EXPLANATORY NOTE

PUBLIC SECTOR COMPENSATION SCHEME 2013

The Scheme

The Public Sector Compensation Scheme 2013 has been made under the powers of the Public Sector Pensions Act 2011, and in particular Section 6 (1) (c) and (d). Under the Act, superannuation includes not only pensions, but also compensation for those who suffer 'loss of office'. Section (c) requires the PSPA to make schemes for the superannuation of public sector employees and Section (d) allows the scheme to be administered on behalf of the PSPA. The compensation provisions of the Scheme will be administered by employing authorities on behalf of the PSPA.

The Scheme came into effect on 13 January 2014.

Who the Scheme Covers

The Scheme seeks to cover broadly the following Employment Groups:

a) Civil Servants as defined in the Civil Service Act 1990, as amended;

b) Officers or Employees appointed to or by the following Departments, Boards and Offices of Government:
   - Department of Community, Culture and Leisure
   - Department of Economic Development
   - Department of Education and Children
   - Department of Environment, Food and Agriculture
   - Department of Health:
   - Department of Home Affairs
   - Department of Infrastructure
   - Department of Social Care
   - Department of the Treasury
   - Communications Commission
   - Financial Supervision Commission
   - Gambling Supervision Commission
   - Insurance and Pensions Authority
   - Isle of Man Office of Fair Trading
   - Isle of Man Water and Sewerage Authority
   - Manx Electricity Authority
   - Manx National Heritage
   - Public Sector Pensions Authority
   - The Isle of Man Data Protection Supervisor
   - The Isle of Man Industrial Relations Officer
   - Staff of the Office of the Isle of Man Data Protection Supervisor

- Staff of the Isle of Man Industrial Relations Office
- The Clerk of Tynwald
- Staff of the Clerk of Tynwald's Office

However, for all employees, in order to receive benefits an employee must have two years service which is in line with statutory redundancy qualification criteria.

There are, however, some groups that are not covered by these arrangements. These include:

- Members of the Isle of Man Constabulary;
- Firefighters employed by the Department of Home Affairs
- Teaching staff in schools and lecturing staff in colleges in the Isle of Man;
- General practitioners and the staff employed by GPs surgeries;
- Private dental practitioners and their staff:
- Members of the Judiciary;
- Members of Tynwald;
- Manx Radio;
- Those employed by Hospice.

Whilst this provides a summary of those covered, or not, by the Scheme, full lists can be found at Schedule I and Schedule II of the Scheme.

Definitions

The Scheme sets out in Section 4 certain definitions used within the Scheme. Some of these are technical in nature, and define some of the language used within the Scheme. As the proposed benefits are calculated upon pay and length of service, attention is drawn to the definition of "pay" at rule 4.3, "service" at rule 4.4 and "reckonable service" at rule 4.5.

Pay - In summary the pay definition provides for basic pay and permanent additions or allowances, which have been paid in the 12 months prior to the end of employment, to be included when calculating a compensation payment.

The rule goes on to define what happens in certain circumstances such as when the employee is on maternity leave, secondment or sick leave.

It should also be noted that the Scheme seeks to provide a minimum level of pay upon which benefits will be calculated, and it is proposed this is initially set at £25,000. Therefore for example, if an employee's full-time pay is £20,000, for the purposes of compensation benefits it will be deemed that they earn £25,000. It is proposed that this figure will be adjusted each year by reference to the change in the Retail Prices Index (all items) as identified by the Isle of Man Treasury published annually each March.

Service - In relation to service, it is the length of continuous service with in the public sector, which may not necessarily be with the same employer. For example, if a person starts their career as a nurse but moves to a job in the Civil Service, for the purposes of calculating any benefits, these will be based upon service that commenced when they became a nurse. This, of course, is as long as there was no break of greater than 28 days between the two jobs, except in certain circumstances such as maternity leave or service within the reserve forces.

The definition of service determines eligibility to receive benefits under the Scheme, however, the calculation of benefits is based upon reckonable service.

Reckonable Service - In simple terms, reckonable service is the amount of time an employee is at work in the Public Sector with a relevant employing authority. So periods of unpaid leave, or unpaid sick leave, do not count towards the period to be used when calculating benefits, but they do not break the continuity of service. The definition of reckonable service also sets out how part-time service is calculated on a pro rata basis. It also sets out that in certain circumstances, employment with a U.K. employing authority may count towards reckonable service.

Benefits

Sections 5, 6 and & 7 of the Scheme set out to whom and what benefits are applied. In terms of the benefits provided by the Scheme, these provide for circumstances covered by voluntary and compulsory redundancy. The provisions are also dependent upon whether an employee was in post at the time the Scheme is introduced or whether they are new members of staff appointed after the scheme is introduced.

In summary, for all employees the benefits are based upon a formula of pay and length of service made up of one month's pay for each year of reckonable service. However under each scenario there are caps upon the amounts of service that can be used ranging from 12 months to 24 months. In addition, for those who are approaching contractual retirement age (age 65 for the purposes of the Scheme), the amount of benefits are also capped under a tapering mechanism. This mechanism provides that the amount of benefits that can be paid out on redundancy is proportionately reduced as an employee approaches contractual retirement age, so that at age 65 the employee receives no more than 6 months' pay. The detail of the tapering mechanism is set out at rule 4.10.

In relation to the benefits that are paid, for those who opt for voluntary redundancy, their benefits will be calculated as follows:

- For current employees, the calculation will be one month's pay for each year of service up to a maximum of 24 months' pay.
- For new employees from 13 January 2014, the calculation will be the same but up to a maximum of 18 months' pay.

For those who experience compulsory redundancy, their benefits are calculated as follows:

- For current employees the maximum will be up to 24 months' pay, again based upon one month's pay for each year of service.
- For new employees from 13 January 2014 the maximum is 12 months' pay.

For any employee who departs on a voluntary or compulsory basis and is over contractual retirement age, they will receive a lump sum payment equivalent to 6 months' pay.

Those members who have applied for voluntary redundancy but had their applications declined and who are subsequently made compulsorily redundant arising from the same redundancy consultation, will be entitled to the same compensation terms offered to those made voluntarily redundant.

It should also be noted that following the calculation of redundancy benefits under the Scheme, if the benefits that would have been payable to an employee under statutory redundancy provisions, had they applied, are greater than those under this Scheme then the lump sum payment must be equal to the level of the statutory payment.

Increasing Pension

Sections 6 and 7 also include details of how any lump sum payments may be used to enhance an employee's pension provision. For those employees who depart on a voluntary or compulsory basis, who are 50 or over and under contractual retirement age, they will be offered the opportunity to exchange their lump sum to buy additional service in order to enhance their pension. Employees will be able to buy as much or as little additional service as they wish, up to the maximum available through the use of the compensation lump sum, but capped at the maximum they would have otherwise been able to accrue at the contractual retirement age of 65.

However, whilst those employees who are made redundant after having attained the age of 50, but before attaining the age of 55, will be able to buy additional service, it is important to note that the pension will not be able to be brought into payment before the age of 55. The factor at which the service is bought will be determined at the date of the termination of employment, preserved until the date it is brought into payment.

In summary, in order to buy added service the employee's pension scheme requires the payment of a lump sum calculated by multiplying a factor relating to their age next birthday by their salary at the point of departure and dividing the result by £100. This gives the cost of buying one additional year of service. The factors used for purchasing added service are set out at Schedule III of the Scheme.

During a transitional period the amount of service that can be purchased will be as follows:

- For those made redundant in the first year to 31 December 2014 following the introduction of the Scheme, the service purchased will be adjusted by a factor of 1.75.
- For those made redundant in the second year to 31 December 2015 following the introduction of the Scheme the service purchased will be adjusted by a factor of 1.50.
- For those made redundant in the third year to 31 December 2015 following the introduction of the Scheme the service purchased will be adjusted by a factor of 1.25.
- From the fourth year following the introduction of the Scheme, (i.e. from January 2017) service will be purchased in accordance with the published factors.

An example of how this works in practice is attached at **Annex A**.

Re-Employment

Finally, Section 8 of the Scheme sets out how any employee who receives a payment under the Scheme or any former arrangements, (such as the Interim Compensation Scheme) will be required to repay some or all of their compensation payment if they are re-employed by one of the employing authorities covered by this Scheme, and within a time frame that the compensation payment covers.

For example, if an employee receives a compensation payment equivalent to 12 months' pay, and are re-employed six months later, they will be required to re-pay an amount equal to 6 months' pay. This re-payment will be based on the pay that was used to calculate the lump sum payment and not the equivalent of six months' pay in their new job.

Schedules

There are three Schedules to the Scheme. Schedule I sets out which employment groups are covered by the Scheme, Schedule II sets out which employment groups are not covered by the Scheme and Schedule III sets out a table of factors to be used for purchasing additional service under the Scheme if over age 50.

Public Sector Pensions Authority
14 January 2014

Annex A

EXAMPLE

<u>IMPORTANT NOTE</u>: This example does not take account of any Income Tax payable upon the Lump Sum or on a contribution to the pension scheme. Any queries relating to the Taxable Position of a Lump Sum should be directed to the Income Tax Division of Treasury.

Example:

1. **Pay** £ 30,000

   Age 56 years

   Gender Male

   Service 30 Years

   Pension Section Section 2 Member

   Current pension is (£30,000 x 30) x 1.2% = £10,800

   <u>Redundancy</u>

   - This member will receive a redundancy lump sum equivalent to 24 months pay: £60,000.
   - Their age next Birthday will be 57.

   The Member can choose to use some or all of their redundancy lump sum to buy added service under their pension scheme. This requires the payment of a lump sum calculated by multiplying the appropriate factor which relates to their age next birthday, GUS section and gender by pay and then divided by £100.

   Therefore in this example the cost of an extra year of service will be salary divided by £100 multiplied by the age 57 factor:

   (£30,000/100) x £33.79 = £10,137 per year

   Therefore in this example the individual can purchase a maximum of 5.91 years (£60,000)/£10,137) of service if they so choose.

   So pension becomes (£30,000 x 35.91) x 1.2% = 12,927 per annum.

   Pension increased by £2,127 per annum.

<u>Transition</u>

2. If the employee were made redundant on 1 February 2014 the cost of each added year of service remains the same i.e. £10,137, but it buys 1.75 years service.

   Service is capped at 65. So the maximum service the member can buy is 9 years.

   So to achieve 9 years service member needs to purchase 5.14 years. (9/1.75)

   Therefore they need to pay £10,137 x 5.14 = £52,104

   Pension is now (£30,000 x 39) x 1.2% = £14,040 per annum.

   Remaining lump sum = £7,895

3. The factors used to calculate the cost of every year of additional service for each applicable section of the Unified Scheme and the Manual Workers No. 1 Scheme are shown in Schedule III of the scheme.