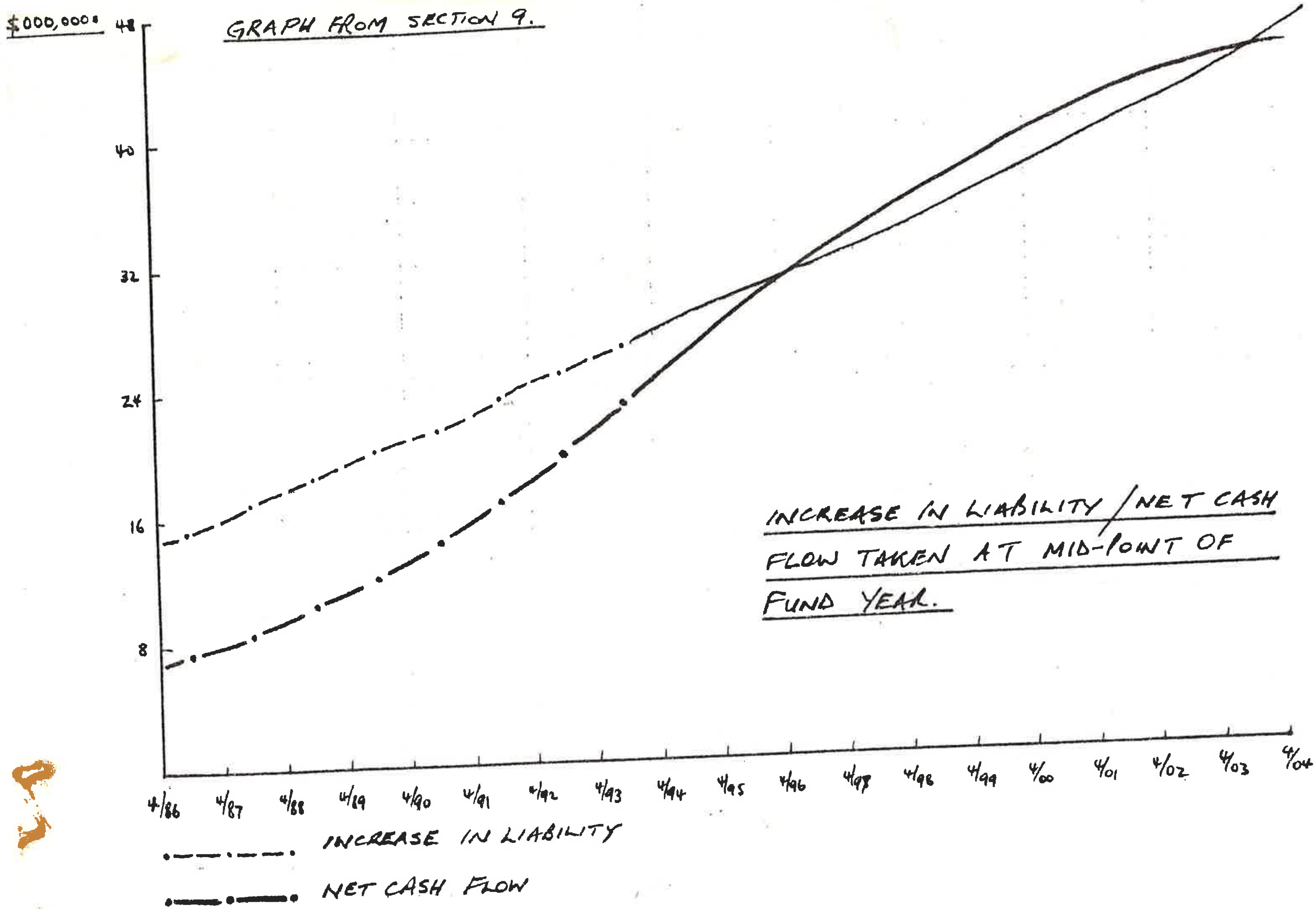
$000,000's
GRAPH FROM SECTION 9.
48
40
32
24
16
8
INCREASE IN LIABILITY / NET CASH FLOW TAKEN AT MID-POINT OF FUND YEAR.
4/86
4/87
4/88
4/89
4/90
4/91
4/92
4/93
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4/01
4/02
4/03
4/04
INCREASE IN LIABILITY
NET CASH FLOW

Your September 30, 1985 Actuarial Valuation Report, dated November 1985, suggests that the Fund is underfunded at that date and will be until 1991 if no pension payments are made from the Fund until then; if one assumes pension payments begin April 1986, a date more like 2005 might be anticipated. While I realize that there may be some confusion interpreting what is meant by the "(sufficiency of the Fund) to meet the payments chargeable against it," the actuarial present value of accrued pension benefits at March 31, 1986 will, nonetheless, need to be disclosed. ✓

(ii) After discussion the members AGREED to make the following preliminary recommendations to the Public Service Superannuation Board:

(a) The Act should be used only for the purpose of providing pensions for persons who contribute to the Fund for the requisite period. All other persons should be excluded from the scheme and no deductions from emoluments in respect of contributions to the Fund should be made. Thus all contract officers and casual employees should be excluded. Temporary and part-time employees should be included but, in the case of part-time employees, the normal hours of employment should be stipulated. Provision should be made for contract officers who become permanent and pensionable to be allowed to buy into the scheme on payment of an actuarily calculated lump sum.

PUBLIC SERVICE SUPERANNUATION FUND

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 1989

1. AUTHORITY

The Public Service Superannuation Fund was established on April 1, 1982 with its powers and authority specified by the Public Service Superannuation Act, 1981 and its subsequent amendments. The purpose of the Fund is to provide retirement pensions for the employees of the Government of Bermuda and the employees of various quasi government organizations. The Fund derives its income from contributions received from members and the Government, and from invested contributions managed in accordance with the Public Funds Act, 1954.

5. PENSION LIABILITY

The financial statements show only the net assets available for benefits of the Fund and do not purport to show the adequacy of the Fund to meet future pension obligations. The Public Service Superannuation Act provides that if at any time the Fund is insufficient to meet the payments chargeable against it, the deficiency should be made up out of the Consolidated Fund.

The most recent actuarial valuation report prepared as at March 31, 1989 estimated an accrued pension benefit liability due to past service of $190,068,152. Net assets of the Fund are $78,588,109 resulting in an unfunded liability of $111,480,043 as at March 31, 1989. The significant actuarial assumptions for this study are concerned with future events such as wage and salary increases, employee turnover, mortality and that the average investment return will be 2% greater than the average rate of salary escalation.

You will recall that at the last meeting of the Public Service Superannuation Board, certain questions were asked concerning the cost of non-contributory service to the Fund. I have now produced the figures, which are given below:

[i]	How many pensioners are being paid who did not contribute?	343
[ii]	How much?	$2,484,800
[iii]	How many pensioners are there who made contributions but have non-contributory service also?	570
[iv]	How much is being paid in respect of their non-contributory service?	$3,484,700
[v]	What is the total being paid for non-contributory service?	$5,969,500
[vi]	What is the total amount of pensions paid per annum	$7,576,800

2. You will note that almost 80% of the current pension payments relate to non-contributory service.

3. I would also point out, for your information, that many of those in sub paragraph [i] above actually contributed to the previous pension fund, which was discontinued and paid into the Consolidated Fund when the scheme became non-contributory under the Pensions Act 1970.

5th February, 1990

Mr. Eugene Blakeney, M.P.
General Secretary
Bermuda Public Services Association
Jct. Cedar Avenue & Angle Street
Hamilton

Dear Mr. Blakeney,

The Public Service Superannuation Fund

I refer to the meeting of the Public Service Superannuation Board Thursday, 1st February and to our subsequent telephone conversation.

As explained at the meeting Government is considering proposals to secure the long term financial position of the Superannuation Fund. The need for certain changes is highlighted by -

Consolidated F
Liability

(i) the increase in the actuarial deficit from $68 million to $111 million between March 1986 and March 1989.

PSSF

where to

Mr Eugene Blakeney M. P.
General Secretary
Bermuda Public Services Association
P.O. Box HM 763
Hamilton HMCX

Dear Mr Blakeney,

I refer to your meeting with the Minister of Finance on 4th June. The Minister has asked that I confirm to you the proposals outlined, at that meeting, for Government to make payments to the Superannuation Fund in respect of pension commitments for service to date.

The proposals involve "drawing a line", possibly the 1st October 1990, with Government agreeing that all unfunded pension liabilities prior to that date are for the account of the Consolidated Fund. For service after that date contributions would need to be set at a rate that would meet the pension liabilities accruing for that future service.

Unfunded liabilities have arisen for a combination of reasons. These include, the service prior to 1978 in respect of which no pension contributions were made to the Fund, and service between 1978 and 1982 when the rate of contribution was clearly inadequate while it was being built up, year by year, from 1% to 5% of earnings. On the basis of the actuary's assumptions 5% contributions were, and remain, inadequate: this has added to the liability since 1982. In addition, Government's decision to pay pensions from the Fund from 1st April 1986 has added to the unfunded liabilities, again making the same assumptions as the actuary.

Government proposes to meet these unfunded liabilities by payments into the Fund in excess of Government's matching contributions. These payments will address the total liability. Government will not attempt to tie particular amounts to causes of the liability. For example there will not be one payment towards prior non-contributory service, another towards prior inadequate contributions and another to repay pensions paid out since 1986.

Bermuda Public Services Association

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292-6484
CABLE ADDRESS: BePSA

Affiliate of the CARIBBEAN PUBLIC SERVICES ASSOCIATION
PUBLIC SERVICES INTERNATIONAL
POSTAL, TELEGRAPH AND TELEPHONE INTERNATIONAL

July 6, 1990

Dear Sir,

Re: <u>Public Service Superannuation Fund</u>

I would like to thank you for your letter dated June 20, 1990 confirming proposals outlined at our meeting with the Minister of Finance on the 4th June.

As you did not itemize the Minister's proposals but adequately highlighted them in various paragraphs throughout your letter, I have re-stated them below in order to facilitate our planned meeting with the actuary:

I) Government to reimburse the PSSF for all pension expenses paid from the Fund prior to April 1, 1991.

II) Government to pay into the PSSF its share of the unfunded liability as determined by the most recent actuary's report.

III) Government would amortize the total liability as in I) and II) above over fifty years.

IV) From April, 1991 Government will not take a refund of its contributions when contributors leave the service before becoming entitled to a pension.

V) From April, 1991 Government will make additional contributions, equivalent to 9% of relevant payroll costs in respect of the Police, Fire, Prisons and Regiment. This will reflect the added costs of earlier retirement provisions afforded the above services.

VI) So far as changes to benefits are concerned the immediate proposal is to bring temporary employees into the scheme from the 1st April, 1990.

The questions are as follows:

I) If Government had adhered to the constitution of the Fund, and followed to the letter the recommendations of the actuary which led to the setting up of this Fund, namely:

a) Government to continually pay monies into this Fund for its obligation for the unfunded liability ($42M, amortized over 20 years).

b) Government to pay an additional 2% to 3% to reflect the special benefits afforded such services as Police, Prisons, Fire and Regiment.

c) Pension expenses be paid from the Consolidated Fund until 1991, thereafter from the PSSF.

IV) Are you aware that 80% of the current pension payments relate to non-contributory service? The Accountant General's letter addressed to the Director of Personnel Services dated July 28, 1989 highlights this fact.

II) In my report of 15th November, 1985 I stated that. based on a real return of 2%, the 5% matching contributions would be enough to boost the Fund to equal the value of accrued liabilities by 1991, so long as pension payments remain in the Consolidated Fund until 1991. However, after 1991, once the P.S.S.F. has taken over pension payments, it not only has an additional annual commitment, but it also suddenly acquires a large actuarial liability for all the pensioners it is then paying for. Therefore, my recommendation that contributions be increased is not solely as a result of Government's decision to pay pensions from the Fund prior to 1991. I will repeat what was stated in I above; the 5% contribution rate is inadequate in the long term. The proper contribution over the long term, irrespective of when Government shifts the liability from one fund to the other fund, is closer to 8%.

III) When we talk about the real rate of return we mean the average rate over the lifetime of the Fund. No fund, to my knowledge. assumes a real rate of return greater than 2% over the long term. Short term favorable returns greater than 2%, though very welcome, are no indication of what will be achieved over the next 75 years. Given then that 2% is the maximum safe real rate of return, based on the past experience of this and similar funds, it is my recommendation that contributions be increased. If Government does not want to increase contributions it should find another actuary willing to support future assumptions as to inflation and interest rates not generally supported by the actuarial profession.

IV) I was not aware of the exact figure of 80% but it is roughly what I would expect.

V) Whereas your figures in their context appear to be reasonable, as in the case of II, you have forgotten to include the liability for pensioners amounting to $86,127,540. This makes the Fund in a far weaker financial position then you portray in your letter. It would of course be incorrect accounting for the Fund to take over the payments of pension without also including the actuarial liability for future payments.

21st September 1990

Professor R. J. Myers, FSA, FCAS, AIA
Consulting Actuary

Dear Professor Myers,

Gov't pension plan faces shortfall

Government's employee pension fund is facing a shortfall of more than $111 million, according to the latest audit of the fund.

Government auditor Mr. Larry Dennis this week said the unfunded liability was a major one and amounted to "mortgaging the future".

The shortfall, calculated using March 1989 figures, was equal to about one-third of Government's total annual budget, or almost $2,000 for every man, woman and child on the Island.

And it is growing by millions of dollars each year, Mr. Dennis said.

The annual audit of the fund shows that Government's past and present employees have so far accumulated benefits that will end up costing $190.1 million. The fund is legally obliged to pay these benefits under contracts Government has made with its employees' unions.

But the net assets of the fund are only $78.6 million, resulting in an unfunded liability of $111.5 million.

Government employees currently pay 5 percent of their salaries into the fund, which is named the Public Service Superannuation Fund, while Government matches that amount.

The fund pays retirement pensions, lump sum benefits on the death of employees, pensions to surviving spouses and children, and additional benefits to uniformed Government workers like Police, prison guards, firefighters and Bermuda Regiment employees.

At the time of the study, the fund covered 4,701 current Government employees and 915 retired employees.

In his budget speech earlier this year, Finance Minister the Hon. David Saul proposed increasing employee and Government contributions from 5 percent to 7 percent.

"Contributions to the Public Service Superannuation Fund have, to date, been based on an assumption that investment returns would comfortably outpace the rate of pay increases," Dr. Saul said in the speech. "Given recent pay settlements this assumption looks unrealistic."

Increasing contributions to 7 percent would cost Government $2.7 million in the 1990-1991 financial year alone — almost 1 perecent of Government's annual expenditure — but is just one of many unspecified steps he said are needed over the next three years to guarantee the fund's long-term solvency.

Dr. Saul was off the Island this week and unavailable for comment. But Assistant Financial Secretary Mr. Alan Madin said Government is still consulting with unions over the proposed increase in contributions.

Mr. Eugene Blakeney MP, general secretary of the Bermuda Public Service Association which represents Government white-collar workers, said his members want increased benefits in exchange for increased contributions. Government is now doing an actuarial study of some of the benefit improvements the BPSA has suggested, Mr. Blakeney said.

Amalgamated Bermuda Union of Teachers organiser Mr. Milton Scott said the ABUT has told Dr. Saul that it would take "some kind of protest action" if contributions were increased unilaterally.

Mr. Scott said Dr. Saul assured the union he would consult with it, but so far that hasn't happened.

"Many of the members are concerned about the fund," Mr. Scott said. "The fund belongs to the workers. They pay 50 percent and the other 50 percent represents a job benefit."

But the concerns go beyond the

Mr. Larry Dennis

fund's shortfall, he said. And he cited the fact that uniformed Government workers obtain retirement benefits after shorter careers than their civilian colleagues as one of the reasons that "the entire fund needs to be looked at".

The latest audit relied on actuarial studies that, among other things, estimated how long employees were likely to work with Government, their death and retirement rates, and how the fund will be affected by inflation and investment gains.

It concluded that the fund has an accrued pension benefit liability due to past service of more than $190.1 million. Net assets of the fund totalled only $78.6 million, leaving an unfunded liabiltiy of $111.5 million.

Mr. Dennis said this unfunded liability should be reflected in the fund's balance sheet as a fund deficit of more than $30 million for the year. But at Government's request, he said, he had agreed to leave it off until next year or the year after. For the present, it is reflected only in a note appended to the balance sheet.

Once this deficit appears on the balance sheet, Mr. Dennis said, Government is required by law to make up the differerence by taking money from its consolidated fund.

But whatever it says on the balance sheet, Mr. Dennis said, the fund's shortfall is serious and needs to be addressed.

"It's a lot of money," he said. "We are talking about $111 million and it's growing. It's not falling."