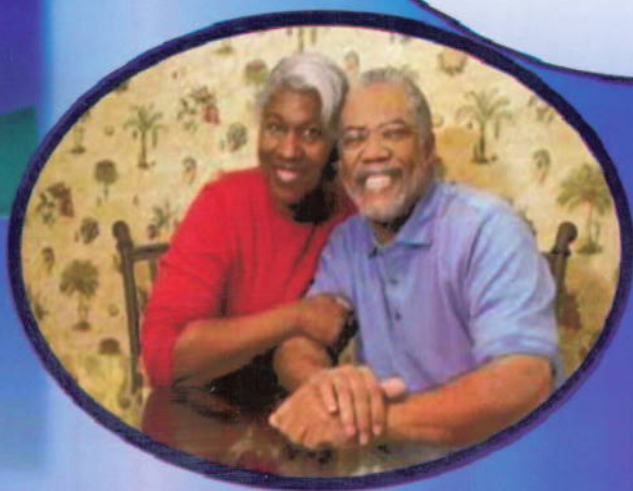
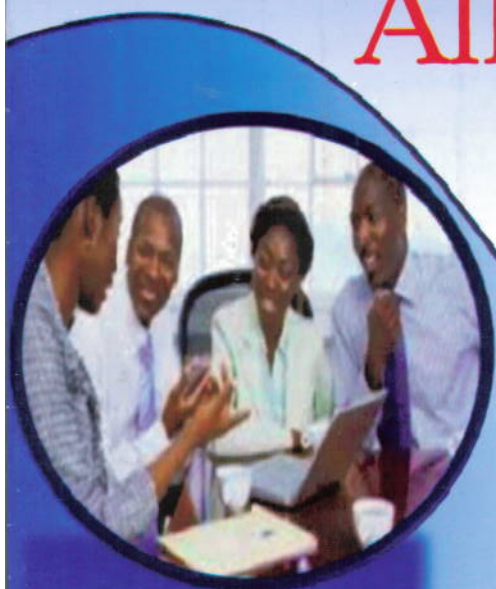


Public Sector Pension Reform

All You Need
to Know



What is a Pension ?

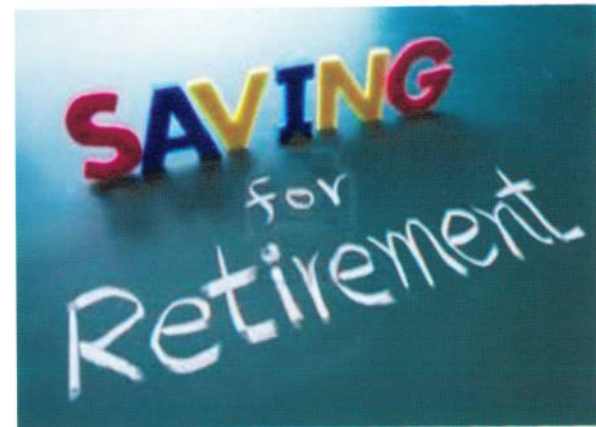
A pension is an income stream to be paid regularly to a person, typically following retirement from service. It is provided to people who have paid into a plan or who have been granted pension benefits by an employer.



Why is a Pension Necessary?

Everyone needs to plan ahead for retirement. As people live longer and healthier lives, it is even more important to think about your retirement income.

The National Insurance Scheme (NIS) will give you a start, but it is not adequate to maintain a reasonable lifestyle at retirement.





Types of Pension Systems

There are several types of pension systems that exist around the world. The two main types are the defined benefit and the defined contribution schemes.

Defined Benefit Schemes

In the defined benefit scheme:

- benefits are based on a pre-determined formula or set of rules
- the employee and the employer may contribute and the funds may or may not be invested
- as the workers contribute to the scheme, they are promised future pensions.
- a person's pension is not related to his contribution.
- participants can predict (especially those nearing retirement) what their benefits will be.

The existing and reformed public sector pension system are types of defined benefit schemes.

Defined Contribution Schemes

In defined contribution schemes:

- participants contribute to a pension fund.
- the contributions are invested.
- the contributions are directly related to the employee's benefit at retirement
- the pension received at retirement is usually an annuity and is dependent on the returns on the investment of the contributions.
- pension benefits are unpredictable and are subject to market conditions.

Why is Pension Reform Necessary?

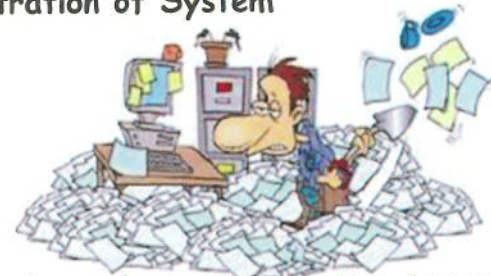
There are three main reasons for the reform of the public sector pension system:

Complexity of the System



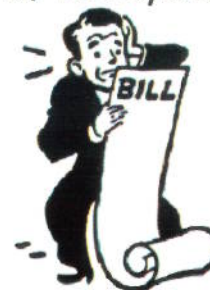
- The existing Pension System is administered in accordance with many pieces of legislation.
- These laws contain provisions that are similar for the most part but there are differences that make it difficult to administer.
- If an employee moves from one group to the next, the pension arrangement may be different.
- This makes the system unnecessarily cumbersome

Administration of System

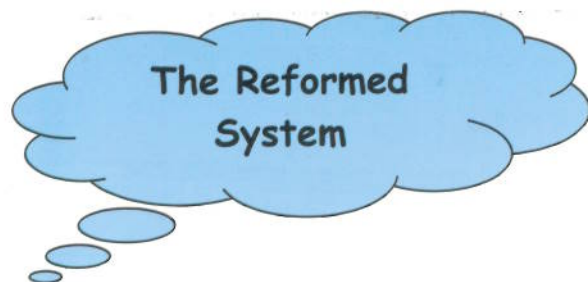


- Current employee information is paper based thus lengthening the period in which it takes to receive a pension.
- If records were stored electronically they would become easily accessible to allow quick calculation of pension benefits.

Unsustainability of the System



- With the increased longevity of pensioners and growth in the number of public sector employees, the cost of public funding for pension payments has also increased.
- The non-contributory nature of the current system has also made it fiscally unsustainable.



Normal Retirement Age

- The normal retirement age will be gradually increased to 65 years by one year each year starting in April 2016. i.e the retirement age will reach 65 in 2021.
- The constable and special constable may retire after reaching the age of 60 or after the completion of 35 years of service.
- Legislators' and Parish Councillors' normal retirement age will be increased to 65

Early Retirement

All workers will have an option to take early retirement, however, their pension will be reduced by 1% per year for each year they retire before the normal retirement age of 65.

Example

*Jane is 59, and has decided to take early retirement at age 60 in 2021. With the reduction factor of 1% for each year of early retirement her benefit will be reduced by 5% (1% * 5 years).*

Vesting Period

The vesting period (i.e.. years of work to become eligible for a pension) will remain unchanged at 10 years.

Contribution Rate

- All workers will be required to contribute 5% of their salary.
- Parish Councillors and Parliamentarians will continue to contribute 6%.

Accrual Rate

- The accrual rate is the rate at which your pension benefits build up over your working life.
- All past service, prior to the effective date of the reform, will be preserved at the 2.2% (i.e. 12/540).
- Existing workers fifty five (55) years and older will continue to see their pension benefits building up at a rate of 2.2%.
- Workers younger than fifty five (55) years will receive an accrual rate of 2% (i.e. 12/600).
- New employees as at April 1, 2016 will have their pension benefits calculated at an accrual rate of 1.8% (i.e. 12/667).

Formula for pension calculation

Pension benefits will be calculated using the following formula:

Pension= Accrual Rate * years of service * average of final five years salary

Example 1

Existing workers 55 and over

Mario is 56 at 2016 he will be eligible for retirement at 64 years. He joined the service at 25. His pension at 2020 is calculated as:

*2.2 % * 39 years of service * (average of the final five years salary)*

Example 2

Workers 54 years and younger

Sue is 40 at 2016 she will be eligible for retirement at 65 years. She joined the service at 25. She has served 15 years in the current system and assuming that she remains in the public service until retirement. Her pension at retirement (2041) is:

*[2.2 % * 15 years of service * (average of the final five years salary)] + [2% * 25 years of service * average of the final five years salary)]*

Example 3

New employees as at April 1 2016

Nathan is 25 and joined the service in May 2016. Assuming Nathan remains in the public service until age 65, his pension would be calculated as follows:

*$1.8\% * 40 \text{ years of service} * (\text{average of the final five years salary})$*

Lump-Sum Payments

Workers will still have the option to receive a lump-sum and reduced pension on retirement



Elimination of Restoration of Full Pension After $12\frac{1}{2}$ years of Retirement

Currently, if a reduced pension is taken after a retirement period of $12\frac{1}{2}$ years it would revert to a full pension. This practice will end.

Segregated Fund

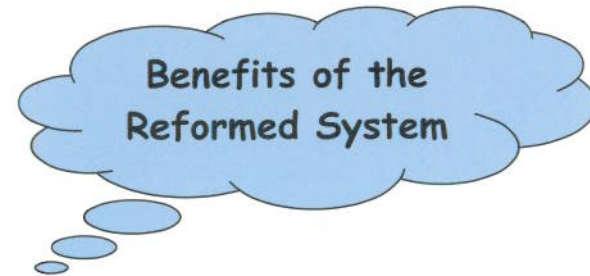
- All contributions will be placed in a Special Fund segregated from the general funds of the Government of Jamaica, with a governance structure in place that would ensure prudence, transparency and probity.
- The Government will start making contributions to the segregated fund once there is adequate improvement in the fiscal accounts.

Survivor Benefits

- In the event of death, the beneficiaries of all public servants including teachers will be eligible for a benefit.
- A beneficiary means a spouse or a child below the age of 18 years or below the age of 23 years in a tertiary institution.

Administration of System

A new electronic system is being developed to ensure a more efficient administration of pensions will be implemented.



- With the implementation of the new business process, the system will no longer be paper based. Employees will now be able to see their career history.
- The objective of the new system should facilitate the initial payout of pension benefits 30 days after retirement commences.
- Employees will be able to easily link their service when they move from one area of the public sector to the next with the enactment of a single piece of pension legislation



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