

## FAQS: Teachers' Compensation Scheme 2014

|    | Question  | Answer   |
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| 1. | What employment groups are covered by the scheme?                   | Those listed in Schedule I of the Scheme   |
| 2. | What employment groups are not covered by the Scheme?               | Those listed in Schedule II of the Scheme  |
| 3. | What is the difference between voluntary and compulsory redundancy? | <p>Voluntary redundancy takes place when an employer declares financial incentive to those who leave of their own accord.</p> <p>Compulsory redundancy on the other hand refers to a situation where the employer selects the staff to be made redundant and employees do not have a choice whether they want to accept it or not.</p>   |
| 4. | Is there a qualifying period before I am eligible for the scheme?   | Employees covered with entitlement to redundancy pay will be eligible for the provisions of the scheme after two years service and service will also be defined as "continuous service" in the same manner as (5).   |
| 5. | What is the definition of service?                                  | <p>Service is the length of continuous service within 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 Teaching, 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.</p> <p>Employing Authorities will, however, have the discretion, to utilise any additional periods of service from previous/ related employments within the definition of "continuous service" should there be a need to consider this in an individual's specific circumstances.</p> <p>The definition of service defines an individual's eligibility to receive benefits under the scheme. However, the calculation of benefits is based upon "reckonable" service.</p> |
| 6. | What is 'reckonable service'?                                       | Reckonable service is the amount of time an employee is at work in terms of years, months and days whilst being employed. 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.  |

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| 7.  | How is part-time service calculated?  | <p>Periods or instances of part- time working will be calculated proportionate to calendar time and hours worked.</p> <p>For example working for 2.5 days per week for four years will count as two years of service</p> <p>It should be noted that there are limits to the maximum benefits that part-time workers can receive so that they do not receive disproportionately more than full-time workers.</p>  |
| 8.  | How are payments calculated?  | <p>For new starters on or after the effective date, the redundancy compensation would be a maximum of 12 months' pay for compulsory redundancy and a maximum of 18 months' pay for voluntary redundancy, (each based on one month's pay as defined at the relevant time for each complete year of continuous service), subject to a 2 year qualifying period.</p> <p>There are transitional arrangements in place for public servants in post before the effective date. There provide a maximum compensation lump sum of 24 months pay for compulsory redundancy (based on one month's pay as defined at the relevant time for each complete year of continuous service) and the same for voluntary redundancy.</p> |
| 9.  | How is 'pay' defined?   | <p>Pay means the total of all salary, wages, fees and other regular payments made to the employee on a permanent basis for the service in respect of which this Scheme applies to the employee, for the <b><u>12 month period prior</u></b> to and including the last day of Reckonable Service.</p> <p>"Pay" does not include--</p> <ul style="list-style-type: none"> <li>a) Bonuses, performance or merit payments</li> <li>b) Payments made to cover expenses</li> <li>c) Payments for overtime, or</li> <li>d) Call out payments</li> </ul>   |
| 10. | Is there a minimum salary level at which payments will be calculated?             | <p>Compensation will be paid on the basis of a deemed salary ("pay") of no less than £25,000 per annum. This figure will be revised annually (on 1 April each year) by reference to the change in public sector average earnings for full-time employees, as identified by the Isle of Man Earnings Survey (Public Sector, all males and females).</p>   |
| 11. | I am aged 50 at the effective date of the Scheme, how will the changes affect me? | <p>Employees made redundant that are aged 50 or over will have the option to use some or all of their compensation payment to purchase added service in order to increase their pension and in the three years following the</p>   |

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|     |   | <p>introduction of the scheme this will be at an enhanced rate i.e. each year of service will include an additional element of service at no cost to the employee, with transitional arrangements.</p> <p>Individuals made redundant after having attained the age of 50, but before attaining the age of 55, will be able to buy additional service, but 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 that as at the date of the termination of their employment, preserved until the date it is brought into payment.</p> <p><b>Please see Question 24 regarding the Income Tax Position.</b></p>  |
| 12. | <p>What are the different factors applicable during the three year transitional period for buying additional service if over the age of 50?</p> | <p>During the three year a transitional period following the introduction of the scheme the amount of service that can be purchased if over age 50 will be enhanced, and it is proposed that:</p> <ul style="list-style-type: none"> <li>• For those made redundant in the first year following the introduction of the scheme, the service purchased will be adjusted by a factor of 1.75.</li> <li>• For those made redundant in the second year following the introduction of the scheme the service purchased will be adjusted by a factor of 1.50.</li> <li>• For those made redundant in the third year following the introduction of the scheme the service purchased will be adjusted by a factor of 1.25.</li> </ul> <p>From the fourth year following the introduction of the scheme, service will be purchased in accordance with the published factors.</p> |
| 13. | <p>Is there a maximum number of year's service that I can buy?</p>  | <p>Employees will be able to buy as much or as little service as they wish, up to the maximum available through the use of the compensation lump sum, capped at the maximum they would have otherwise been able to accrue at the contractual retirement age of 65.</p> <p>To buy additional service the pension scheme requires the payment of a lump sum calculated by multiplying a factor relating to the member's 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.</p>   |

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| 15. | What are the rates for buying one added year of pensionable service on Early Retirement?   | The factors used for purchasing additional years service can be found at Schedule III of the scheme. The rates have been compiled and signed off by the Scheme's Actuary.  |
| 16. | I am a Limited or Fixed Term Appointee, in an employment group covered by the Scheme; does the Scheme apply to me?   | Employees employed on a limited or Fixed Term Appointment basis with entitlement to redundancy pay would also be eligible for provisions of the scheme after two years qualifying service in the same way as permanent employees.  |
| 17. | I have more than 1 job within Isle of Man Government, how would this affect any compensation award should I be made redundant from 1 of the posts?                                 | Benefits will only be calculated in respect of the post being made redundant.  |
| 18. | I have more than 1 job within Isle of Man Government, should I be made redundant from 1 of the posts does this affect my employment in the others?                                 | No, you can continue employment in the other posts, subject to their terms and conditions.   |
| 19. | If having been made compulsory redundant and in receipt of a compensation payment, I return to employment within IOMG will I have to repay some or all of my compensation payment? | <p>Yes, if you leave an Employer who is covered by the scheme and commence employment with an Employer who is also covered by the Scheme. You will have to repay a proportionate part of your compensation payment.</p> <p>e.g. if an employee receives a compensation payment equivalent to 12 months' pay, if they are re-employed six months later, they will be required to pay an amount equal to 6 months' pay. However this is based on the pay that was used to calculate the lump sum payment not the equivalent of six months' pay in the new job.</p> <p>No repayment will be required if you find work in the private sector or with Employers in the Public Sector who are not covered by the Scheme.</p> |
| 20. | My application for voluntary redundancy was unsuccessful; however I am now to be made compulsory   | Individuals 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  |

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|     | redundant. What level of compensation am I entitled to?  | voluntarily redundant.  |
| 21. | Do I have to be a member of the Teachers Scheme to be eligible for this Scheme?                  | No, but you have to be employed within an employment group covered by the Scheme.<br><br>Furthermore, as you are not a member of the Teachers Superannuation Order, it follows that you will not be eligible to purchase added service for pension purposes if you are over the age of 50.  |
| 22. | What will happen to my pension if I am made redundant?   | Your pension benefits will preserved until such time as you claim them in accordance with the rules of the pension scheme.  |
| 23. | Is my compensation payment subject to income tax and NI?   | Individuals are encouraged to contact Income Tax directly should they have any queries in relation to their compensation payment.<br><br>However, it is understood that any payments made under the compensation scheme will constitute a termination payment for loss of office made in accordance with Treasury note 89/01 (and any revisions to this note in the future) and will be liable to income tax with the first £30,000 being tax free under Section 48A of the Income Tax Act 1970.  |
| 24. | What is the Tax position in relation to the purchase of any additional service with my lump sum? | The new compensation arrangements allow individuals to opt for all or part of the lump sum payable to him or her under this Part to be paid by his or her Employing Authority to the PSPA to buy additional service. However, as identified above the compensation payment will be liable to income tax with the first £30,000 being tax free under Section 48A of the Income Tax Act 1970.<br><br>However, advice received from The Income Tax Division advises that any contribution paid under the scheme by an individual, in assessing income tax, be allowed to be deducted as an expense incurred in the year of assessment in which the contribution is paid. However, the amount to be allowed as a deduction is limited by the amount of "relevant earnings" an individual has received in that income tax year.<br><br>"Relevant earnings", means any income of an individual which is chargeable to tax for the year of assessment in question from certain sources. However, it does not include anything in respect of which tax is chargeable by virtue of section 48A of the Income Tax Act 1970 – i.e. payments on termination of employment.<br><br>In summary the amount of tax relief available for a payment into the pension scheme is completely dependent on the individual's level of relevant earnings but the payment of the compensation payment is not |

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|     |  | <p>part of an individual's relevant earnings.</p> <p>Therefore Income Tax Division advise that the full amount of the compensation payment less the £30,000 will be liable to the payment of Income Tax at the time it is paid. Therefore the amount of lump sum available for the purchase of additional service will be that which remains once tax has been deducted, and the payment should be claimed as a deduction on the annual return form in order for Income Tax Division to assess.</p> <p>Income Tax Division do highlight that if the pension payment is made at or close to the beginning of the tax year, there is no certainty that there will be any, or perhaps very little relevant earnings in that year which would severely impact any deduction that can be allowed for the payment.</p> <p>It is recommended therefore that Individuals contact Income Tax Division directly should they have any queries in relation to the Income Tax position relating to the use of their lump sum in order to purchase additional service.</p> |
| 25. | For the purposes of the Scheme what retirement age is a benefit calculated on.   | The payment of compensation benefits is based on an individual's contractual retirement age and not the attainment of early, normal or protected pension ages under GUS.   |
| 26. | What happens if I am made redundant, but am over the contractual retirement age? | For any employee who has completed at least two years' service and 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.   |
| 27. | I am in my 64 <sup>th</sup> year, are my benefits subject to tapering?           | Tapering of compensation provision will apply in respect of contractual retirement ages for employees within 2 years' of their contractual retirement date. This means that subject to a minimum payment of 6 months' pay, a compensation payment would not exceed, but would match, the number of months remaining to contractual retirement age.   |