

TERMS OF REFERENCE

REVIEW OF PUBLIC SERVICE PENSION SCHEMES ON THE ISLE OF MAN

Introduction

Isle of Man Government is seeking to appoint an appropriately qualified and experienced benefit consultant ("the **Adviser**") to conduct an external review of its public service superannuation arrangements.

The Council of Ministers ("the **Council**") will make such appointment following a select tendering process.

Terms of Reference

Objective

To review the current arrangements for public service superannuation on the Isle of Man and identify affordable and achievable options for the future in keeping with the needs of the Isle of Man Government ("the **Government**"). Superannuation is defined as pension, lump sum, compensation and injury benefits and additional voluntary contributions.

Scope

In doing so, the review must cover four core areas set out below. There will be no obligation to present these core areas separately as long as they are properly addressed in a clear and coherent manner (it is likely there will be some overlap between these categories):

- 1 **benefits;**
- 2 **funding;**
- 3 **scheme constitution; and**
- 4 **scheme implementation.**

In considering these options the review should address the following points under these core areas as follows:

1 **Benefits**

Level of benefits

Taking account of 2, 3 and 4 below, the adviser will be asked to:

- 1.1 consider and compare public service schemes in other jurisdictions with those in the Isle of Man and identify whether any alternative models would be suitable for consideration in the Isle of Man;
- 1.2 as part of the analysis under 1.1, the adviser should consider the impact of any such change on the transfer arrangements between the Isle of Man and other jurisdictions (principally the United Kingdom) and comment on the extent this would hinder the provision of public services in the Island;
- 1.3 further to the conclusions drawn under 1.1 and 1.2, consider whether:

- (a) final salary schemes should continue to be offered to new entrants and / or existing members as per the current status quo;
- (b) final salary schemes should continue to be offered to new entrants and / or existing members in an amended form. To the extent necessary, such comment should take into account the means by which this might be achieved including (but not limited to) variation of accrual rates, retirement ages, member contribution rates, death in service benefits and qualification criteria (e.g. deferring entry for new entrants or restricting eligibility criteria) and how past service benefits would be accounted for or secured under revised arrangements;
- (c) money purchase schemes should be offered to new and / or existing members and the sort of schemes that would be suitable or are preceded for public sector superannuation;

1.4 in commenting on 1.1 to 1.3, the adviser will be asked to formulate a proposal for a benefit structure (or a selection of possible options) that is / are suited to the needs of the Isle of Man (“the **proposed options**”).

2 Funding

- 2.1 The adviser will be asked to provide an analysis of the respective funding levels required to provide the options set out above and the breakdown between employer and employee contributions (to the extent the proposed options are contributory).
- 2.2 In providing the advice under 2.1, the adviser will be asked to explore the different approaches available in terms of scheme funding and the extent different methods of funding have been applied in other relevant jurisdictions. In particular, the adviser will be asked to comment on the suitability of funded and unfunded schemes and the extent there are alternative or hybrid options available.
- 2.3 Where funded schemes are to be considered, the adviser will be asked to provide comment on the investment strategy that would be suitable for the Island’s public service superannuation arrangements and, if relevant, any specific investment principles that should underpin the public service arrangements. Such strategy should remain relatively high level (pertaining to asset selection rather than detailed investment advice pertaining to individual fund or stock selections).
- 2.4 In providing advice under 2.3 above, the adviser will be requested to take into account the liabilities and member profiles associated with the Isle of Man’s public service pension arrangements on the basis of information provided.

3 Constitution

- 3.1 In formulating their options for Isle of Man public service superannuation arrangements, the adviser will be asked to advise on an appropriate form of scheme. In this regard, they will be asked to consider whether the scheme (to the extent its benefit structure under part 1 allows) should be
 - (a) by-analogy with schemes outside the Isle of Man (principally the UK);
 - (b) entirely separate Isle of Man schemes; and / or

(c) hybrid schemes.

- 3.2 By way of further explanation of the options under 3.1, a *by-analogy* scheme (under (a)) is a scheme that adopts a public service UK scheme as amended from time to time and applies it to a category of Isle of Man civil and / or public servants with minimal modification (largely 'sense' modifications to take into account the different institutions and tax regimes etc.). In a scheme of this nature, amendments to the UK scheme are automatically effected under the Isle of Man scheme via the by-analogy arrangement without the express approval of Tynwald.
- 3.3 A *hybrid* scheme (under (c)) is a scheme whose primary purpose is to mirror a similar public service UK (or other jurisdiction) scheme. However, the Government would need to implement the UK scheme and subsequent amendments to it via express Orders of Tynwald (i.e. there would be no automatic by-analogy amendments to the Isle of Man scheme as per (a)). Accordingly, the Government would retain an absolute discretion to modify the UK scheme to fit the specific needs of the Isle of Man. In this regard, the extent the Isle of Man public service superannuation arrangements tracked those of the UK (and amendments thereto) would be subject to the approval of Tynwald. The Isle of Man could deviate from UK policy should it be appropriate to do so given the Isle of Man's circumstances.
- 3.4 A *separate* scheme (under (b)) is a scheme that does not attempt to mirror the statutory public service schemes of other (i.e. the UK) jurisdictions. In this regard, it would represent a break with the existing policy of tracking UK pension / superannuation arrangements. In considering this approach, the adviser will be asked to consider the impact a separate scheme would have on wider related superannuation arrangements such as the AVC, Compensation and Injury Benefit schemes. The adviser will be asked to consider how similar arrangements (if thought appropriate) can be provided.
- 3.5 In conclusion, the adviser will be asked to comment on the respective advantages and disadvantages of a form of scheme under (a) to (c). Such comment should address the implications that each option (a) to (c) has for the cost effective management and administration of existing and future pension schemes on the Isle of Man including:
- (a) an analysis of the resource requirements that will be required for each of the options listed above (this may be covered under part 4 below); and
 - (b) the wider anticipated commercial issues relating to recruitment, union consultation and employer / employee relations.

4 Implementation

- 4.1 The purpose of the implementation section of an adviser's report will be for the adviser to pull together their conclusions as to the affordability and achievability of the proposed options they consider are most suitable to the Isle of Man. In this regard, the advisers will be asked to consider:
- (a) how the implementation of the proposal addresses existing public service superannuation arrangements and the extent these arrangements can be consolidated within the new proposal, separately secured and wound up or allowed to run-off as a closed scheme(s);

- (b) whether the proposal can be implemented under existing Isle of Man legislation (the Isle of Man Superannuation Act, 1984) or whether amendments will be needed to current legislation to effect the proposed options;
- (c) what practical steps will be needed in terms of member and union consultation and communications; and
- (d) what practical steps will be needed in terms of establishing the proposed arrangements. To the extent relevant, this should include an overview of the contractual arrangements Government entities would be required to enter into (including any onerous or hazardous provisions) and the range of parties that will be involved in implementing the proposed arrangements.

4.2 Finally, the adviser will be asked to provide an estimate of the one-off costs required to implement the proposal as well as the year on year costs that can be expected once the proposal is implemented. To the extent it is feasible, advisers will be asked to address the cost of existing arrangements as well as the proposed options in determining the costs for such implementation. It should be expected that the costs provided may well be a broad envelope of costs rather than anything specific. On a project of this nature and size, it will be inevitable that the adviser will discuss costs in relatively broad terms but, where possible, a range of anticipated reasonable costs will be sought.

Methodology

In conducting the review, appropriate and proportionate consultation should be conducted with relevant stakeholders including Members of Tynwald, relevant Departments of Government, the Civil Service Commission and Staff Side Organisations. The timing and form of consultation will be determined by Council in conjunction with the successful tenderers.

Reporting Arrangements

- (a) Tenders for the review should be submitted to the Treasury in a sealed envelope to be marked clearly as "Tender for Pensions Review" to arrive no later than 12 noon on Friday 11 May 2007. Following this a shortlist will be drawn up, and parties notified of the outcome. It is expected that shortlisted organisations will be invited to present their proposals to a selection panel, on the Island, during the week commencing the 21st May 2007.
- (b) Once an adviser has been selected, a contract will be awarded to commence the review from 1 June 2007.
- (c) The adviser will provide a report to Council by no later than 31 October 2007.

Key Elements of the Tender process

A tender process will be implemented for Council to select an adviser to complete the superannuation review. Those advisers who have been offered the opportunity to tender should do so having regard to the Reporting Arrangements above (subject to variations agreed as part of the tender process). Tenders will be required in writing and subject to appropriate fee estimates.

In tendering, advisers will be asked to provide a summary of their proposed methodology and confirmation that the proposed timetable is acceptable for the presentation of their proposal. Advisers will be asked to confirm previous knowledge and experience of consideration of public service superannuation arrangements and to indicate which jurisdictions might be appropriate to consider as comparators taking account of the Terms of Reference.

Additionally, it would be helpful for advisers to confirm the extent they propose to subcontract out any aspects of their report to third parties. However, it will be a condition of the contract that an adviser remains responsible for all aspects of its advice and that subcontracting of any aspect of its report (or liabilities arising therefrom) will be at the adviser's sole responsibility.

Whilst the instructions to advisers as part of the tender process will set out a clear overview of the review required, advisers will be permitted to cover additional matters to the extent that they are material to the overarching **Objective** of relevant affordable and achievable public service superannuation arrangements for the Isle of Man. By the same token, where advisers do not believe an element of their instructions requires detailed analysis, it will be open to advisers to limit their comments on these aspects subject to a reasonable explanation as to their reasons for doing so. Deviations from the terms of reference should be flagged as part of the tender process and can be reviewed during the term of the contract.

Supplementary Information

To assist advisers' completion of tenders' submissions relevant supporting documents are appended. Such documents include the Isle of Man Superannuation Act 1984, an overview of existing public service superannuation arrangements, the most recent Actuarial Review and funding strategy. Further clarification of tender requirements or additional background information can be obtained from the Chief Officer, the Personnel Office (Tel: 01624 685715 or email brenda.skillicorn@personnel.gov.im).

Law

Any contract made shall be considered to be as a contract made in the Isle of Man subject to Manx Law.

Control of Employment Legislation

The adviser will be responsible for ensuring all persons involved in delivery of the contract have current Isle of Man Work Permits issued by the Department of Trade and Industry in accordance with the relevant statutory provisions. Information on those provisions can be obtained by contacting Employment Services, Department of Trade and Industry.

Note:

The firm Hymans Robertson has been appointed to undertake the independent review. Any formal written representations should be sent to Mr Douglas Anderson at Hymans Robertson at IOM@HYMANS.CO.UK