Public Sector Pensions Authority

Consultation - Isle of Man Government Unified Scheme (Amendment) Scheme 2017

This fact sheet is designed to help you understand the proposed changes to the Isle of Man Government Unified Scheme 2011 (the Scheme) and to illustrate the impact of these changes on the contributions you pay and your future pension benefits.

In accordance with the Tynwald Motion approved in June 2016 to reform public sector pension schemes, the PSPA has commenced consultation on the Isle of Man Government Unified Scheme (Amendment) Scheme 2017.

This Scheme seeks to amend the Isle of Man Government Unified Scheme (the Scheme) 2011 from 1 April 2017 for existing members in Sections 1 (Standard) to 7 inclusive and for future new members who join Sections 1 (Standard) or Section 7.

In order to achieve the savings which will make the Scheme more sustainable in the future it is proposed to:

For Active Members on 31 March 2017

1. Reduce the pension benefits built up on or **after** 1 April 2017 by 6%; and
2. Increase member contributions by 2.5% being phased in from 1 April 2018

For New Members on or after 1 April 2017

3. Reduced benefit accrual by 6%
4. Membership of a New Standard Section with a contribution rate of 7.5%
5. For Fire-fighters Membership of Section 7 with a contribution rate of 13.5%

The fact sheet uses terms that you may not be familiar with and a Jargon Buster is included on page 8.

Looking at each proposed change:

For Active Members on 31 March 2017:

1. **Reduction to Pensions for Active Members in the Scheme on or before 31 March 2017**

How the 6% reduction is calculated

To understand how this will impact on your future pension, you first need to understand how your pension is calculated. Your pension is based on the years and days of service you build up, your pay near retirement and the growth rate appropriate to your age and is calculated as follows:

Pensionable Service x Final Pensionable Pay x Growth Rate = Pension

In order to apply a 6% reduction to the pension that is built up on or after the 1 April 2017, the Pensionable Service calculation will need to be split into two parts and the pension calculated separately.

The 6% reduction will be applied to the pension that is built up from your pensionable service on or after 1 April 2017.

For older members, with less time until retirement age, this change will have minimal impact to their overall expected retirement benefits as they will be building up a lower pension for a shorter period of time. The higher pension they have built up before 1 April 2017 will not change.

For younger members, the impact to expected retirement benefits will be greater. This is because younger members will be building up a pension at a 6% lower rate in the future and for longer than an older member.

The new formula incorporating the 6% reduction will look like this:

> **Part 1**: Pensionable Service from Date of joining to 31 March 2017 x Final Pensionable Pay x Growth Rate = Pension
>
> plus
>
> **Part 2**: Pensionable Service from 1 April 2017 to date of leaving x Final Pensionable Pay x Growth Rate x 94% = Pension

- Part 2 of the pension will be multiplied by the 94% to represent a 6% reduction.

Important Information

Any additional years of service or pension purchased or being purchased by additional contributions will not be subject to a 6% reduction.

The 6% reduction to future service benefits will apply to all active members in the Scheme with no exceptions.

Members are not permitted to make additional contribution payments to make up for this 6% reduction and in order to secure a higher pension. However, members can top up their pension benefits by paying additional voluntary contributions to Group Personal Pension Plan with Aviva. More information on this arrangement and how to apply can be found in the Unified Scheme guide on the PSPA website at www.pspa.im or by contacting the PSPA directly at pensions@pspa.im

Personal Illustrations

The PSPA will not be issuing members with individual illustrations to show how the 6% reduction will impact on their future pensions or how the reduction compares to current pension expectations. However, in order to help give you an idea of what a 6% reduction may look like, there are a range of generic example cases at various ages in Appendix 1.

Please note that these changes will not be reflected in the Annual Benefit Statements due to be issued in February 2017. These statements will show benefits built up to 31 March 2016 and will not include any projections to future retirement dates. Any changes to the Scheme approved by Tynwald in February 2017 will be reflected in future statements.

Members in "Protected" Sections 2 to 7

The protections for those members who opted to protect the value of their pension and automatic lump sum from their former pension scheme's normal pension age, in the Unified Scheme Sections 2 to 7 in return for a higher contribution, will remain in place. The pension for future service built up after 1 April 2017, even though reduced by 6%, will still be higher than the benefits that can be accrued in the Standard Section 1.

Incapacity Pension and Dependent Survivor's Pensions

Pensions paid on the grounds of Incapacity and to Surviving Dependents will also be reduced by 6% as shown above.

2. Increase member contributions by 2.5% from 1 April 2018

For all members who are active in the Scheme on the 1 April 2017 pension contributions will increase by 2.5%. However, these new contribution rates will be phased in by a maximum of 1% each year from April 2018 over a period of **three** years, so that members do not face a change in contributions of more than 1% of pensionable pay in any year.

Section	**Contribution Rate Transition**		
	1 April 2018	**1 April 2019**	**1 April 2020**
1 (Standard)	6%	7%	7.5%
2 (Ex members Civil Service Classic)	8.5%	9.5%	10.25%
2 (other schemes)	8.75%	9.75%	10.25%
3	10.5%	11.5%	12.25%
4	7.60%	8.60%	9.10%
5	10.50%	11.50%	12.00%
6	9.40%	10.40%	10.90%
7	12.00%	13.00%	13.50%
Protected Hospital Doctor Member	10.60%	11.60%	12.10%

Active members who received support against increased contribution rates

If you were age 53 or over when the Unified Scheme was introduced in April 2012 and you were able to join your Protected Section without paying more than your rate of contribution at that time or the Standard rate of contribution (5%), you contribution rate will increase from 1 April 2018 to reach the rate shown above for your particular section. Your contribution increase will be limited to a maximum 1% a year.

For New Members on or after 1 April 2017:

3. Reduced benefit accrual by 6%

The rate at which benefits accrue will be reduced by 6%.

4. Member contributions for New members from 1 April 2017

New members to Section 1 Standard will pay a contribution of 7.5% of their pensionable pay.

New Members to Section 7 will pay a contribution rate of 13.50% of their pensionable pay.

How to Respond

This consultation exercise is designed to invite comments on the draft documentation which will need to be considered by Tynwald in order to make the reforms to the Isle of Man Government Unified Scheme 2011.

The consultation period starts on **Friday 9 December 2016 and will close at midday on Friday 6 January 2017.**

A copy of the full Consultation Document and the draft amending regulations can be found on the Unified Scheme Review pages on the PSPA website.

The Public Sector Pensions Authority would welcome your views. Comments should be submitted by via email to unifiedconsultation@gov.im or in writing by post to:

PSPA
Third Floor, Prospect House
27-29 Prospect Hill
DOUGLAS
IM1 1ET
Email: unifiedconsultation@gov.im

When submitting your views please indicate whether you are responding on behalf of an organisation or in a personal capacity. To ensure that the process is open and honest responses can only be accepted if you provide your name with your response.

Unless specifically requested otherwise, any responses received may be published either in part or in their entirety. Please mark your response clearly if you wish your response and name to be kept confidential. Confidential responses will be included in any statistical summary and numbers of comments received.

A summary of the responses received will be published after the closing date for this consultation, and will be made available on the website or by contacting the PSPA at the address above.

The purpose of consultation is to gather information, views and evidence in order to make an informed decision on the content of the proposed draft legislation. In any consultation exercise the responses received do not guarantee changes will be made to what has been proposed.

Appendix 1

Example 1

To demonstrate how this will impact on a pension we have shown how the pension in the Unified Scheme is calculated using the following formula:

Years and Days of Scheme Service x Pay x Growth Rate

Using an example of a member in Scheme Section 2, who retires at age 60 with 40 year's scheme service and pay of £40,000 the expected pension will currently be:

40 x £40,000 x 1.46% = £23,360 a year

After introducing the proposed reduction of a 6% deduction to the pension (shown as x 94%) built up from service on or **after 1 April 2017** this formula will change.

As the reduction is applied to only the future pension built up after the date of change the scheme service or "pensionable service" as it is referred to in the Scheme will need to be split into two parts. Part 1 will be the service built up before the 1 April 2017 and Part 2 will be the service built up on or after the 1 April 2017. The 6% reduction will be applied to the pension built up from the service built up on or after 1 April 2017.

The following examples illustrate the impact of the 6% reduction to the pension built up on or after 1 April 2017 across a range of ages. As the 6% reduction is only applied to pension built up in the future, the biggest impact to pensions will be for younger members who have longer to work and build up a pension to retirement. Those closer to retirement who have already built up most of their pension will see the least impact to their expected pensions when compared to recent projections.

Example 2 - Assumes a member is aged 58 on 1 April 2017.

Using the same pension as Example 1 and assumed joined the Scheme aged 20 and has 40 years expected service to retirement at age 60. 38 years were built up before the 1 April 2017 and 2 years will be built up after 1 April 2017. Is in Section 2 of the Unified Scheme and has pay of £40,000 a year.

To illustrate how the pension is impacted, the calculation needs to be split into 2 parts and then added together to get the total pension:

Part 1 - the pension that equates to the 38 years service built up before the 1 April 2017 the pension at age 60 is:

38 x £40,000 x 1.46% = £22,192

Part 2 – the pension that equates to the 2 years service to be built up after the 1 April 2017 to age 60 and reduced by 6% is:

2 x £40,000 x 1.46% = £1,168 x 94% = £1,098

Total Pension - £22,192 + £1,098 = <u>£23,290 a year</u>

The expected pension at age 60 in Example 1 was £23,360 and after the reduction is applied the pension reduced to £23,290.

Therefore the impact of the 6% reduction to future service built up after 1 April 2017 for a 58 year old member retiring at age 60 is £70 (i.e. 6% of £1,168) reduction in the expected pension.

Example 3 – Assume Member is Aged 40 on 1 April 2017

Using the same pension as Example 1 and 2, but assuming the member is younger at the time of change, with 20 years built up to the time of change plus an expected 20 years service to retirement age 60.

To illustrate how the pension is impacted, the calculation needs to be split into 2 parts:

Part 1 - the pension that equates to the 20 years service built up before the 1 April 2017 the pension at age 60 is:

20 x £40,000 x 1.46% = £11,680

Part 2 – the pension that equates to the 20 years service to be built up on or after the 1 April 2017 to age 60 and reduced by 6% is:

20 x £40,000 x 1.46% = £11,680 x 94% = £10,979

£11,680 + £10,979 = <u>£22,659 a year</u>

The expected pension at age 60 was £23,360 a year and after the reforms are applied from 1 April 2017 the reduction reduces the expected pension to £22,659 a year.

When compared to Example 1 the impact of the 6% reduction to future service built up on or after 1 April 2017 for a 40 year old member planning to retire at age 60 is £701 a year (i.e. 6% of £11,680) reduction in the expected pension.

Example 4 – Assume Member is Aged 30 on 1 April 2017 – using the same pension as Example 1, but assuming the member is younger at the time of change, with only 10 years built up to the time of change plus an expected 30 years service to retirement age 60.

To illustrate how the pension is impacted, the calculation needs to be split into 2 parts:

Part 1 - the pension that equates to the 10 years service built up before the 1 April 2017 the pension at age 60 is:

10 x £40,000 x 1.46% = £5,840.00

Part 2 – the pension that equates to the 30 years service to be built up on or after the 1 April 2017 to age 60 and reduced by 6% is:

30 x £40,000 x 1.46% = £17,520 x 94% = £16,469

£5,840 + £16,469 = <u>£22,309 a year</u>

The expected pension at age 60 was £23,360 a year and after the reforms are applied from 1 April 2017 the reduction reduces the expected pension to £22,309 a year.

When compared to Example 1 the impact of the 6% reduction to future service built up after 1 April 2017 for a 30 year old member planning to retire at age 60 is £1,051 a year (i.e. 6% of £17,520) reduction in the expected pension.

Jargon Buster

Growth rate (or accrual rate)

This is the rate by which an employee earns pension benefits. For example, if your growth rate is 1.67% then for each year of service you earn 1.67% of your Final Pensionable Pay. So a person retiring after 40 years with a Final Pensionable Pay of £30,000 will therefore receive a pension of 40 x 1.67% x £30,000 = £20,040.

Contribution rates

This is the annual percentage you pay to be a member of the scheme (as a proportion of your Pensionable Pay). The contribution rates described in this guide are those that will apply in Scheme. However, the Scheme includes a cost-sharing mechanism and these rates could change in the future.

Final Pensionable Pay

The pay used to work out your benefits. In a defined benefit pension scheme your benefits are calculated when you retire using your salary near retirement. This is known as your Final Pensionable Pay. The amount used to calculate your Final Pensionable Pay in the Unified Scheme is the annual average of the best three consecutive years' pensionable pay in the last 13 years, revalued by the increase in the inflation index.

Normal Pension Age

Under the Scheme you can choose when you want to retire (generally between 55 and 75 but subject to the agreement of your employer) and your benefits will be adjusted accordingly.

Pensionable Service

The total number of years and days which count towards your scheme benefits. Your Pensionable Service may be different to the length of time you have worked and contributed to the scheme (e.g. if you have worked part time or had periods of unpaid leave). Pensionable Service includes any service transferred in from previous pension arrangements and any added years of pension you may have purchased and built up.

Issued by the PSPA
9 December 2016