



*Government of Bermuda*  
**The Ministry of Finance**

---

**Ministry of Finance Headquarters**

**Ministerial Statement**  
To the House of Assembly  
By  
**The Hon. Everard T. Richards, JP, MP**  
Minister of Finance

**PENSIONS (INCREASE) AMENDMENT AND SUSPENSION ACT  
2014**

Date: 27<sup>th</sup> June, 2014

---

**Mr. Speaker,** I rise today to advise Honourable Members and the general public on the Pensions (Increase) Amendment and Suspension Act 2014, a Bill that I will be tabling in this Honourable House later this morning.

The primary purpose of this Bill is to suspend Section (2) of the Pension (Increase) Act 1972, until such time as the sustainability of the relevant plans have improved, in order to eliminate the mandatory requirement for the Minister of Finance to provide a cost of living increase for pensions paid to retired government employees, former Ministers and Members of the Legislature, and ex-gratia allowances.

**Mr. Speaker,** Section 2(1) of the Pensions (Increase) Act 1972 ("the Act") requires that the Minister of Finance shall review the rates of pensions against any rise there may have been in the cost of living during the two year review period ending 30th June. If in any review period the cost of living has risen by half of one percent or more, then the Minister of Finance shall by Order provide that pensions payable shall be increased in accordance with a formula set out in the Act. The formula calculates cost of living increases measured by the "all items" consumer price index that is published by the Government Statistics Department. Similarly, the Chairman of the Public Service Superannuation Board shall by Order provide that pensions payable to persons in the Public Service Superannuation Fund shall be increased in accordance with the same formula.

**Mr. Speaker,** a review will fall due on 1<sup>st</sup> July, 2014, but considering the significant unfunded positions of both the Ministers and Members of the Legislature Pension Fund (MMLPF) and the Public Service Superannuation Fund (PSSF) it has been determined that the cost of living adjustment (COLA) should be removed for both current and future pensioners until such time as the sustainability of the plans have improved. At this time both the PSSF and MMLPF contribution/benefit structure is not sustainable based on current and projected membership demographics.

Honorable members are advised that the COLA provision adds about 23% to the PSSF and MMLPF liabilities. In terms of sustainability, this should be considered as a necessary change at this time and would impact all members. It is fair to have it affect pensioners as well as active members, as the plan was not in reality funded at the level required to fund pensioners' benefits when they retired. Based on this recommendation, no pensioner would receive a lower pension than already being

received. The Government Actuary and the SAGE Commission suggest that this change be made as soon as possible, freezing all pensions in pay at current levels. This is not a change that should be phased in.

**Mr. Speaker,** the Ministry of Finance and the Pension and Benefits Working Group formed under the Public Sector Reform initiative are in support of this recommendation which is in line with changes being made in the private sector, where private sector employers still offer Defined Benefit pension plans and the direction that public sector plans are heading.

It should be noted that if other benefit changes are introduced to the Plans it may be possible to restore some degree of indexation to all pensioners in the future, depending on how the funded position of the MMLPF and the PSSF and its long term financial viability improves.

**Mr. Speaker,** demographic effects are having an impact on the sustainability of pension schemes worldwide. It's good news that we're generally living longer and healthier lives, and spending longer in education and training. But this is making pensions more costly as we have to pay them for longer on the basis of shorter working lives.

In both the private and public sectors, employers need to take steps to keep costs manageable for the long-term. This action is just one step being taken to improve the sustainability of the PSSF and MMLPF.

**Mr. Speaker,** Honourable Members and the general public 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).

**Mr. Speaker,** benefit design changes will also be considered for the MMLPF.

**Mr. Speaker,** in closing, I wish to assure current and future pensioners and the general Bermuda population that the Government is sensitive to the challenges facing pension plans of this nature and will continue to monitor the financial position of the Funds to ensure that the Funds remains viable in the long-term. The Ministry will formulate funding policies in a manner which is responsible and fair to both the PSSF's and MMLPF's pensioners and Bermuda's tax payers.

**Thank you, Mr. Speaker.**