



GOVERNMENT OF BERMUDA

The Ministry of Finance

Ministry of Finance Headquarters

Ministerial Statement
To the House of Assembly

By

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Deputy Premier and Minister of Finance

Actuarial Report of the Public Service Superannuation Fund as at March 31, 2014

Date: 9th March, 2014

Mr. Speaker, in accordance with section 8A of the Public Service Superannuation Act 1981, I am pleased to table the Public Service Superannuation Fund Actuarial Report as at March 31, 2014.

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 organizations.

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 value of assets as at March 31, 2014 is \$572,747,000 (2012- \$502,261,000);
- The actuarial liability was \$1,359,815,000 (2012- \$1,475,141,000) as at March 31, 2012. The actuarial liability is based on the benefits earned up to the valuation date assuming the PSSF continues indefinitely;
- The unfunded liability was \$796,582,000 (2012- \$983,096,000) as at March 31, 2014. The unfunded liability is the difference between the actuarial liability and the market-related value of assets;
- The ratio of pension assets-to liabilities, or funding ratio, for the PSSF was 41.4% (2012- 33.4%) as at March 31, 2014.

Mr. Speaker, in 2014 I announced Cost of Living Adjustment (COLA) increases would be suspended for pensioners until such time as the sustainability of the PSSF has been improved. This amendment results in a decrease in the PSSF's actuarial liabilities of \$422,419,000, which has been recognized, by the actuaries, at the valuation date.

Also during the review period a Pensioner Mortality study of the PSSF was completed in 2014. This review showed that the mortality of public sector employees in Bermuda has kept pace with mortality improvements of similar employee groups in Canada and elsewhere. Accordingly the mortality assumption has been updated to reflect this improvement. The change results in an increase of Plan liabilities of \$176,931,000.

As mentioned above, the latest actuarial review shows an improved funded ratio of 41.4% for the PSSF as at 31 March 2014. Honourable Members are aware that the PSSF has a guarantor in the Government as far as benefit security goes. However, it is still 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 occupational pension plans that are paid out of their Consolidated Funds. Accordingly they are 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 there is no simple remedy to resolve the unfunded positions of the public sector pension plans. To assist with the review of these pension plans, a Pension and Benefits Working Group (PBWG) has been established. The purpose of the PBWG is to review, under the Public Sector Reform Initiative, 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. Some of the benefit changes to be considered for the PSSF are as follows.

- 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).
- Decrease the lump sum commutation 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.
- Decreasing the pension accrual rate (for the future, and possibly the past) for active members from 1.5% per annum to a lower rate.

Mr. Speaker, as reported above the market valuation of assets in the PSSF at March 31, 2014 was approximately \$572.7 million representing roughly 7.4 times more than the annual projected payout of some \$77.2 million in pensions and allowances for this fiscal year.

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.