PSPA Pensions Committee

Joint Notice to members of the Isle of Man Government Unified Scheme 2011

You will be aware that at the December 2014 sitting of Tynwald an amended resolution was passed calling upon the Public Sector Pensions Authority (PSPA) to undertake a wide and in-depth consultation and negotiate with all affected staff and their representatives into the recommendations made within the Public Sector Pensions Joint Working Group report "Fairness and Sustainability".

As you may recall from the PSPA's last notice dated 20 January 2015, a separate committee of the PSPA, known as the PSPA Pensions Committee (the Committee) was set up with representatives from both the Employers Side and the Staff Side to progress the Tynwald motion in respect of the Isle of Man Government Unified Scheme (GUS).

This is a joint notice issued by the PSPA Pensions Committee, the purpose being to inform scheme members as to how discussions within the Committee around GUS are progressing in line with the December 2014 Tynwald motion.

Summary of Progress

The PSPA Pensions Committee has met 3 times and to date the following issues have been agreed:

1. **Timescale**: the original aim was to reach a point of agreement by July 2015. It soon became apparent that this date was unrealistic and has now been moved back to the end of 2015.
2. **Raising of the early retirement age from 55 to 58**: this proposal has been removed.
3. **Taxing or changing the commutation rate for lump sums above £200,000**: this proposal has been removed.
4. **Increases to Employee and Employer contributions before 2020**: it is appreciated that this is an emotive issue for all members and as such both sides are committed to work in partnership to agree an outcome that is fair to all parties.
5. **Validation of the actuarial assumptions by an independent actuary**: an independent actuary has been appointed and will commence a review of the actuarial figures utilised in the Working Group Report and report back to the Committee in due course.

Background Summary

It is understood, from feedback from the Staff Side and from enquiries made directly to the PSPA, that there may have been a perception amongst the member's that the Working Group report and its recommendations were presented as a "fait accompli". The Pensions Committee would like to make it clear that this is not the case and it was never the intention to implement any of the recommendations in the report without full consultation and negotiation with Scheme members and their representatives.

The PSPA, which now has responsibility for progressing the report's recommendations, is committed to work with staff and employers' representatives to reach a negotiated settlement on the issues that are of concern to Scheme members.

Given the process to which the PSPA is committed, any previously held aspiration to conclude this consultation and reach agreement to a way forward by July 2015 is not considered to be feasible and therefore this date is now definitely off the table. The

Committee has therefore agreed to progress to a point of agreement by the end of 2015, which is felt to be more realistic.

The Committee also appreciates the Staff Side's concerns that further change is being recommended so soon after the inception of the Unified Scheme. It is acknowledged that the Scheme was brought in with every expectation that it would not require significant change until at least 2020. All parties could debate long and hard the reasons why this is not now the case. The main factors have been outlined previously to the Staff Side and are contained within the Working Group Report. Circumstances changed considerably, both in the run up to the introduction of GUS and over the 8 years since the original affordability criteria and assumptions were agreed by Government. This unfortunately, has meant that the Scheme may not be as sustainable in the long term as the PSPA and Tynwald had hoped. Mr Shimmin, Vice Chair of the PSPA and joint Chair of the Committee, has given his written assurances, which are endorsed by his Ministerial colleagues, that at the time GUS was introduced, there was no intention to deceive or to introduce a scheme which was not considered affordable from day one. Subsequent actuarial assessment and the views of the Working Group and Council of Ministers is that further reform, no matter how unpalatable, must be addressed. As noted above, independent assessment of these actuarial assumptions has been commissioned.

Both the Working Group and the Council of Ministers do not think it is acceptable that 60% of the last financial year's pension expenditure of £89m had to be met by the Pensions Reserve and consequently by the Manx taxpayer, from funds that could be used directly for public services. Furthermore, the Council of Ministers is acutely aware that at the current rate of income and expenditure, the Pensions Reserve will be extinguished by 2025, by which time it is estimated that pension expenditure will have risen to £150m per annum. Council is therefore firm in its view that the public purse cannot be expected to continue to meet this level of anticipated future annual shortfall.

To that end, currently the average employee contribution to the Unified Scheme is 6.4% and average employer contribution is 6%. Please note that these are average figures and it is acknowledged that some members have always paid more (whilst some have paid less) than the average 6.4%, and some member's contributions have been up to 11%, depending on their former scheme.

However, as the true cost of providing pension benefits is in the region of 28% of pensionable pay. If the current level of income remains unchecked, the funding shortfall will only continue to increase unless some action is taken. Therefore, in light of the current rate of increase in the annual shortfall of income against expenditure, as well as the fact that the liabilities of all public sector schemes at 31 March 2015 exceeded £3 billion, the Council of Ministers is firmly of the view that early action must be taken and, in particular, the annual shortfall must be significantly reduced.

With this in mind and having given further consideration to the Working Group's recommendations, it is apparent that some recommendations would result in cost savings which are only marginal compared to their contentiousness and potential to obstruct progress towards a more sustainable scheme.

In recognition of this, and to help clear a path towards resolution, the PSPA has secured the approval of the Council of Ministers that the following proposals should now be removed from the negotiations in respect of current members and should only be considered as part of the negotiations for future new members:

a) raising the normal minimum retirement age from 55 to 58; and
b) taxing or changing the commutation rate for lump sums above £200,000.

It is fully appreciated that these proposals would impact considerably on those closest to retirement, who have an expectation of being able to retire at a certain age with a given lump sum.

Consideration will need to be given to the issue of employee and employer contributions to GUS. As previously stated, the average contribution rates currently paid into the scheme are not sufficient to cover the cost of providing pension benefits in the long term. Clearly this is a matter of concern and an issue that will need to be addressed. The PSPA does appreciate that this is a sensitive subject for employees, particularly in the current economic climate. Whilst **average** employee contributions are 6.4%, in reality many employees pay significantly more than this. Trade union, employer and government representatives are all committed to ensuring the future sustainability of GUS and will work in partnership together to achieve this and agree an outcome that is fair to all parties.

Turning now to the further detail of the December 2015 Tynwald motion, this requires the Public Sector Pensions Authority (PSPA) to: *"commission, in agreement with the staff sides, a suitable person or persons to validate the Hymans Robertson figures contained in the report".*

The Staff Side has requested that an independent Actuary is appointed to undertake a review of the actuarial figures utilised in the Working Group report to inform its recommendations. The Staff Side has therefore requested that the actuarial firm "First Actuarial" are appointed to: *"investigate, query, validate or dispel the figures produced in the (Working Group) report.*

Furthermore, the Staff Side has requested that First Actuarial also: *"make recommendations ....they deem necessary to assist the future sustainability of the GUS Pension scheme, ahead of the 2020 cost sharing review date".*

The PSPA recognises that the second part of this request extends the scope of the Tynwald motion. However, it is acknowledged that the Staff Side wishes to have another view of what further changes might help the future sustainability of GUS and whether these could or should be introduced before 2020

After careful consideration and discussion between the PSPA and the Council of Ministers on extending the remit of the Tynwald motion, it has been agreed that First Actuarial will be commissioned to validate the figures in the Working Group report and give an opinion on how future sustainability may be achieved, as requested by the Staff Side, subject to appropriate costs being agreed.

Ultimately, it is agreed that it will be helpful to both sides to have the validity of the figures tested in terms of the assumptions, data and actuarial methodology.

It is hoped that GUS members will see from the above there is a commitment from the Committee for staff and employers representatives to work in partnership in order to progress discussions and reach agreement on a way ahead which is fair and sustainable for all key stakeholders.

John Shimmin

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June 2015