

Public Sector Pensions Authority PENSIONS UPDATE

This edition of Pensions Update is to advise you that the Public Sector Pensions Authority (PSPA) has submitted its final report to Tynwald on the Fairness and Sustainability of public sector pension schemes and to give you an overview of its recommendations to introduce scheme reforms to ensure more sustainable schemes in the future.

Tynwald will be considering the PSPA's report on proposals to reform the Isle of Man Government Unified Scheme 2011 (the Scheme) at its April 2016 sitting. A copy of this report can be found on the PSPA website [here](#).

In addition to this, Tynwald will also be considering an associated draft Cabinet Office report covering the proposals to address the legacy pension funding issue. A copy of this report can be found on the PSPA website [here](#).

Background

Since January 2015 the PSPA Pensions Committee (the Committee) has been engaged in a wide and in-depth consultation on recommendations made to further reform the Isle of Man Government Unified Scheme to ensure it is more sustainable into the future. The Committee was comprised of representatives from the PSPA, Employers, Staff Side Representatives and Treasury.

The PSPA Committee put forward proposals to the PSPA for its consideration and as a consequence of this, the PSPA submitted its final report to the Council of Ministers at the end of January 2016.

Council has considered the findings and proposals put forward by the PSPA. In addition to these, Council has also had opportunity to examine a draft report from the Cabinet Office that looks at the legacy funding issues associated with public sector schemes and makes recommendation for managing the funding in the future.

Both the PSPA report and a draft Cabinet Office report will be considered by Tynwald when it sits in April 2016.

The PSPA Report - Overview of recommended changes to the Isle of Man Government Unified Scheme (GUS)

Important Note: these proposals have been endorsed by the trade unions involved in the Committee with the exception, at this stage, of Prospect and the Prison Officers Association.

The recommendations that have been made by the Committee for reforming the Isle of Man Government Unified Scheme and have been set out in the PSPA Report are as follows:

1. a phased increase in employee pension contributions of 2.5% for all existing and future new members;

2. an employer pension contribution of 15% from April 2016 with an annual 1% increase to 20% by 2021;
3. For existing members - a continuation of the Protected Sections of GUS, but with modest benefit changes on future service accrual. The exact nature of these benefit changes have yet to be determined, but will be the equivalent to an immediate saving of 1.8% of pensionable pay with a long term saving of 6.1% of pensionable pay.
4. For new entrants – reduction in current Standard benefits also equal to 1.8% of pensionable pay in the short term and 6.1% in the long term.

Tynwald has not yet approved these recommendations, but will be debating the report when it sits on 19-21 April 2016 and will be asked to agree or reject the recommendations for change.

Cabinet Office Report – Addressing the Legacy Funding Gap

The proposals for reforming public sector schemes as set out in the PSPA's report cannot fully address the historic cash flow position i.e. the deficit between income paid into schemes by current employee and employer contributions and the cost of providing pension benefits for those members who have already retired and who will retire into the future pending future reforms. This deficit (or "legacy funding gap") has built up over many years and is currently funded from Government Reserves and from General Revenue.

Addressing the issue of public sector pension sustainability can therefore be split into two parts:

Part One: setting an affordable level of **future** benefits in return for a reasonable level of member and employer contributions – the PSPA Report.

Part Two: considering a range of options that will enable Government to address the legacy funding gap – the Cabinet Office Report.

The draft Cabinet Office Report explores a number of options for addressing the legacy funding gap.

The report concludes, amongst other considerations, that the legacy funding issues are best addressed in future through managed allocation of forecast growth in Government income. It is envisaged that this allocation of funds will support future pension expenditure until the sustainability changes from the PSPA report have fully worked through the system.

To ensure the future funding of public sector pensions schemes remains open and transparent, it is proposed that it is incorporated into the Treasury's annual budget processes and would be in addition to the reforms proposed by the PSPA, which only seek to address the long term sustainability position for future benefits.

Next Steps

If Tynwald approves the recommendations made in both reports, then the next step will be to decide when the benefits under the Unified Scheme will be changed and when member

contributions will be increased. **It is important to stress that any changes will impact only on future benefits and not on anything you have earned to date.**

This will mean that further negotiation and consultation will take place with the staff side representatives and Scheme members.

It has already been agreed that Employer Contributions will increase to 15% from April 2016, thereafter increasing to 20% over the next 5 years.

The other changes recommended for consideration by the PSPA are as follows:

1. Increase in Member Contributions - the introduction of an additional 2.5% employee contribution on top of increases previously agreed and implemented from April 2012
When these increases will be brought in and how they will be applied has yet to be decided.
2. Future Benefit Changes – how the scheme design will be changed to give an immediate 1.8% future cost saving across GUS has yet to be determined. However, subject to Tynwald approval, the following options will be under consideration during the next phase of negotiation and consultation:
 - Linking Normal Pension Age to State Pension Age;
 - At an agreed date in the future, linking the earliest age at which retirement from a public sector scheme can take place to “State Pension Age less 10 years”;
 - Changing the Final Pensionable Pay (FPP) definition to exclude inflationary increases before averaging;
 - Changing the rate at which future benefits are built up;
 - Capping Pensionable Pay and also pay rises close to retirement for pension calculation purposes;
 - Capping future pension increases ;
 - Changing the lump sum commutation factor ;
 - Tiered pension contributions depending upon level of salary.

It is important to note that none of these changes can reduce the pension benefits that you have already built up.

Any changes in benefit design will only be applied to the pension you will build up in future.

Timetable

The following timetable shows the sequence of events that may occur if Tynwald agree in April to the recommendations made in both the PSPA and Cabinet Office reports.

Action	Date
Tynwald debate Public Sector Pensions	19-21 April 2016
If the recommendations receive Tynwald approval, the PSPA will work jointly with Staff Sides to negotiate and agree the changes to future scheme benefit design.	May to June 2016
PSPA draft a scheme (or schemes) of amendment.	June to July 2016
The PSPA will carry out formal consultation with scheme members' staff representatives and the Treasury.	August to September 2016
Subject to consultation, PSPA make the Scheme for approval by Tynwald and implementation.	October to November 2016
Implement Scheme Changes	April 2017

Schemes other than GUS

A similar process and timetable will also be put in place for reforms of the non-GUS schemes for the Police, Teachers, Tynwald Members and the Judicial Pension Scheme.

Feedback

If you have any questions on the content of the report or simply wish to feedback your views then please contact the PSPA by emailing Feedback.PSPA@gov.im or contact your own staff side representative.

A "Frequently Asked Questions" document will also be available on the PSPA website shortly which will address issues which are raised around future change as the debate progresses.

Issued by PSPA

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