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Cayman Islands
Legislative Assembly

Parliamentary Question

Date for Answer 10th September 2014
(For Official Use Only)

Name **Mr. Ezzard Miller, MLA**
(Member of the Legislative Assembly)

Constituency **North Side**

To Ask **Honourable Marco Archer, JP, MLA**
(Elected Member)

(Responsible for) **Finance and Economic Development**

Questions

(Questions to be typewritten and submitted to the Clerk in Quadruplicate)

1. **Can the Hon. Minister state what has been the reduction in the pension liability of Government by the switch from a defined benefits plan to a defined contribution plan for the Civil Service?**

Chief Officer/ F&ED
Head of Department

Please assist by supplying information for answer to above.

Clerk of the Legislative Assembly

Date:

Mr. Ezzard Miller, MLA
Signed: (M.L.A.)

Admissible

LEGISLATIVE DEPARTMENT
AUG 29 2014
Cayman Islands

QUESTION #

CAYMAN ISLANDS

LEGISLATIVE ASSEMBLY

PARLIAMENTARY QUESTION

PARLIAMENTARY QUESTION ASKED BY MR EZZARD MILLER, MLA FROM NORTH SIDE TO THE HONOURABLE MARCO ARCHER, JP, MLA WITH RESPONSIBILITY FOR FINANCE & ECONOMIC DEVELOPMENT

QUESTION:

Can the Hon. Minister state what has been the reduction in the pension liability of Government by the switch from a defined benefits plan to a defined contribution plan for the Civil Service?

ANSWER:

On 1 January 1992, the Public Service Pensions Board (the "Board"), was established. The Board is a legal entity that is separate to the Government of the Cayman Islands (the Government).

The Board's responsibilities include, but are not limited to, administering the Government-sponsored Public Sector pension plans which consist of: the Public Service Pensions Plan; the Parliamentary Pensions Plan; and the Judicial Pension Plan.

With respect to Civil Servants, the Government makes pension contributions to the Public Service Pensions Plan (the Plan).

The necessity of pension arrangements was recognised in 1963. The Public Service Pensions Fund (the "Fund"), started receiving pension contributions in 1990 but it was not given a formal legal existence until on 1 January 1992. The purpose of the Fund therefore was to accumulate pension contributions and receive investment income which would be used for the eventual payment of pensions: which were then being paid out of Government's General Revenue.

The establishment of the Fund in 1990 - 27 years after the pension arrangements were introduced in 1963 - is one of the primary reasons for the present actuarial deficiency with respect to the Plan.

After taking into account the contributions and earnings of the Fund, benefits could not be paid out of the Fund during the 1990s since it was not capable of meeting its projected liabilities.

In 1999, a significant change was made to the Public Service Pensions Law: effective 1 January 2000, Civil Servants joining the Plan were placed on a Defined Contribution pension arrangement.

This change was introduced in recognition of the fact that participants under the Defined Benefit part of the Plan were accruing benefits that outstripped the pension contributions to, and the investment income being earned by, the Fund. It was unsustainable to allow all Civil Servants to continue being placed on the Defined Benefit part of the Plan.

The actuarial deficiency with respect to the Plan arises from the Defined Benefit part of the Plan and, it is definitely the case that the change mentioned previously stemmed a further increase in the actuarial deficiency that would arise from allowing continued entry unto the Defined Benefit part of the Plan.

The most current finalised actuarial valuation, with an effective date of 1 January 2011, indicated that the deficiency on the Plan was CI$165.86 million.

The 1 January 2011 actuarial valuation of the Plan took into account the following data:

2,834 participants on the Defined Benefit part of the Plan; and

3,727 participants on the Defined Contribution part of the Plan.

Of the 2,834 participants on the Defined Benefit part of the Plan:

- ✓ 1,255 participants were receiving pension benefits;
- ✓ 436 participants had deferred vested pension benefits; and
- ✓ 1,143 were active participants.

Of the 3,727 participants on the Defined Contribution part of the Plan:

- ✓ 196 participants had deferred vested pension benefits; and
- ✓ 3,531 were active participants.

It would be incorrect to extrapolate solely on the basis of the number of participants in the Defined Benefit and Defined Contribution parts of the Plan, to arrive at a figure for the possible reduction in the pension deficiency that resulted from "closure" of the Defined Benefit part of the Plan.

A detailed and precise actuarial valuation exercise is required to produce an accurate figure for the reduction in the pension liability that arose from the decision to introduce new participants, effective 1 January 2000, to the Defined Contribution part of the Plan.

The Board's actuary has been asked to provide a fee estimate to undertake such a calculation. Once received, if the fee is not cost-prohibitive, the exercise will be undertaken.