fund and to plan for these, albeit long term, obligations and maintain the funding ratio at an acceptable long-term target level. It is important to note that to achieve sustainable solvency, it is not necessary that all accrued benefits be fully funded.

Research of the funding statuses of regional and international public service pension plans indicate that there is no internationally prescribed funding level. For instance, most of the Caribbean Community (CARICOM) countries and the UK generally have pay-as-you-go government sponsored pension plans that are paid out of their Consolidated Funds. Accordingly, they are fully unfunded. In contrast, various government-sponsored occupational pension plans of Canadian provinces are either fully funded or close to fully funded.

Honourable Members should note that the following actions have been taken over the years in order to improve the sustainability of the PSSF:

- 2006 - 2008 PSSF contribution rates were increased from 5% to 8% and 9.5% for regular members and uniformed officers respectively. The increase in contributions resulted in an improvement in the cash position of the PSSF;
- In June 2014 the automatic Cost of Living Adjustment (COLA) increases were suspended for pensioners until such time as the sustainability of the PSSF has been improved. Honourable

Members are advised that the COLA provision added about 23% to the PSSF liabilities and this change improved the sustainability of the Fund.

Mr. Speaker, despite these actions, the PSSF remains underfunded and there are no simple remedies to resolve the underfunded position of the Plan. To assist with the review of this pension plan, a Pension and Benefits Working Group (PBWG) was established by the former administration. The purpose of the PBWG was to review all public sector pension plans, and make recommendations to Cabinet in order to ensure the sustainability of these plans and benefits in a manner that is responsible and fair to both the pensioners and members of the plans and Bermuda taxpayers. Following this review, the PBWG proposed the following changes to the Plan:

- Change the final average earnings (“FAE”) definition from “the salary payable to him immediately preceding the date of his retirement” to an average of his earnings over the five years preceding his date of retirement (or termination).
- Increase the age at which an unreduced pension is payable from 60 to 65 (55 to 60 for special groups).
- Apply actuarial reductions on early retirement prior to age 65 (60).
- Increasing contributions.

Finally, this Government has also decided to explore the option of increasing the retirement age on a voluntary basis to 67 and assess the impact that this action would have on the Plan.

Mr. Speaker, the Ministry of Finance will engage the Government’s actuary of record to consider the impact that the above-mentioned changes to the Plan would have on the long-term sustainability of the Fund. It is anticipated that this engagement will be completed in the third quarter of 2018 and will be shared with this Honourable House.

Mr. Speaker, as per this Government’s normal custom and practice, the appropriate consultation with the various stakeholders, specifically the public sector unions, will be conducted before any changes are made to the provisions of the plan.

In closing, **Mr. Speaker**, I wish to assure current and future pensioners that the Government is sensitive to the challenges facing pension plans of this nature and will take appropriate steps to preserve the long term financial viability of the Fund.

Thank you, **Mr. Speaker**.

VI. RECOMMENDATIONS TO THE BPSU

In February 2014, a delegation from the Bermuda Trade Union Congress (BTUC) attended a series of meetings in British Columbia, Canada to discuss possible solutions to our pension problem.

The meeting commenced with the BTUC delegation providing an overview of the Bermuda Public Service Superannuation Fund (PSSF) and the alarming underfunded liability (estimated \$1 billion US dollars as at March 31, 2012).

After a lengthy discussion with our Canadian hosts on the historical issues of the fund, the following suggestions were recommended to the Bermuda delegation:

1. The feasibility of the Bermuda Public Services Union running the PSSF under a Joint Trustee model with the Bermuda Government;
2. Explore the option of increasing employer and employee contributions;
3. Review the investment portfolios for greater returns;
4. Reduce the enhanced pension benefits for all advantaged workers such as the uniform branches, to ensure equity for all pension contributors to the plan; if this option is not viable, then either greater contributions of this group or the contributors have a separate plan; and
5. Cost of Living Adjustments to be reviewed for all future PSSF pensioners.

i. Joint Trustee Pension Model

A Joint Trustee Pension Plan is where the responsibility and administration of the PSSF is shared jointly between the employer and employees. A Joint Trustee Pension is established which comprises of appointed representatives from the Government and Unions. The Board manages all aspects of the PSSF.

Advantages of a Joint Trustee Pension Plan include:

1. Employees have more say in the administration of their PSSF plan;
2. Employers are prohibited from dipping into the pension funds;
3. Allows for collaboration for contribution increases;
4. Allows employees to have a say in the investment of pension funds;
5. Reduces the employer's pension fund liability by half;
6. Allows the Board to decide if a cost of living increase is paid based on the fund's financial position of the plan.

This adapted model has born success for Canadian Unions' Defined Benefit (DB) plans, in particular British Columbia Unions, becoming fully funded and with access funds.

As a first step, the BPSU is recommending the adaption of the Joint Trustee Plan for reforming the PSSF.

ii. Increase Contributions

At some point, public officers will have to agree to increases of contributions (both the employee and employer) to the Plan.

Two methods of increasing contributions are as follows:

1. Incremental scheduled increases;
2. An education campaign explaining the long-term benefit to the viability and longevity of the plan.

iii. Improving Investment Returns on Assets

Equal increases in employer and employee contributions will improve the investment returns and increase the Plan's assets under the Joint Trustee Scheme.

Suggestions for improving investment returns are:

1. Pool the PSSF assets as a lump sum with the Canadian public employees' pension funds to ensure a greater return on investments due to wider portfolio options. One joint trustee board was able to reverse its \$1 billion unfunded liability to a zero balance in one year. The Bermuda Government will have to agree to an investment contract with the Joint Trustees of other pension plans.
2. Use the British Columbia Trustee Plan which manages over \$102 billion.

iv. Reducing Benefits to Ensure Equity to All Plan Contributors

We realise that "reducing benefits" is a very thorny issue for members of the BTUC as it was for Union representatives of the British Colombia Trade Union Congress.

The realisation that if a group of workers has not made contributions to the pension fund, paying enhanced pension benefits that were not earned only increases the unfunded liability and creates greater disharmony between the various contributors. This factoid potentially jeopardises the viability of the PSSF.

Options include:

- One solution accepted by British Colombia workers was to increase the retirement age, thus increasing the contribution to the fund.
- Another idea is for that group of workers to run their own scheme with increased contributions to the plan by the employees and employer.
- Another option was not guaranteeing the cost of living adjustment/inflation protection for pensioners. COLA increases will be discretionary, and any payout is decided by the Joint Trustees.

In conclusion, to not make any changes to the current PSSF is not an option. The unfunded liability is growing, pensioners are living longer and there are insufficient new contributors to erode the unfunded liability.

The BTUC must reach a consensus on what model is best to ensure the viability of the Defined Benefit Plan for public officers and current pensioners.

VII. PENSION AND BENEFITS WORKING GROUP

In June 2014, a Pension and Benefits Working Group was established under the Public Service Reform Initiative.

i. Background

The purpose of the Pension and Benefits Working Group (PBWG) was to review, under the Public Sector Reform Initiative (PCRI), all public sector pension plans namely the Government Employee Health Insurance Plan and the Pre-Retirement Benefit, and make recommendations to Cabinet in order to ensure the sustainability of these plans and benefits in a manner that is responsible and fair to both the pensioners and members of the plans and Bermuda taxpayers. Whatever changes are made to the Plans, the concept of inter-generational equity should be kept in mind so that it can be demonstrated that all groups have been treated in an even-handed manner.

The PBWG conducted a review of Bermuda's pension arrangements to determine whether public and private pensions.

ii. Roles of the Working Group

In terms of the review of the PSSF, Ministers and Members of the Legislature Pensions Fund (MMLPF) and the Contributory Pension Fund (CPF) the role of the Working Group is as follows:

- Review the latest actuary reports and other relevant studies of the Plans;
- Review the SAGE Commission recommendations;
- Recommend changes to each Plan to ensure their sustainability in the manner described above
- Prepare a Formal Funding Policy for each Plan;
- Review Governance Structures

In terms of the review of the GEHI Plan, the role of the Working Group is as follows:

- Review the latest actuary reports and other relevant studies of the Plan;
- Review the SAGE Commission recommendations;
- Recommend changes to the Plan to ensure their sustainability in the manner described above.

In terms of the review of Bermuda's pension arrangements to determine whether public and private pensions are set at appropriate levels, the role of the Working Group is as follows:

- Seek actuarial advice on projected combined pensions over various time horizons (Contributory Pension and NPS);
- Based on the actuarial projections determine what level of replacement income will be received at retirement;
- Determine what an acceptable level of replacement income will be at retirement;
- If required recommend amendments to pension arrangement to Cabinet.

In general, the role of the Working Group is as follows:

- Ensure project makes good use of resources.

- Assist with resolving strategic level issues and risks.
- Assess project progress and report on project to Cabinet and to other key stakeholders.
- Provide advice and guidance on issues facing the project.
- Use influence and authority to assist the project in achieving its objectives.
- Review and approve final project deliverables.

iii. Membership

The table below lists the membership of the PBWG:

NAME	TITLE	ORGANISATION
Anthony Manders	Financial Sector	Ministry of Finance
Peter Sousa	CEO	Pension Commission
Collin Anderson	Director	Health Insurance Committee (BHeC)
Marilyn E. Cameron	Benefits Supervisor	Accountant General's Department
Karen Daniels	Director	Social Insurance
Jason Hayward	Representative	Bermuda Trade Union Congress
Travis Gilbert	PSRI Project Manager/ Deputy Chair	Cabinet Office
Subject Matter Experts/Actuary		As needed

iv. General Discussion

PSSF general policy recommendations that were to be considered:

- Change the final average earnings (FAE) definition from *“the salary payable to him immediately preceding the date of his retirement”* to an average of his earnings over the five years preceding his date of retirement (or termination);
- Increase the age at which an unreduced pension is payable from 60 to 65 (55 to 60 for special groups);
- Apply actuarial reductions on early retirement prior to age 65 (60);
- Remove the COLA for current and future pensioners;
- Decrease the lump sum computation factor from 11.5 to 10.0;
- Apply a 10% reduction to the amount of pension payable to someone retiring with a spouse, who elects the joint & survivor option;

- Increasing contributions;
- Decrease the pension accrual rate (for the future) for new members from 1.5% per annum;
- Having benefits be contingent on the funded status of the plan;
- Convert to DC plan;
- Consider operational structure - an operational structure should be developed that incorporates communication and collaboration, strategic alignment, and the development and implementation of actions.

v. Proposed Action Plan

Matters which are seen to be key to the project which can be progressed in the short term:

1. Amendment to the Pension Increase Act 1972 to suspend Pension Increases for PSSF and MMLPF pensions; and
2. Review the latest actuary reports and other relevant studies of the Pension Plans and GEHI;
3. Review SAGE recommendations.

Matters which are seen to be key to the project which can be progressed in the medium term

1. Recommend changes to each Plan to ensure their sustainability;
2. Prepare a Formal Funding Policy for each Plan;
3. Review Governance Structures;
4. Investigate the possibility of implementing a joint trustee pension model (consider the British Columbia, UK and other public service pension models); and
5. Make amendments to the CPF to improve sustainability.

Matters which are seen as key to the project which require effort to progress in the long term

1. Seek actuarial advice on projected combined pensions over various time horizons (Contributory Pension and NPS);
2. Based on the actuarial projections, determine what level of replacement income will be received at retirement;
3. Determine what an acceptable level of replacement income will be at retirement; and
4. If required, recommend amendments to pension arrangement to Cabinet.